Notice of meeting and agenda

Governance, Risk and Best Value Committee

10am, Thursday, 21 April 2016

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 – Gavin King, Committee Services Manager

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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. Declarations of Interest

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 None.

4. Minutes

4.1 Minute of the Governance, Risk and Best Value Committee of 3 March 2016 – submitted for approval as a correct record.

5. Outstanding Actions

5.1 Outstanding Actions – April 2016 (circulated)

6. Work Programme

6.1 Governance, Risk and Best Value Work Programme – April 2016 (circulated)

7. Reports

7.1 External Audit: Annual Audit Plan 2015/16 – report by the Acting Executive Director of Resources (circulated)

7.2 Summary of the Account Commission's 'Major Capital Investment in Councils' Follow Up Report – report by the Acting Executive Director of Resources (circulated)

7.3 Monitoring Officer Investigation: Cameron House – verbal update by the Acting Head of Legal and Risk

7.4 Internal Audit - Audit and Risk Service: Delivery Model Update – report by the Acting Executive Director of Resources (circulated)

7.5 Schools Assurance Framework Pilot – report by the Chief Internal Auditor (circulated)

7.6 Best Value Audit Report 2016 – referral from City of Edinburgh Council (circulated)

7.7 Re-employment and Re-engagement of Staff – referral from Finance and Resources Committee (circulated)

7.8 Induction and Mandatory Learning – report by the Acting Executive Director of Resources (circulated)

7.9 Looked After Children: Transformation Programme Progress Report - report by the Acting Executive Director of Communities and Families (circulated)

7.10 Annual Treasury Strategy 2016-17 – referral from City of Edinburgh Council (circulated)

7.11 Council Retention Schedule – report by the Chief Executive (circulated)

7.12 Whistleblowing Update – report by the Chief Executive (circulated)

8. Motions

8.1 If any.

Kirsty-Louise Campbell

Interim Head of Strategy and Insight

Committee Members

Councillors Balfour (Convener), Child, Dixon, Gardner, Keil, Main, Mowat, Munro, Orr, Redpath, Ritchie, Shields, and Tymkewycz.

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 13 Councillors appointed by the City of Edinburgh Council. The Governance, Risk and Best Value Committee usually meet every four weeks in the City Chambers, 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 Gavin King, Committee Services, City of Edinburgh Council, Waverley Court, Business Centre 2.1, Edinburgh EH8 8BG, Tel 0131 529 4239, e-mail gavin.king@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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Minutes

Governance, Risk and Best Value Committee

10am, Thursday 3 March 2016

Present

Councillors Balfour (Convener), Child, Dixon, Keil, Main, Mowat, Munro, Orr, Redpath, Ritchie, Robson (substitute for Cllr Gardner), Shields, and Tymkewycz.

1. Minute

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 28 January 2016.

2. Outstanding Actions

Details were provided of the outstanding actions arising from decisions taken by the Committee.

Decision

1) To agree to close actions 2, 15, 17, 18 and 19.

2) To note the remaining outstanding actions.

(Reference – Outstanding Actions – March 2016, submitted.)

3. Work Programme

Decision

1) To approve the Work Programme.

2) To ask that a report detailing the background of current waste collection difficulties across the City and action being taken to resolve them be submitted to the Transport and Environment Committee meeting in May prior to coming to the Governance, Risk and Best Value Committee in June 2016.

3) To ask for a joint report from the Acting Executive Director of Resources and the Acting Executive Director of Communities and Families about recent developments in Gaelic education provision in Edinburgh. The report to contain detail of whether due process was followed and identify lessons learnt, and should be submitted to the Education, Children and Families Committee in May,

prior to coming to the Governance, Risk and Best Value Committee in June 2016.

(Reference – Governance, Risk and Best Value Work Programme – March 2016, submitted.)

4. Internal Audit Plan 2016/17

A summary was provided of Internal Audit's annual planning process for the Internal Audit Plan for the period 1 April 2016 to 31 March 2017.

Decision

To note the Internal Audit plan for the period 1 April 2016 to 31 March 2017.

(Reference – report by the Chief Internal Auditor, submitted.)

5. Internal Audit Follow-Up Arrangements – Status Report from 1 October 2015 – 31 December 2015

Committee was provided with an overview of the process adopted by Internal Audit for following up the status of audit recommendations, as well as details of recommendations past their initial estimated closure date at 31 December 2015.

Decision

To note the status of follow-up actions.

(Reference – report by the Chief Internal Auditor, submitted.)

6. Internal Audit Quarterly Update Report: 1 October 2015 – 31 December 2015

Details were provided of Internal Audit activity between 1 October and 31 December 2015.

Decision

To note the progress of Internal Audit in issuing 11 internal audit reports over the quarter and the areas of higher priority findings.

(Reference – report by the Chief Internal Auditor, submitted.)

7. Welfare Reform

Following the implementation by the Department for Work and Pensions of Universal Credit, effective for new single claimants in Edinburgh from March 2015, an update report was provided which detailed the Council's ongoing activities with regard to Welfare Reform.

Decision

1) To note that the Corporate Policy and Strategy Committee approved the recommendations in the report at their meeting on 23 February 2016.

2) To note the status of Universal Credit in Edinburgh, and the Council's ongoing activities with regard to Welfare Reform.

3) To note the new welfare reforms, updated to reflect the Chancellor's Autumn statement effective from April 2016, and the additional paper on projected effects of these on Edinburgh citizens.

4) To note the projection of spend on Discretional Housing Payments, the Council Tax Reduction Scheme, and the Scottish Welfare Fund.

5) To request that comparative figures for 2 years ago and now, in regard to the number of welfare rights tribunals taking place be circulated to the Committee members.

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

8. Corporate Leadership Team Risk Update

Details were given of the Corporate Leadership Team's risk register as at January 2016, fully updated to reflect the current highest priority risks of the Council, the compensating controls and related action plans to mitigate risks to a tolerable level.

Decision

To note that the Risk Management Policy had been reviewed by the Chief Risk Officer in accordance with the Council's policy framework and, other than a few minor changes to update team names, was considered current, relevant and fit for purpose.

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

9. Place Risk Update

Committee considered a report which presented the Place Senior Management Team's prioritised risks as at January 2016, and detailed key controls in place to mitigate these risks.

Decision

1) To note the report.

2) To agree that a definition and examples of what constitutes a 'non housing asset' would be appended to the minute of the meeting.

3) To ask that an update report on the Place risk register be provided to Committee in August 2016 specifying action taken to mitigate high risks and whether it has been successful.

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

Item 5.1 Outstanding Actions

Governance, Risk and Best Value Committee

April 2016

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	14.11.2013	Tram Project Update	To ask that the Director of Corporate Governance writes to the Scottish Government requesting an update on likely timescales for the tram project inquiry.	Acting Executive Director of Resources	November 2014		Inquiry now called by Scottish Government. Verbal Update on Tram project to be provided in 2015.
2	19.12.2013	Corporate Governance: High Performing Workforce – Induction and Training	To request that a follow-up report by the Chief Internal Auditor be submitted to the Committee in June 2014.	Acting Executive Director of Resources	June 2014	April 2016	Organisational Development now expected to lead this report. Recommended for closure – report on April agenda
3	09/10/14	Greendykes and Wauchope Communal	To request a report in 12 months to both the Finance and Resources	Executive Director of Place	October 2015		The expected end date has been changed to

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		Heating Update	Committee and Health, Social Care and Housing Committee on whether the savings were achieved.				February 2016 following consideration of the report on savings achieved at the Health, Social Care and Housing Committee in January 2016 then referral to the Finance and Resources Committee.
4	13/11/14	Staff who have accepted Voluntary Redundancy or Voluntary Early Release Arrangements and returned to employment with the City of	To request a report by the Director of Corporate Governance, in March 2015, providing a high level overview of workforce management and including further detail on the policies around the employment of teachers and use of supply teachers.	Acting Executive Director of Resources	March 2015	April 2016	Recommended for closure – report on April agenda

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		Edinburgh Council					
5	05/03/2015	Internal Audit Follow-Up Arrangements: Status Report from 1 October to 31 December 2014	To note that mandatory information security training for all staff would be rolled out as part of the ongoing Performance Review and Development process and that once this had been completed for staff in Children and Families it would be reported as part of the Internal Audit Quarterly Review report.	Acting Executive Director of Communities and Families			
6	21/05/2015	Governance of Major Projects: Progress Report	To include details on the overall capital funding in regard to the Early Years Projects.	Acting Executive Director of Resources		April 2016	Recommended for closure – report on April agenda
7	21/05/2015	Governance of Major Projects: Progress Report	To provide a briefing note to Committee on the impact of the Fleet Review project on service delivery	Executive Director of Place	September 2015		Expected January 2016 when Review is completed.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
8	21/05/2015	Report by the Accounts Commission - An overview of local government in Scotland 2015	To note that clarity would be provided regarding the audit arrangements for the new Health and Social Care Integrated Joint Board.	Chief Officer of Edinburgh Health and Care Partnership			
9	23/09/2015	Internal Audit Report: Integrated Health and Social Care	To request an update on the process and timings for sign off of the Council's response to the statutory consultation on the Strategic Plan.	Chief Officer of Edinburgh Health and Care Partnership			
10	23/09/2015	Internal Audit Quarterly Update Report: 1 April 2015 – 30 June 2015	To ask that a summary of the Internal Audit findings on management of HMO licenses be circulated to members of the Regulatory Committee for information.	Executive Director of Place			
11	19/10/2015	Committee Report Process	To investigate technology offered by the new IT provider with a view to improving report format	Chief Executive	October 2016		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			and reducing officer workload. To request a progress report back to Committee in one year.				
12	12/11/2015	Internal Audit and Risk Service Delivery Model	To request an update report to committee in April 2016 informing how work to establish an in-house risk team was progressing and detailing plans for the future.	Acting Executive Director of Resources	April 2016	April 2016	Recommended for closure – report on April agenda
13	12/11/2015	B – Monitoring Officer Investigation	To request a report from the Strategy and Governance Manager in March 2016 on the Council's document retention policy, its robustness and whether it needs to be amended.	Chief Executive	March 2016	April 2016	Recommended for closure – report on April agenda
14	15/12/2015	Home Care and Reablement Service Contact	To request an update report in six months, this should include contact time	Chief Officer of Edinburgh Health and	May 2016		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		Time	by area and feedback from clients and bodies such as the Care Commission.	Care Partnership			
15	03/03/2016	Waste Collection	To ask that a report detailing the background of current waste collection difficulties across the City and action being taken to resolve them be submitted to the Transport and Environment Committee meeting in May prior to coming to the Governance, Risk and Best Value Committee in June 2016.	Executive Director of Place	June 2016		
16	03/03/2016	Gaelic Education Provision	To ask for a joint report from the Acting Executive Director of Resources and the Acting Executive Director of Communities and Families about recent developments in Gaelic education provision in Edinburgh. The report to	Acting Executive Director of Resources Acting Executive Director of Communities	June 2016		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			contain detail of whether due process was followed and identify lessons learnt, and should be submitted to the Education, Children and Families Committee in May, prior to coming to the Governance, Risk and Best Value Committee in June 2016.	and Families			

Item 6.1 Work programme

Governance, Risk and Best Value

April 2016

No	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
Section A – Regular Audit Items								
1	Internal Audit Overview of internal audit follow up arrangements		Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Every 3 cycles	June 2016
2	Internal Audit Quarterly Activity Report		Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Every 3 cycles	June 2016

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No	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
3	IA Annual Report for the Year		Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	June 2016
4	IA Audit Plan for the year		Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2017
5	Audit Scotland	Review of Internal Audit	Annual report on internal audit support provided to External Audit	External Audit	Chief Internal Auditor	Council Wide	Annually	TBC
6	Audit Scotland	Annual Audit Plan	Annual audit plan	External Audit	Hugh Dunn	Council Wide	Annually	April 2016
7	Audit Scotland	Annual Audit Report	Annual audit report	External Audit	Hugh Dunn	Council Wide	Annually	September 2016
8	Audit Scotland	Internal Controls Report	Annual report on Council wide control framework	External Audit	Hugh Dunn	Council Wide	Annually	August 2016

No	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
9	Audit Scotland	ISA 260	Annual ISA 260 Report	External Audit	Hugh Dunn	Council Wide	Annually	September 2016
10	Audit Scotland	Annual overview report	Based on the local government audit work in 2013, the report provides a high-level, independent view on the progress councils are making in managing their finances and in achieving Best Value, and is designed to help councillors identify priorities in 2014.	External Audit	Hugh Dunn	All local authorities in Scotland	n/a	June 2016
11	Accounts Commission	Annual report	Local Government Overview	External Audit	Hugh Dunn	Council Wide	Annually	June 2016
Section B – Standing Project Items								
12	Governance of Major Projects	6 monthly updates	To ensure major projects undertaken by the Council were being adequately project managed	Major Project	TBC	All	Every 6 months	May 2016
Section C – Scrutiny Items								
13	Welfare Reform	Review	Regular update reports	Scrutiny	Danny Gallacher, Head of Corporate and Transactional Services	Council Wide	March 2016	March 2017

No	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
14	Review of CLG Risk Scrutiny	Risk	Quarterly review of CLG's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	June 2016
15	Whistle blowing Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Quarterly	May 2016
16	Pride in our People	Staff	Annual report of progress	Scrutiny	Chief Executive	Council Wide	Annual	October 2016
17	Workforce Control	Staff	Annual report	Scrutiny	Hugh Dunn	Council Wide	Annual	December 2016
18	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	August 2016
19	Dissemination of Committee Decisions	Democracy	Bi-annual report	Scrutiny	Chief Executive	Council Wide	Six-monthly	May 2016
20	Late Submission of reports	Democracy	Bi-annual report	Scrutiny	Chief Executive	Council Wide	Six-monthly	May 2016
21	Property Conservation – Legacy Closure programme and Defect Costs		Progress reports	Scrutiny	Hugh Dunn	All	June 2016 December 2016 April 2017	June 2016

GRBV Upcoming Reports **Appendix 1**

Number	Report Title	Type	Flexible/Not Flexible
26 May 2016 Committee			
1	Governance of Major Projects	Scrutiny	Flexible
2	Whistleblowing Update	Scrutiny	Flexible
3	Dissemination of Committee Decisions	Scrutiny	Flexible
4	Late Submission of Committee Reports	Scrutiny	Flexible
5	Home Care and Reablement Service Update	Scrutiny	Flexible
6	IJB Internal Audit Arrangements	Scrutiny	Flexible
28 June 2016 Committee			
1	IA Follow Up Arrangements	Internal Audit	Flexible
2	IA Quarterly Update	Internal Audit	Flexible
3	Audit Scotland – Annual Overview Report	External Audit	Flexible
4	CLT Risk Register	Scrutiny	Flexible
5	Directorate Risk Register	Scrutiny	Flexible
6	Property Conservation – Legacy Closure programme	Scrutiny	Flexible
7	Waste Collection	Scrutiny	Flexible
8	Gaelic Education provision	Scrutiny	Flexible
18 August 2016 Committee			
1	Audit Scotland – Annual Internal Controls Report	External Audit	Not Flexible
2	Committee Decisions - Annual Report	Scrutiny	Flexible
3	Place Risk Register	Scrutiny	Flexible

Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

External Audit: Annual Audit Plan 2015/16

Item number	7.1
Report number	
Executive/routine	
Wards	

Executive summary

The external auditor is providing the Committee with the detailed Annual Audit plan, in line with the "Code of Audit Practice".

Links

Coalition pledges	P30
Council outcomes	CO25
Single Outcome Agreement	**All**

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Report

External Audit: Annual Audit Plan 2015/16

Recommendations

1.1 Members of the Governance, Risk and Best Value Committee are asked to:

1.1.1 note the external auditor's annual audit plan; and

1.1.2 note that progress against the plan will be reported to Committee.

Background

2.1 The Committee's remit includes the review of all matters relating to external audit, including planning documentation.

2.2 Audit Scotland will be represented at the Committee for consideration of this report.

Main report

3.1 The external auditor is providing the Committee with the detailed Annual Audit Plan, in line with the Code of Audit Practice. The Plan can be seen at Appendix 1.

3.2 The Annual Audit Plan includes a summary of planned audit activity, defines responsibilities, reviews risks and details fees and resources.

3.3 The Plan also includes within its appendices a timetable of planned outputs and an analysis of significant audit risks and associated sources of assurance.

Measures of success

4.1 The action plans within the external auditor's reports, when implemented, will demonstrate that the Council continues to strengthen its control framework and approach to risk management.

Financial impact

5.1 The costs of the audit fee are provided for, and can be contained, within the Resources approved budget.

Risk, policy, compliance and governance impact

6.1 There is no direct additional impact resulting from the report. Overall governance, risk management and internal audit arrangements are assessed to be sound, as outlined in the Best Value Audit Report 2016 reported to Council on 10 March 2016.

Equalities impact

7.1 There is no additional impact arising from the report's contents, although having due regard to equalities is an integral part of securing best value.

Sustainability impact

8.1 There is no additional impact arising from the report's contents, although having due regard to sustainability is an integral part of securing best value.

Consultation and engagement

9.1 There is no direct relevance to the report's contents.

Background reading/external references

Best_Value_Audit_Report_2016. – City of Edinburgh Council, 10 March 2016

Hugh Dunn

Acting Executive Director of Resources

Contact: Catrina Montgomery, Senior Accountant,

E-mail: Catrina.Montgomery@edinburgh.gov.uk | Tel: 0131 469 3497

Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 – Edinburgh's economy delivers increased investment, jobs and opportunities for all
	SO2 – Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health
	SO3 – Edinburgh's children and young people enjoy their childhood and fulfil their potential

	SO4 – Edinburgh's communities are safer and have improved physical and social fabric
Appendices	Appendix 1 – External Audit: Annual Audit Plan

City of Edinburgh Council

Annual Audit Plan 2015/16

Prepared for Members of the City of Edinburgh Council

March 2016

Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed David McConnell, Assistant Director, as the external auditor of City of Edinburgh Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of City of Edinburgh Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in the City of Edinburgh Council's financial statements.

2. This report summarises the key challenges and risks facing the City of Edinburgh Council (the Council) and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
    - the risks and priorities facing the Council
    - current national risks that are relevant to local circumstances
    - the impact of changing international auditing and accounting standards
    - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
    - issues brought forward from previous audit reports.

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local authority is the sole trustee. City of Edinburgh Council has eight trusts having charitable status with total assets of £14.6 million. Accordingly, we will perform the audit of the Council's charitable trusts in parallel with the audit of the Council's financial statements.

4. The Edinburgh Integration Joint Board (IJB) was established in June 2015. The IJB is subject to a separate audit in 2015/16. David McConnell, Assistant Director, Audit Services is the appointed auditor and an annual audit plan will be issued in due course.

Summary of planned audit activity

5. Our planned work in 2015/16 includes:
    - an audit of the financial statements and provision of an opinion on whether:
        - they give a true and fair view of the state of affairs of the Council and its group as at 31 March 2016 and its income and expenditure for the year then ended
        - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
    - an audit of the financial statements and provision of an opinion for the charitable trusts where the Council is the sole trustee
    - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year

- a review and assessment of the Council's governance and performance arrangements in a number of key areas including: internal controls, adequacy of internal audit and targeted performance audit work following up action taken on the recommendations included in Audit Scotland's 2013 National report on Scotland's Public Sector Workforce
- carrying out best value follow up work to examine progress by the Council on areas requiring improvement. The Accounts Commission has asked the Controller of Audit to monitor progress through the local audit in 2015/16
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative (NFI) arrangements and results
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

6. The audit of the financial statements does not relieve management or the Governance, Risk and Best Value Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

7. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

8. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Head of Finance

9. It is the responsibility of the Head of Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of the City of Edinburgh Council and its group as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

10. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

11. The Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

12. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the Council and its group and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

13. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for the Council and group financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for preparation of financial statements and the provision of supporting working papers
- delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
- completion of the internal audit programme for 2015/16.

14. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided on a co-sourced basis between PricewaterhouseCoopers (PwC) and the Council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

15. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

- payroll (aspects of key controls)
- CAFM (accounts payable feeder system).

16. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:

- procurement arrangements (Council wide)
- arm's length entities
- Health and Social Care integration (integration/IT readiness)
- corporate property (shared repairs and maintenance/property maintenance).

Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

19. Based on our knowledge and understanding of the Council we have set our planning materiality at £17.039 million for the Council and £18.744 million for the group (1% of gross expenditure).

20. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

21. For 2015/16 performance materiality has been set at £9.371 million for the Council and £10.309 million for the group. We will report, to those charged with governance, all misstatements identified which are greater than £100,000.

Reporting arrangements

22. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed

external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

23. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.

24. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

25. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

26. An agreed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1. This takes account of submission requirements and planned committee dates.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2016
Testing and review of internal control systems and transactions	30 June 2016
Consideration of unaudited financial statements by full Council	30 June 2016
Latest submission date of unaudited Council financial statements with complete working papers package	30 June 2016
Latest submission date of unaudited charitable trust financial statements with complete working papers package	30 June 2016
Progress meetings with lead officers on emerging issues	Ongoing during audit process
Latest date for final clearance meeting with s95 officer and other appropriate Council officers	12 Sept 2016 (tbc)
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	Charities – 19 Sept 2016 Council – 19 Sept 2016

Key stage	Date
Latest date for submission of adjusted whole of government accounts to external audit	19 September 2016 (tbc)
Planned committee consideration and approval of audited financial statements	GRBV - 26 Sept 2016 F&R - 29 Sept 2016
Independent auditor's report signed (CEC and Charitable Trusts)	30 September 2016
Latest date for signing of WGA return	30 September 2016 (tbc)

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Resources, Head of Finance, relevant senior managers, Chief Internal Auditor, and Audit Scotland's Performance Audit and Best Value Group.

28. We will provide an independent auditor's report to the City of Edinburgh Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September.

29. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

30. Planned outputs for 2015/16 are summarised at Appendix 1.

Quality control

31. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

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

Independence and objectivity

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

34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We are not aware of any such relationships pertaining to the audit of the City of Edinburgh Council.

Audit issues and risks

Audit issues and risks

35. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the City of Edinburgh Council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in Appendix 2.

Financial statement issues and risks

36. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. The Council receives a significant amount of funding from the Scottish Government, however approximately £650 million is received from other sources, including service income, council tax and grants/contributions. The complexity of income means there is an inherent risk that income could be materially misstated. We will undertake targeted substantive testing on the income streams included in the financial statements.

37. **Management override of controls:** ISA 240 also highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a financial statements risk. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.

38. **Estimation and judgement:** The financial statements of City of Edinburgh Council include significant assets and liabilities where the valuations are determined by professional judgement, and take account of significant assumptions and estimates including non-current assets (£4,038 million) and provisions (£18 million). The degree of subjectivity in the measurement and valuation represents a risk of material misstatement. We will undertake focused substantive testing on these aspects of the financial statements.

39. **Significant trading organisations (STOs):** In our 2014/15 independent auditor's report, we drew attention to the fact that the Council's significant trading operation, Edinburgh Catering Services – Other Catering, had failed to break even, on a cumulative basis, over the three year period ending 31 March 2015. Whilst this was a failure to comply with the Local Government in Scotland Act 2003 (section 10), it did not impact on the fairness of, or affect our overall opinion on, the Council's financial statements.

40. The Council has taken a number of measures to address the deficit position, including reduced opening hours and menu rationalisation. It is also currently designing a new facilities management service delivery model as part of a wider asset management strategy. However there is a risk that the action plan implemented by the Council may not result in the STO consistently achieving the

requirements of section 10 of the Local Government in Scotland Act 2003. We will review the outturn position and achievement of the break even requirement as part of our audit of the 2015/16 financial statements.

41. **Statutory repairs:** During 2015/16 the Council has made progress in addressing the historical statutory repairs related debtors. Legacy case reviews were completed by Deloitte and invoices issued for all unbilled projects, totalling £17.7 million. Alongside this, the Council has been progressing the resolution of complaints. By January 2016, the settlement process for complainants was largely complete.

42. The Council entered in to an arrangement with Morton Fraser in April 2015 where they took on responsibility for statutory notice debt recovery. As at January 2016, £10.6 million of the £17.7 million invoiced expenditure has been recovered, and a further £1.3m has been secured in agreed payment plans.

43. Although the billing process is now largely complete, the delays to date mean that the debt has aged further, increasing the risk of non-recovery of the outstanding debt. We will continue to monitor the situation through update reports to relevant committees and discussion with Council officers, and consider the adequacy of the statutory repairs bad debt provision at the financial year end as part of our audit of the 2015/16 financial statements.

44. **Integration Joint Board**: The Edinburgh Integration Joint Board (IJB) was established in June 2015 and will become operational from 1 April 2016. The IJB is required to prepare its own financial statements from 2015/16. The Council will need to make appropriate disclosures in its own single entity accounts in relation to the IJB, including related party disclosures, and assess whether the IJB requires consolidating into the group accounts.

45. We will review the disclosures in relation to the IJB in the annual accounts as part of our financial statements audit.

Wider dimension issues and risks

46. **Financial Position:** In common with other public sector bodies, the Council faces continuing financial pressures and uncertainty, alongside growing demands on its services. In 2014/15, although the Council reported an overall underspend of £0.7 million it incurred an overspend of £5.9 million on its health and social care budget as a result of demand pressures.

47. The Council is addressing these financial pressures through its transformation programme, which pulls together a range of improvement projects throughout the Council. In January 2016 it approved a four year financial framework and business plan. This framework sets out how it proposes to deliver balanced budgets for 2016/17 through to 2018/19, and identifies a future funding gap of £15.3 million in 2019/20.

48. Delivery of the required savings will be dependent on a number of factors, including the successful implementation of the transformation programme, and the robustness of the underlying assumptions within the financial framework. We will continue to

monitor the Council's progress in delivering its transformation programme and savings plans as part of our ongoing audit work.

49. **Workforce Planning**– In Audit Scotland's Best Value follow up report on City of Edinburgh Council published in February 2016, we noted that the Council now has a workforce strategy, supported by more detailed plans setting out the size and shape of its future workforce needs, and that it is starting to achieve the reductions set out in these plans. By the end of January 2016, 9 of the 28 planned transformation reviews had commenced, with 232 staff departures agreed.

50. However, whilst the Council has made progress, there remain risks around the delivery of the planned reductions and associated financial savings, alongside the related impact on service delivery and the achievement of the Council's objectives. We will review the Council's progress in this area and undertake local follow-up work based on the recommendations in Audit Scotland's 2013 report on *Scotland's Public Sector Workforce.*

51. **Transition to new IT provider** – The Council procured a new ICT contract with CGI in August 2015 which is projected to deliver savings of at least £45 million over the next seven years. The contract with CGI is due to commence in April 2016, with significant changes to key financial systems including financial ledger, accounts payable, payroll and accounts receivable, due to be implemented from October 2016. We will monitor the Council's preparedness for this transition, including the effectiveness of governance and risk management arrangements.

52. **Highways network asset:** From 2016/17, the Code requires the highways network asset to be included in the Council's financial statements at depreciated replacement cost instead of historical cost. Guidance issued by CIPFA/LASAAC has confirmed that the new accounting policies will be applied from 1 April 2016, with no requirement to restate the information in the financial year ending 31 March 2016. However, for 2015/16 we will review and report on the Council's preparation for this significant change.

National performance audit studies

53. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

Fees and resources

Audit fee

54. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.

55. In determining the audit fee we have taken account of the risk exposure of the City of Edinburgh Council, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.

56. The proposed audit fee for the 2015/16 audit of the Council is £690,500. This includes £47,660 in respect of the audit of Lothian Pension Funds, and £4,250 in respect of the audit of the Council's Charitable Trusts. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- your organisation's allocation of the cost of national performance studies and statutory reports
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

57. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

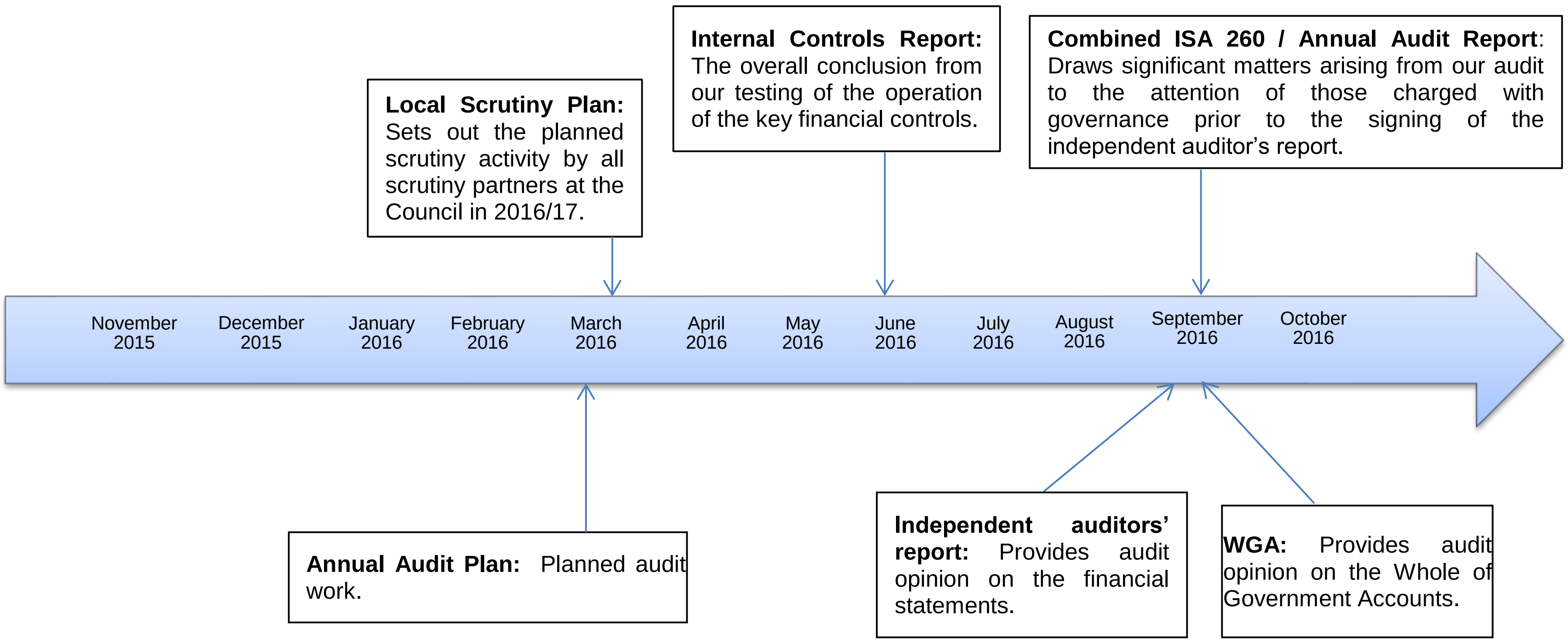
58. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Stephen O'Hagan who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
David McConnell CPFA Assistant Director (and certifying auditor)	David has worked in public sector audit since 1981, firstly with the National Audit Office and since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS
Stephen O'Hagan CPFA Senior Audit Manager	Stephen has over 19 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.
Carol Foster ACA Senior Auditor	Carol has over 10 years experience of public sector audit with Audit Scotland, covering local and central government. Previously Carol has worked in internal audit in a Scottish local authority and the private sector on a range of public and private sector audits.
Daniel Melly CPFA Auditor	Daniel joined Audit Scotland in May 2007 and qualified as a CPFA in January 2012. Daniel has over seven years experience of audit, almost two years of which have been in local government audit.
Joan Dalgleish Auditor	Joan has over 15 years experience of public sector audit with Audit Scotland, covering local government, central government and health.
Marta Kuzma Professional Trainee	Marta joined Audit Scotland as a professional trainee auditor in October 2015. Marta has 2 years of accounting experience in both the public and private sectors.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for City of Edinburgh Council in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	**Income** The Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	• Robust income generation and cash handling processes, including separation of duties • Independent monitoring of suspense codes - including bank reconciliations • Budgetary control processes - reported monthly to Corporate Leadership Team (CLT) and departmental budget holders • Authorisation processes for transactions within the ledger - e.g. journals & creditor requests	• Analytical procedures on income streams • Detailed testing of revenue transactions focusing on the areas of greatest risk
2	**Management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	N/A	• Detailed testing of journal entries • Review of accounting estimates • Focused testing of accruals and prepayments • Evaluation of any significant transactions that are outside the normal course of business

#	Audit Risk	Source of assurance	Audit assurance procedure
3	**Estimation and judgement** The financial statements of City of Edinburgh Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement	• Accounting assumptions such as provisions are based upon the most up to date and complete information with their inclusion being presented in accordance with required Accounting Codes of Practice • Accounting assumptions based on the professional advice of qualified staff such as RICS or the Council's Legal Team	• Completion of review of the work of an expert for the professional valuer • Focused substantive testing of key areas
4	**Significant trading organisations (STOs)** In our 2014/15 independent auditor's report we drew attention to the fact that the Council's significant trading operation, Edinburgh Catering Services – Other Catering, failed to break even, on a cumulative basis, over the three year period ending 31 March 2015. There is a risk that the action plan implemented by the Council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003.	• Implementation of revised facilities management delivery model approved by Council in November 2015 • Ongoing financial monitoring and reporting to committee • STO business plan	• Monitor the ongoing financial position reported to committee • Review the outturn position and cumulative break even as part of financial statements audit • Substantive testing of income and expenditure streams as part of financial statements audit

#	Audit Risk	Source of assurance	Audit assurance procedure
5	**Statutory repairs** Although the billing process is now largely complete, the delays to date mean that the debt has aged further, increasing the risk of non-recovery.	• Update reports to committees on progress of billing, collection (including bad debts) and complaints resolution	• Review of reports and papers on progress of billing and collections (including bad debts) and complaints resolution • Discussion with Council officers • Review of statutory repairs balances and provision within the financial statements along with supporting evidence
6	**Integration Joint Board (IJB)** The Edinburgh IJB was established in June 2015 and will be operational from 1 April 2016. There is a risk that the Council does not include appropriate disclosures in relation to the IJB within the Council's 2015/16 single entity and group financial statements.	• The Council will ensure that the IJB is appropriately disclosed in the single entity and group accounts in line with the 2015/16 Code. • Available guidance from CIPFA and Audit Scotland will be considered prior to finalising the disclosures.	• Review the IJB disclosures during the audit of the Council's 2015/16 financial statements.
Wider dimension issues and risks			
7	**Financial position** The Council has approved a four year financial ramework and business plan, with a balanced budget for the first 3 financial years. However there are a number of risks to delivery of this balanced budget, including the underlying assumptions within the framework and the achievement of	• Bi-monthly reporting of progress on the transformation programme to Finance and Resources Committee, incorporating progress reports on actual savings delivered for each workstream • The Long Term Financial Plan assumptions are subject to quarterly review and reporting to the Corporate Leadership Team and	• Monitor the Council's financial position via revenue budget monitoring reports presented to committee and meetings with officers. • Ongoing review of transformation programme progress reports to committee, and comment in annual audit report

#	Audit Risk	Source of assurance	Audit assurance procedure
	anticipated savings through the transformation programme.	elected members.	
8	**Workforce Planning** While the Council is making progress in delivering the workforce reductions set out in its strategy and plans, there remain risks around the delivery of the planned reductions and associated financial savings, and the related impact on service delivery and the achievement of the Council's objectives.	• Bi-monthly reporting on transformation programme progress to the Finance and Resources Committee, incorporating the workforce workstream • Service performance monitoring is reported on a monthly basis to the Corporate Leadership Team, which serves as an early warning on performance issues.	• Review of disclosures relating to staff departures in the 2015/16 financial statements • Review of workforce monitoring reports to committee and comment in annual audit report • Completion local follow up work on the recommendations in the 2013 Scotland's Public Sector Workforce report

Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

Summary of the Account Commission's 'Major capital investment in councils' follow up report

Item number	7.2
Report number	
Executive/routine	
Wards	

Executive summary

In March 2013, the Accounts Commission reported on major capital investment in councils. The audit focused on major capital projects over £5 million and assessed how well councils directed, managed and delivered capital investment. The report recommended actions councils should take to help them improve performance in managing their capital investment programmes and projects. The Accounts Commission developed a good practice guide and checklist to help councils improve how they manage and scrutinise capital projects.

A subsequent follow up audit, carried out in 2014/15, assessed to what extent councils had improved performance in managing their capital investment programmes and projects since the 2013 report. The findings from this Scotland-wide work have been summarised in a report issued by the Accounts Commission in January 2016.

Links

Coalition pledges	P3; P8; P30; P31; P33; P42
Council outcomes	CO1; CO16; CO20; CO23; CO25
Single Outcome Agreement	SO3; SO4

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Summary of the Account Commission's 'Major capital investment in councils' follow up report

Recommendations

1.1 Members of the Governance, Risk and Best Value Committee are requested to:

1.1.1 Note the contents of this report and the existing / planned actions that aim to address its recommendations.

Background

2.1 In March 2013 the Accounts Commission reported on major capital investment in councils. This initial review was the subject of a report that was presented to Governance, Risk and Best Value Committee in May 2013 in which the Commission's main findings were summarised. The report also presented their key recommendations alongside existing or planned actions taken to address these in an agreed action plan.

2.2 Following that, Audit Scotland carried out targeted follow up work on major capital investment in the City of Edinburgh Council. The work was completed in November 2014 and the findings summarised in a report issued by Audit Scotland in February 2015. A report summarising their main findings and key recommendations, along with an update to the agreed action plan outlined in May 2013, was reported to Governance, Risk and Best Value Committee in April 2015.

2.3 This report summarises the recent Accounts Commission review on major capital investment in Councils as a result of the targeted follow up work carried out by local government auditors across Scotland in 2014/15. It summarises what their main findings and key recommendations are with a reminder of existing / planned Council actions that aim to address these.

Main report

3.1 In carrying out their follow up review, the Accounts Commission:-

- collated, reviewed and analysed external auditor assessments to identify common issues in councils;
- interviewed representatives (senior officers and elected members) and reviewed business cases for a sample of 13 major capital projects from eight councils including the City of Edinburgh Council; and

- reviewed council documents and other published documents as appropriate.

3.2 In summary, the report published by the Accounts Commission highlights some progress on the recommendations made by the Commission in a 2013 report. They conclude that councils have taken a range of actions and display aspects of good practice, but that overall, all need to increase the pace of improvement to comply fully with good practice.

3.3 In particular, the Commission found weaknesses in capital investment planning stating that councils need to do more to develop their long-term capital investment strategies and plans. Emphasis was placed on the need to make it clearer how capital investment contributes to their strategic objectives, why and how projects are prioritised along with setting out the benefits these projects are expected to deliver.

3.4 The Commission further concluded that councils have improved their structures and processes to help them manage capital investment activity more effectively but that more work is required to fully comply with good practice. They state that councils should review business cases as projects progress and evaluate them after completion so that good practice and lessons learned can be shared within councils and others.

3.5 Finally, the Commission reported that councils need to provide better information to councillors to allow them to scrutinise capital investment effectively.

3.6 Although the report discusses themes and recommendations mostly at a Scotland wide level, there is a section that sets out good practice examples in managing capital investment amongst the eight councils reviewed in detail.

3.7 The City of Edinburgh Council is considered an exemplar in the areas of sharing good practice / lessons learned and post-project evaluations. With regard to sharing good practice, the Commission highlighted the council-wide Programme, Project and Change Management Community that acts as an informal forum for officers in capital investment to share and transfer knowledge and skills. In the area of post-project evaluations, assessment and lessons learned from Water of Leith Phase 1, carried into the development of phase 2 were considered an example of good practice.

3.8 The full report published by the Commission in January 2016 is included at Appendix 1.

3.9 A number of key recommendations are made within the full report that have been summarised at Appendix 2. These are largely similar to those made within the Commission's initial report published in March 2013. Alongside this, reminders of the existing actions that aim to address these are presented as per the agreed action plan formulated in response to the initial Commission report. Further planned actions, in response to the Commission's current recommendations are also included.

Measures of success

4.1 The Council delivers major capital projects within time and cost targets.

Financial impact

5.1 While there are no direct financial consequences arising from the report's contents, effective capital budgeting and monitoring forms an integral part of good financial management.

Risk, policy, compliance and governance impact

6.1 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 Monitoring of major capital projects including risk assessment is carried out by the Council's Corporate Programmes Office (CPO).

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.

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.

7.2 There is little contribution with regard to capital expenditure and the duty to eliminate unlawful discrimination, harassment or victimisation.

Sustainability impact

8.1 The aspiration is that, in order to meet the statutory duties and to have regard to the Government's statutory guidance on putting the duties into practice, all relevant capital projects use the Council's SAM Public Bodies Duties compliance tool iteratively, as standard, throughout project initiation, development and management processes.

8.2 A number of SAM assessments have recently been completed for projects within the current Capital Investment Programme. Going forward, project officers have been reminded to use the tool iteratively throughout the stages of individual project management.

Consultation and engagement

9.1 There is no direct relevance of the report's contents.

Background reading/external references

Summary of Audit Scotland's 'Major capital investment in councils' review, Governance, Risk and Best Value Committee, 23 May 2013

Summary of Audit Scotland's 'Major capital investment in councils' follow up review, Governance, Risk and Best Value Committee, 23 April 2015

Hugh Dunn

Acting Executive Director of Resources

Contact: Sat Patel, Senior Accountant

E-mail: satyam.patel@edinburgh.gov.uk | Tel: 0131 469 3185

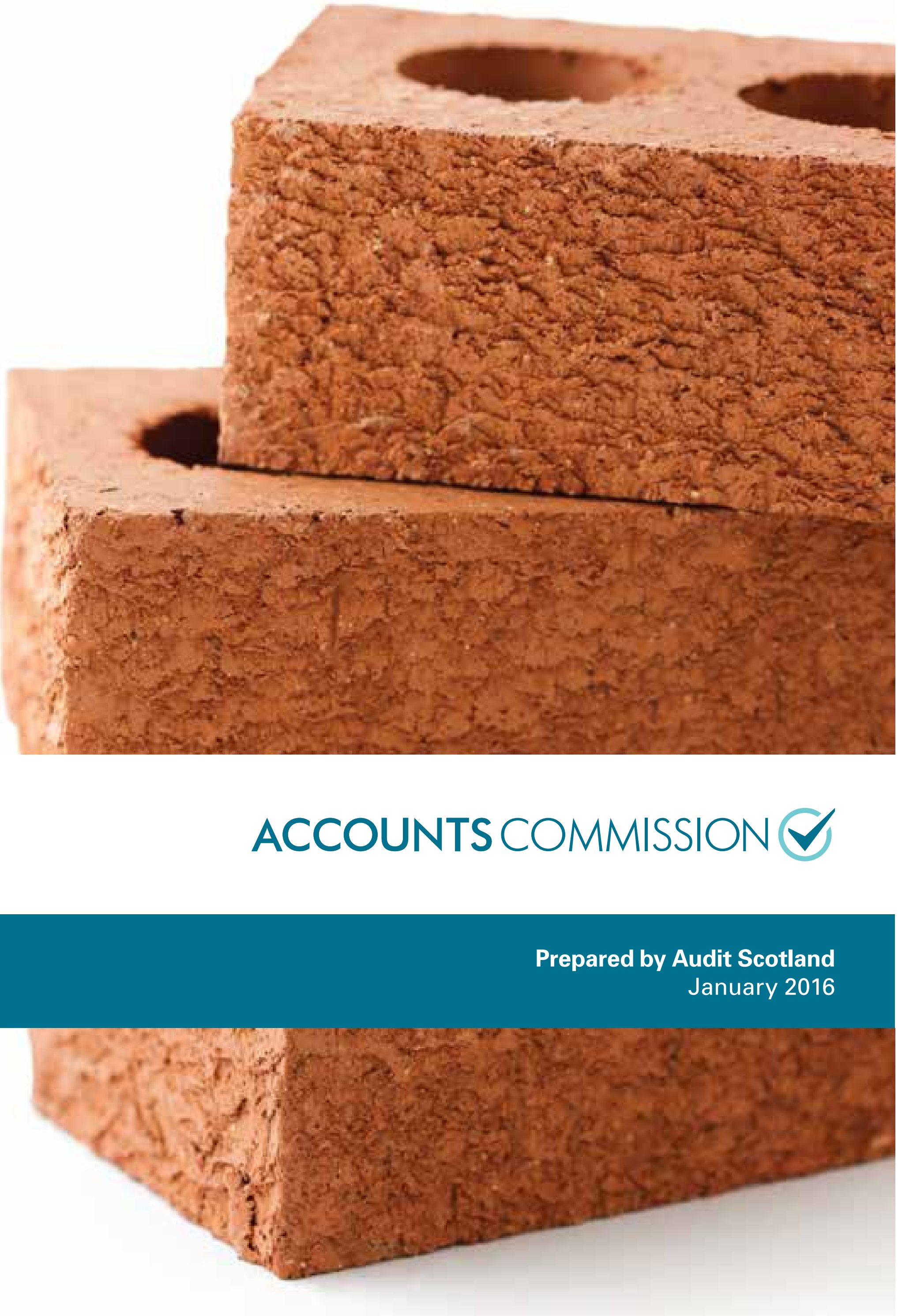
Links

Coalition pledges	P3 – Rebuild Portobello High School and continue progress on all other planned school developments, while providing adequate investment in the fabric of all schools P8 – Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites P30 – Continue to maintain a sound financial position including long-term financial planning P31 – Maintain our City's reputation as the cultural capital of the world by continuing to support and invest in our cultural infrastructure P33 – Strengthen Neighbourhood Partnerships and further involve local people in decisions on how Council resources are used P42 – Continue to support and invest in our sporting infrastructure
Council outcomes	CO1 – Our children have the best start in life, are able to make

	and sustain relationships and are ready to succeed CO16 – Edinburgh draws new investment in development and regeneration CO20 – Culture, sport and major events – Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and future of citizens CO23 – Well-Engaged and Well-Informed – Communities and individuals are empowered and supported to improve local outcomes and foster a sense of community CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO3 - Edinburgh's children and young people enjoy their childhood and fulfil their potential SO4 - Edinburgh's communities are safer and have improved physical and social fabric
Appendices	1 – Major capital investment in councils follow up report by the Accounts Commission 2 – Major capital investment in councils follow up key recommendations

Major capital investment in councils

Follow-up



ACCOUNTS COMMISSION

Prepared by Audit Scotland
January 2016

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Key facts

£7 billion

The total value of councils' capital investment between April 2012 and March 2015

149 projects (£3.2 billion)

The number and cost of major capital projects that councils completed between April 2012 and October 2015

53 per cent

Councils' capital spend as a proportion of total public sector capital spend between April 2012 and March 2015

245 projects (£6 billion)

The number and estimated cost of major capital projects that councils were progressing as at October 2015

Summary

Key messages

1 Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. They have taken a range of actions in response to the recommendations in the 2013 report. This included implementing revised structures to help them manage and monitor capital investment activity more effectively. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.

2 Councils need to improve the quality of their capital investment strategies and plans. The strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies. All councils have a capital plan outlining expected programme and project costs. The plans do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. Some councils choose to not have a separate capital investment strategy and plan. Instead they combine the features of both in a single document but these rarely demonstrate how capital investment contributes to councils' strategic objectives.

councils have improved their management of capital investment but they need to increase the pace of improvement

3 There are some examples of where councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. But they need to do further work to comply fully with the 2013 good practice guide, such as developing processes to routinely revisit and review business cases throughout the life of every capital project. Similarly, most councils are not carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that individual projects have realised.

4 Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils' progress reports to elected members on major capital projects focus on reporting capital spending in the current financial year. Some councils do not report cumulative capital spending, covering several years, against the total capital budget for individual projects. Councils do not routinely report to elected members project risks or non-financial information, such as the benefits realised from capital investment activity. Councils provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.

Recommendations

As already recommended in the 2013 report, all councils should have a long-term capital investment strategy. These should demonstrate to elected members and service users how planned capital investment will help achieve councils' long-term strategic priorities as defined in corporate plans and Single Outcome Agreements (SOAs). Councils should also ensure that their capital investment strategies and plans follow good practice as set out in the 2013 good practice guide.

Councils should ensure that they:

- prepare business cases that comply with good practice for every capital project
- revisit and monitor business cases throughout every capital project
- regularly carry out post-project evaluations to help establish whether planned benefits are realised and to identify good practice or lessons learned
- consider how best to review projects at key stages, using independent experts as necessary, to help provide assurance about project progress and to identify any potential problems
- are proactive in sharing lessons learned from projects, both, successful ones or those that ran into significant difficulties, within the organisation and with other councils.

Councils should ensure that they provide elected members with regular, appropriate and accurate information to allow them to scrutinise properly capital investment activity. Within this, councils should ensure that they:

- develop their capital monitoring reporting to include:
  - cumulative spending against total capital budget and the progress of each significant project against its key milestones
  - reasons for and consequences of slippage, or delays, of capital projects and any changes in the timing of capital spending
  - clear outlines of the benefits that individual projects have realised, and how these compare with the expected benefits outlined in business cases
  - updates of the risks associated with capital projects and programmes, including their financial and non-financial implications.
- provide elected members with regular training on capital investment to enable them to scrutinise effectively capital investment activity.

Background

1. Public sector capital investment is essential for delivering high quality, effective public services and for improving wellbeing of people in Scotland. Councils' capital investment is spending on property and other assets such as schools, social housing, roads and community centres. This includes spending on new buildings as well as maintaining and repairing existing assets.

2. In March 2013, the Accounts Commission reported on major capital investment in councils.[1] The audit focused on major capital projects over £5 million and assessed how well councils directed, managed and delivered capital investment. It also examined how well councils managed their investment spending as a programme, and their performance in delivering major capital projects against time and cost targets.

3. The audit found that councils' early estimates of the expected costs and timetables were often inaccurate, although this improved as projects progressed. It also found that councils had weak processes for developing and using business cases, and that they did not provide enough monitoring information to elected members.

4. The report recommended actions councils should take to help them improve performance in managing their capital investment programmes and projects. Based on the report's findings, the Accounts Commission developed a good practice guide and checklist to help councils improve how they manage and scrutinise capital projects.

About this audit

5. This targeted follow-up audit assesses to what extent councils have improved performance in managing their capital investment programmes and projects since the 2013 report. This includes councils' actions to strengthen monitoring, their use of the checklists and whether they have applied lessons learned to their latest capital projects.

6. The audit does not review funding of capital projects in detail. Aspects of this were covered by the Accounts Commission's ***Borrowing and treasury management in councils*** [PDF], published in March 2015.

7. The audit draws on baseline assessments performed by councils' external auditors during 2014/15. We performed a more detailed evaluation at a sample of eight councils (Angus, City of Edinburgh, Dundee, East Ayrshire, Fife, Highland, Inverclyde and South Lanarkshire), selected for the targeted follow-up on the basis of the:

- value and type of their major capital projects
- level of capital spending and financing requirement.

8. During the audit we:

- collated, reviewed and analysed external auditor assessments to identify common issues in councils
- interviewed representatives (senior officers and elected members) and reviewed business cases for a sample of 13 major capital projects from the eight councils reviewed in detail (Appendix 1)
- reviewed council documents and other published documents as appropriate.

9. The report has two parts:

- Part 1 outlines how councils' capital spending has changed between 2011/12, the last financial year captured in the 2013 report, and October 2015.
- Part 2 reviews to what extent councils have implemented recommendations from the 2013 report.

Councils have taken a range of actions in response to the 2013 report's recommendations but they need to increase the pace of improvement

10. Councils have taken a range of actions in response to the 2013 report's recommendations but they need to make further progress. The majority of councils have either developed an action plan based on the report's recommendations or progressed recommendations without preparing a formal action plan. The extent of planned action varies across councils. Overall, many councils display aspects of good practice but they need to do further work to comply fully with the 2013 good practice guide. Exhibit 1 (page 9) provides an overview of how councils have responded to the 2013 report. Some of the findings are based on all 32 councils and some on the sample of eight councils reviewed in detail. Appendix 2 outlines good practice examples of managing capital investment in the eight councils reviewed in detail.

Exhibit 1

Councils' actions to implement recommendations from the 2013 report

Councils have made more progress in implementing some recommendations than others and they need to take further action.

Recommendations from the 2013 report – councils should:	The extent to which councils have implemented the recommendations	
Develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders, such as service users and suppliers, as they develop these strategies.	**Limited progress**	A third of all councils have a long-term capital investment strategy in place and only two cover a period of over ten years. The majority of these set out the needs and constraints for local capital investment. But councils need to improve them further to include other features of good practice such as providing clear links between individual projects and wider programmes. Councils consult with stakeholders, such as service users and suppliers, although the extent of this varies by the council. (Paragraphs 47, 55 and Exhibit 7)
Assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help each council achieve value for money.	**Limited progress**	A third of all councils have a long-term capital investment strategy in place. Two-thirds of these assess funding methods and consider how councils might use them. But councils need to improve them further to include other features of good practice such as coordinating investment requirements from across each service area. (Paragraph 47 and Exhibit 7)
Actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement.	**Limited progress**	Councils told us that they were actively exploring opportunities for joint working but this is often not reflected in their capital investment strategies. Evidence of successful joint projects or sharing staff resources is limited. (Paragraphs 48 – 50 and Exhibit 7)
Develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects.	**Partially**	All eight councils reviewed in detail have clear procedures for preparing outline and full business cases. But they do not routinely revisit and review business cases throughout the life of projects. Based on the detailed review of eight councils, about a third of them do not routinely report cumulative spending on a project-by-project basis. (Paragraphs 59, 60 and 64)
Collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned. Report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils.	**No**	The detailed review of eight councils shows that councils do not carry out mid-term reviews of projects or post-project evaluations regularly or consistently. This limits councils' ability to identify areas of good practice, share any lessons learned and monitor benefits realised from the investment activity. (Paragraphs 61 and 62)

Cont.

Exhibit 1 (continued)

Recommendations from the 2013 report – councils should:		The extent to which councils have implemented the recommendations
Improve the quality of capital project and programme information that is routinely provided to members. Information should cover: • annual financial performance against the capital budget • project and programme level performance against cost, time and scope targets • risk reporting (including identification, likelihood, financial impact and actions taken) • an assessment of intended and realised benefits.	**Limited progress**	• The vast majority of councils report annual capital spending against budget. • Based on the review of eight councils, about a third of them do not routinely report cumulative spending against total capital budget on a project-by-project basis. • The eight councils reviewed in detail provide limited information to elected members on project risks and overall capital programme risks. • Business cases identify intended benefits but monitoring reports do not outline benefits that individual projects have realised. (Paragraphs 63 – 67)
Carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects.	**Partially**	Officer-led project boards of the eight councils reviewed in detail are primarily responsible for managing risks. While officers may alert elected members to specific risks, they often provide them with information on project risks and overall capital programme risks on an ad hoc basis. (Paragraph 66)
Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.	**No**	The detailed review of eight councils shows that councils provide members with a variety of training opportunities on capital investment matters but no council has a continuing programme of training on capital issues in place. (Paragraph 69)

Source: Audit Scotland

Part 1

Capital investment in councils since the 2013 report

Key messages

1 Between 2012/13 and 2014/15, councils spent £7 billion on capital investment. This represented over a half of the total public sector capital spend during the period. Councils decreased their annual capital spending from £2.5 billion in 2011/12 to £2.2 billion in 2014/15. As at October 2015, they were planning to spend a further £2.6 billion on capital projects in 2015/16.

2 Councils continue to fund their capital spending through a variety of means, including capital grants from the Scottish Government and borrowing. Between 2011/12 and 2014/15, councils borrowed less and funded more capital spending from capital grants. The availability of the Scottish Government capital grant increased in 2014/15 to compensate for earlier reductions. The proportion of funding from capital grants increased from 28 per cent in 2011/12 to 43 per cent in 2014/15. Borrowing reduced from 54 per cent to 33 per cent over the same period.

3 Between April 2012 and October 2015, councils completed 149 major capital projects and had a further 245 in progress as at October 2015. In line with the findings of the 2013 report, schools projects continued to perform better to cost and time targets.

councils spent £7 billion on capital investment between April 2012 and March 2015

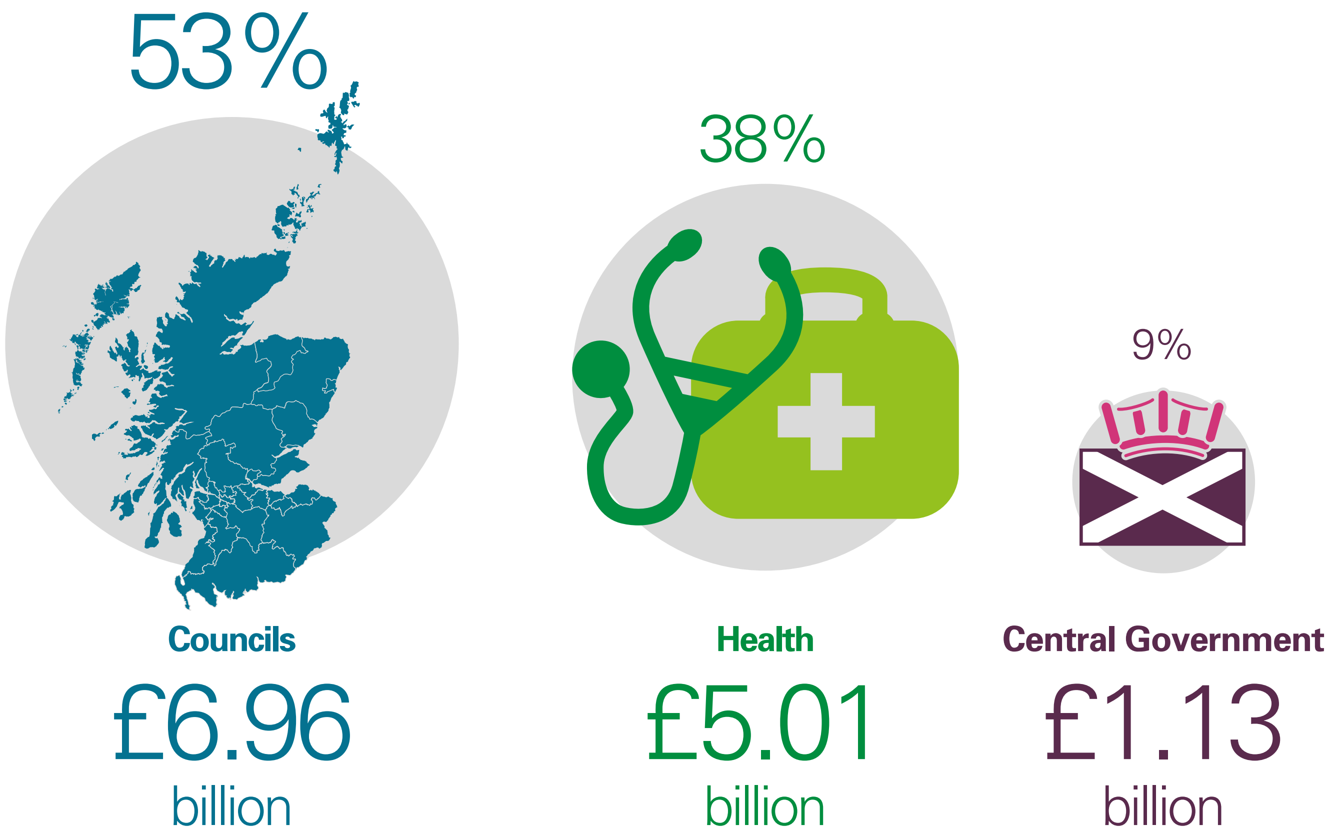
Councils spent £7 billion on capital investment between 2012/13 and 2014/15

11. In 2013, the Accounts Commission reported that councils had spent £24 billion between 2000/01 and 2011/12 on capital investment projects, including new schools, care homes and sports facilities.[2] Between 2012/13 and 2014/15, they spent another £7 billion (the equivalent of £6.4 million a day), at 2014/15 prices, on capital projects. This represented just over a half (53 per cent) of total public sector capital investment during the period (Exhibit 2, page 12). Seven councils (Aberdeenshire, City of Edinburgh, Fife, Glasgow, Highland, North Lanarkshire and South Lanarkshire) were responsible for half of this expenditure. Individual councils spent between £44 million and £795 million each, at 2014/15 prices, over the three years from 2012/13 to 2014/15.

Exhibit 2

Public sector capital spend from 2012/13 to 2014/15, at 2014/15 prices

Between 2012/13 and 2014/15, councils spent almost £7 billion on capital investment, just over a half of total public sector capital investment spend during the period.

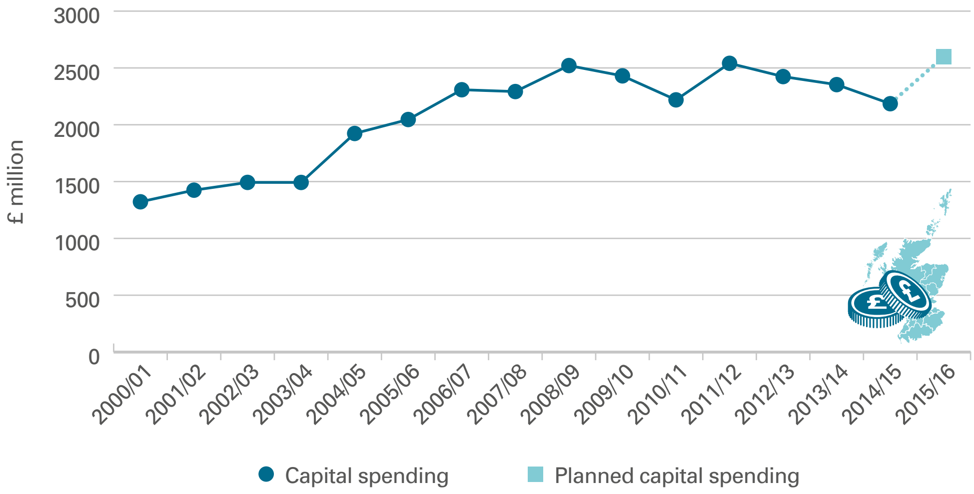


Source: Audit Scotland

12. Councils decreased their annual capital spending in the last three years, from £2.5 billion in 2011/12 to £2.2 billion in 2014/15 (Exhibit 3, page 13). In 2014/15 councils' capital spend represented 11 per cent of their total spend of £20.9 billion. Councils' spending on services remained constant over the same period at about £18.5 billion a year. As at October 2015, councils were planning to spend a further £2.6 billion on capital investement in 2015/16.

13. Council's capital investment over the years has made a significant difference to the condition of their assets. For example, in April 2014, 83 per cent of schools were in satisfactory condition, compared to only 61 per cent in April 2007.[3] Councils rebuilt or substantially refurbished 526 schools between 2007 and 2014, 123 of which were completed in 2012/13 and 2013/14.[4]

Exhibit 3
Councils' capital spending from 2000/01 to 2014/15, at 2014/15 prices
After several years of growth, councils' annual capital spending fell from £2.5 billion in 2011/12 to £2.2 billion in 2014/15. As at October 2015, they were planning to spend £2.6 billion in 2015/16.



Note: 2015/16 capital spending (dotted line) as planned by the councils at the time of the audit (October 2015).

Source: Audit Scotland

Councils use a variety of funding sources for capital investment

Councils are borrowing less and funding more capital investment from capital grants

14. Over the four years from 2011/12 to 2014/15, councils funded an increased proportion of their capital spending from capital grants (from the Scottish Government and others such as other central government bodies, National Lottery and EU). Capital grant funding increased from £720 million in 2011/12 to £925 million in 2014/15 (at 2014/15 prices).

15. The Scottish Government provides the vast majority of capital grant funding to councils (an average of 80 per cent of total grant funding to councils over the four years from 2011/12 to 2014/15). The Scottish Government rescheduled its capital allocations as part of its 2011/12 Spending Review. It moved capital grant funding of £120 million and £100 million, originally due to councils in 2012/13 and 2013/14, to the following two years. This allowed the Scottish Government to provide additional funding to those sectors that can't borrow, for example to the central government sector. It hoped that councils would work with the Scottish Ministers and use their ability to borrow to supplement capital spending and so contribute to local economic recovery.[5]

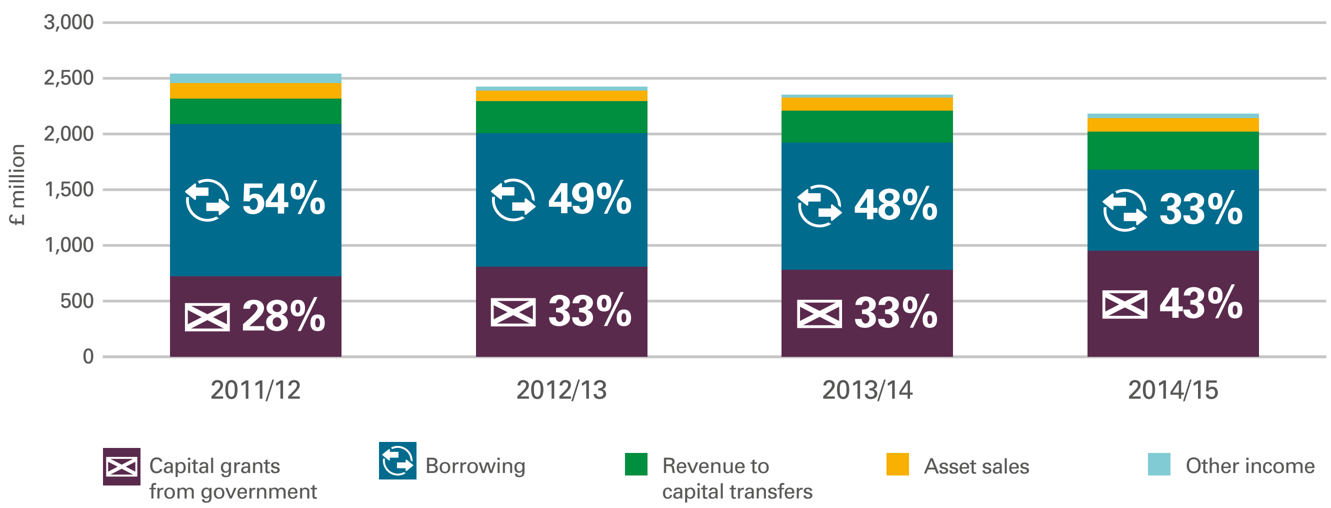
16. Rescheduled capital grant funding meant that the Scottish Government increased its capital allocations to councils by £120 million in 2014/15 and £94.2 million in 2015/16. The increase in 2015/16 does not match the reduction in 2013/14 due to the transfer of responsibility for policing from local to central government.[6] The Police and Fire Reform (Scotland) Act 2012 created a new structure for providing police services in Scotland. It brought together the eight police forces, the Scottish Police Services Authority and the Scottish Crime and Drug Enforcement Agency into two new national bodies: the Scottish Police Authority and the Police Service of Scotland (Police Scotland). The new structure became operational on 1 April 2013.[7]

17. Councils' funding sources for capital spending have changed. Over the four years from 2011/12 to 2014/15, the proportion of funding from capital grants increased from 28 per cent to 43 per cent, and borrowing for capital investment reduced from 54 per cent to 33 per cent. In 2014/15, councils used more capital grants than borrowing to pay for capital projects, the first year they have done so since 2008/09 (Exhibit 4).

Exhibit 4

Sources of funding councils' capital spending, 2011/12 to 2014/15

Funding from capital grants increased as a proportion of total capital investment funding, from 28 per cent in 2011/12 to 43 per cent in 2014/15. Borrowing for capital investment reduced from 54 to 33 per cent over the same period.



Source: Audit Scotland

Councils are using alternative funding mechanisms for capital projects

18. As well as using borrowing or Scottish Government capital grants, councils have also funded capital projects in partnership with private sector investors. These partnerships include the private finance initiative (PFI) and the non-profit-distributing model (NPD). Under these models, the private sector investor pays the upfront building costs and ongoing maintenance costs of an asset. The council pays an annual charge from its revenue budget for using the asset before gaining ownership of the asset at the end of the contract. Under the NPD model, there is a limit on how much of the profits the private sector operator may retain. Any surplus profit is returned to the public sector.

19. Councils have also increasingly used the hub programme, a Scotland-wide initiative for delivering new community facilities through private finance. The hub programme operates across five geographical territories: South East, East Central, West, South West and North. In each territory, the participating public bodies such as health boards, councils, police and fire and rescue services, have teamed up with a private sector development partner to form a joint venture company known as a hubCo. Each hubCo takes a strategic approach to delivering local services. While projects are mostly new buildings, they can include refurbishment and management of existing buildings. They include many schools in the Scottish Government's Schools for the Future programme which aims to rebuild or refurbish schools.

20. The hub and Schools for the Future programmes are led by the Scottish Futures Trust (SFT), an independent company established in 2008 by the Scottish Government. Its aim is to 'improve the effectiveness and efficiency of infrastructure investment in Scotland by working collaboratively with public bodies and industry leading to better value for money and ultimately improved public service'.[8]

21. Councils reported they had 50 revenue-funded projects as at October 2015. Of these, 39 were operational PFIs and four were operational NPD projects. Councils are involved in a further seven projects with a total capital value of £0.25 billion, signed through hub contracts in the three years from 2012/13 to 2014/15. Two of these seven projects are complete and the other five are currently in construction. Another 14 revenue-funded hub projects are still in development. Since 2012/13, all council revenue-funded projects have been procured through the hub route.

22. Between 2012/13 and 2014/15, councils paid £1.5 billion (at 2014/15 prices) of annual charges relating to non-hub revenue-funded projects. They have not yet made any such payments for revenue-funded hub projects. Councils will have to continue to pay significant charges for all types of revenue-funded projects and this represents a significant long-term commitment on their future revenue budgets.

23. In March 2015, the Accounts Commission reported that almost all councils had reduced staff numbers to help make savings.[9] This has affected all areas of councils' operations, including how they manage their capital investment programmes and projects. Councils are increasingly using the hub programme and seeking the expertise of the SFT to collaborate, gain access to additional funding and supplement their in-house skills and experience. There are also examples of councils sharing staff resources but these are not yet widespread (paragraph 50).

24. Councils are considering other funding methods to supplement direct funding of their capital projects, or as alternatives to established forms of revenue funding. These are at relatively early stages of development and so it is unlikely that, in the short-term, they will provide a significant proportion of councils' available capital funding. They include:

- Tax Incremental Financing (TIF)
- Growth Accelerator Model (GAM)
- City Deal
- UK Green Investment Bank (UKGIB).

Appendix 3 provides more information about each of these funding models.

25. The use of these alternative funding models varies greatly among councils. While PFIs, NPDs and procurement using the hub initiative are widely used, individual councils' circumstances influence how they use other funding methods. For example, the City of Edinburgh Council and Dundee City Council are currently proceeding with, or considering, GAM projects, which are only open to Scotland's seven cities.

26. Similarly, while some councils are progressing with TIF models, others have expressed concerns about their viability. While we have not audited the current TIF pilot projects, the risk of not attracting enough private sector investment is a risk to all of them. For example, Inverclyde Council told us that it is concerned that any potential TIF initiative would not attract enough further private sector investment to generate the additional local taxes necessary to repay associated borrowing.

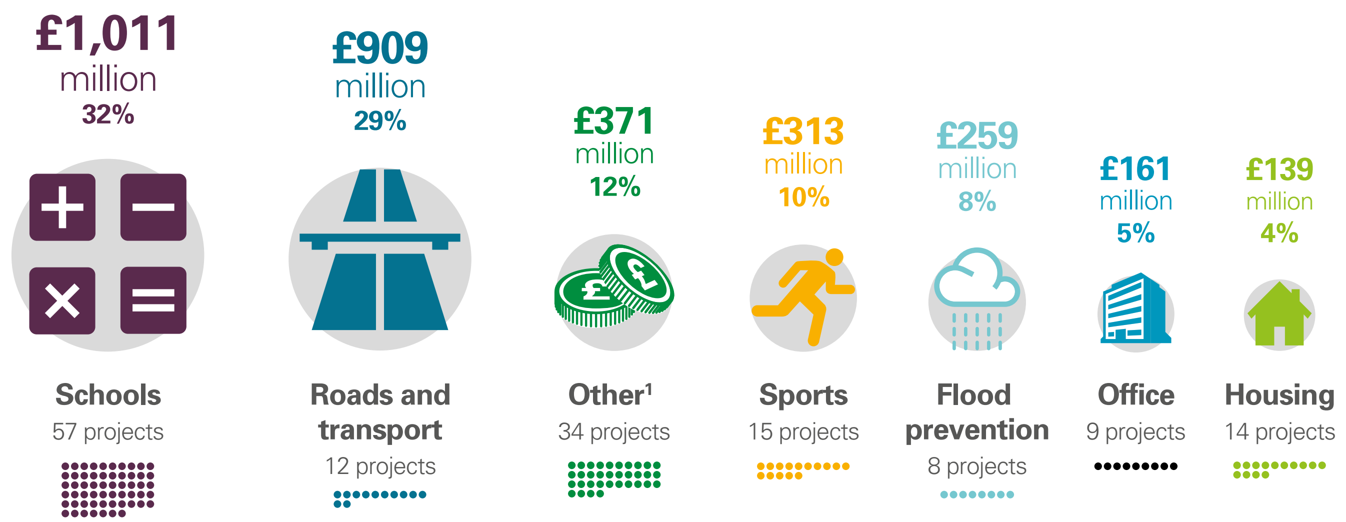
Councils completed 149 major capital projects between April 2012 and October 2015 and had 245 in progress as at October 2015

27. The 2013 report outlined that councils were progressing 203 major capital projects, each costing over £5 million. They have completed 149 major capital projects worth £3.2 billion between April 2012 and October 2015. As at October 2015, councils reported they had 245 projects worth about £6 billion under way, with over 40 per cent of these schools. This reflects Scottish Government policy, such as the Schools for the Future programme (announced in 2009), and councils' own strategic priorities.[10]

28. The largest of all major capital projects in progress is the £745 million Aberdeen Western Peripheral Route (AWPR), with Aberdeen City and Aberdeenshire Councils each contributing 9.5 per cent of this cost (£71 million each). Other areas of significant capital spending in councils include roads and transport, flood prevention and office accommodation (Exhibits 5 and 6, page 17). This is broadly similar to the findings of the 2013 report.

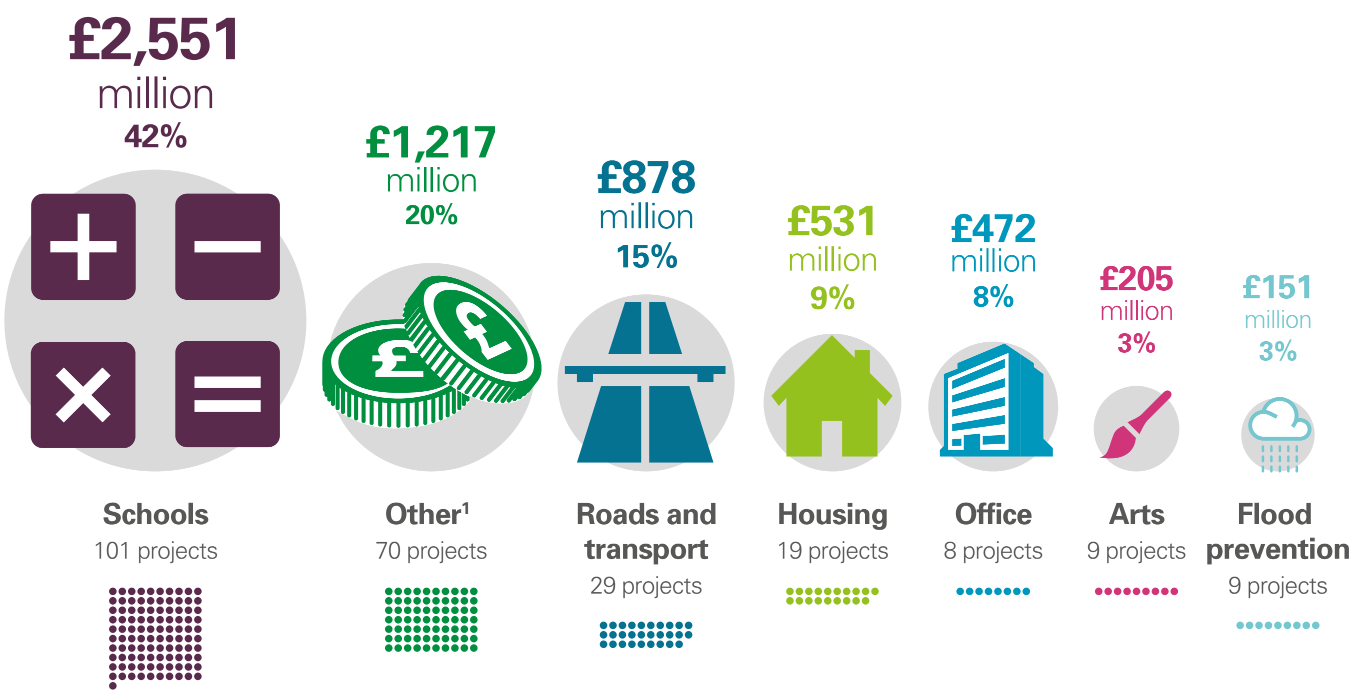
29. The 2013 report highlighted that, overall, schools projects performed better to cost and time targets. The review of major capital projects that councils completed between April 2012 and October 2015 found that schools projects continue to perform better. Councils completed over 80 per cent of schools projects on time, compared to two-thirds of non-school projects. Similarly, councils delivered over two-thirds of schools projects to cost targets, compared to just over a half of non-school projects.

Exhibit 5
Completed major capital projects between April 2012 and October 2015
Councils completed 149 major capital projects worth £3.2 billion between April 2012 and October 2015.



Note: 1. These projects include day care centres, harbour improvements, land regeneration and others.
Source: Audit Scotland

Exhibit 6
Major capital projects in progress as at October 2015
As at October 2015, councils were progressing 245 major capital projects worth about £6 billion.



Note: 1. These projects include day care centres, harbour improvements, land regeneration and others.
Source: Audit Scotland

Nine out of the 15 capital projects reviewed in the 2013 report were complete as at October 2015

30. Of the 15 capital projects reviewed in the 2013 report, and in progress at that time, nine were complete and five were still under way as at October 2015. The Scottish Borders Council waste treatment project has been cancelled (Appendix 4). The final costs of the completed projects were £497 million, £30 million (7 per cent) more than the original budgets.

31. Councils delivered six projects at a total cost of £47 million under their original budget but overspent on three projects by a total of £77 million (49 per cent). Four projects were completed on schedule and five overran by between eight months and almost four years. The three projects that were overspent were also delayed by at least eight months. Councils reported varied reasons for overspends and delays, from planning and procurement delays to changes in scope and adverse weather. This data suggests that some councils still need to do more to deliver major capital projects to their initial time and cost estimates. Councils also need to ensure they are proactive in sharing lessons learned from successful projects or those that ran into significant difficulties.

32. One of the projects outlined in the 2013 report was the Dunfermline flood prevention scheme. Case study 1 (page 19) provides a high-level update of the project, largely based on the findings of Fife Council internal audit's review of the scheme, reported to the council's Executive Committee in August 2015. Internal audit concluded that the council acted appropriately throughout the project. Poor design work and construction supervision enabled the contractor to seek contract variations, leading to cost increases. The council is currently seeking £10 million compensation from the design consultant.

McClelland's report on the Victoria and Albert Museum of Design project made a number of recommendations to Dundee City Council

33. The Victoria and Albert (V&A) Museum of Design project in Dundee was not part of the sample of projects reviewed for this report. But it has run into significant difficulties over the last few years and has been subject to considerable local and media interest. In January 2015, Dundee City Council's Policy and Resources Committee commissioned John McClelland CBE to carry out a review of the project after planned construction costs increased by £31.1 million between June 2011 and January 2015. The main focus of his review was to examine the reasons for costs increasing significantly, to identify any lessons learned and to make appropriate recommendations.

34. The main findings of the review, published in July 2015, included:

- The costs increased because of the complexity of the design, including the decision to build over water. Additional time required to revise cost plans and design caused delays to the project, and inflationary cost increases.
- There was a lack of investment in skilled and experienced in-house technical and project management staff, and not enough external professional help.
- Dundee City Council did not integrate the V&A Museum of Design project into its normal way of working in the same way it does with other construction projects. This led to uncertainties around responsibilities and reporting arrangements.[11]

Case study 1

Fife Council's flood prevention scheme in Dunfermline

The Accounts Commission's 2013 report outlined that Fife Council approved the design of the Dunfermline flood prevention scheme in December 2002 with an estimated cost of £3.75 million. The Scottish Government provided formal approval for the project in June 2004, and a month later the council awarded the design contract for the scheme. Based on the initial consultants' design work, the council approved the project with a revised estimated cost of £9.8 million in November 2005. In February 2007, it awarded the construction contract to a preferred bidder at a tendered price of £14.13 million, including £3 million consultants' fees. The Scottish Government intended to provide a grant of up to 80 per cent of the tendered price. The estimated completion date at that time was May 2009.

Delivery of the project was problematic. There were problems with its design and specialist nature, and conflicts between the contractor and the council. In January 2014, the council terminated the construction contract as it assessed that the contractor had performed poorly against it. It awarded the contract for the remaining work to another contractor who completed the project in December 2014, under the supervision of the council's roads and design construction team. At the time of publishing this report, the council was seeking compensation of about £10 million from the design consultant due to its alleged negligence during the project.

The final cost of the scheme was £34.5 million which is £24.7 million (252 per cent) above the outline business case estimate of £9.8 million. Any recovery from the design consultant will reduce the total completion cost. The Scottish Government provided a grant of £11.7 million to the council, £3.8 million of this directly and £7.9 million as part of the council's overall capital allocation. Fife Council reviewed the project after its completion and identified a number of areas for improvement such as the need to change the form of contract and the appointment process.

Source: Audit Scotland and Audit and Risk Management Manager's report to Fife Council's Executive Committee on 18 August 2015

35. The report made a number of recommendations that Dundee City Council's Policy and Resources Committee accepted in August 2015. The chief executive's covering report to the committee noted that the council had taken a number of steps since January 2015 to improve the structures, monitoring, communication and project management arrangements. This had included establishing a project board and providing additional expertise to help the operation of the board. The external auditor will continue to monitor developments and will report as appropriate as part of the annual audit process.

Office for National Statistics' review of revenue-funded capital projects

36. The Office for National Statistics (ONS) is responsible for assessing bodies and transactions against EU rules to decide how they should be treated in the Statistical National Accounts. HM Treasury uses the Statistical National Accounts to inform some aspects of guidance on UK fiscal budgets. In relation to public sector capital projects funded from revenue, the ONS can classify individual projects as being either under public sector control or private sector control. This depends on the balance of control over the special purpose vehicles (SPV), normally established to manage the delivery and operation of such projects. A privately classified project sees the debt classified to the private sector. In contrast, a project classified to the public sector counts towards the national debt. This can require budget cover to be provided over the construction period of the asset, rather than over the period in which it is used and maintained.

37. In July 2015, the ONS concluded that the public sector controlled the SPV associated with the AWPR. The AWPR is an NPD project and will incur annual unitary charges over the life of the contract. But the ONS decision means that an expense, equal to its construction cost, will be charged against the Scottish Government's capital budget. This will not be a cash payment but it will result in a reduced amount of budget available for spending on other capital projects. The ONS based its decision on the extent of the Scottish Government's influence over the SPV and on its share of the economic rewards from the asset.

38. To avoid any further charges against the Scottish Government's capital budget, the Scottish Government asked the SFT to look at how it could ensure that SPVs of other revenue-funded capital projects remained under private sector control. While the SFT considered available options, revenue-funded capital projects in the hub programme which were planned to reach financial close during 2015 could not do so. These included how best to reduce the public sector's influence over the SPVs associated with these projects.

39. In November 2015, the Deputy First Minister announced that the ONS had advised that, based on the current EU guidance, SFT's proposals would result in revenue-funded projects procured through the hub route being classified to the private sector. These changes will result in the establishment of SPVs which sit outside of the hub company corporate structure, known as Design, Build, Finance and Maintain Companies (DBFM Cos). Public sector ownership of the DBFM Cos will be reduced to 20 per cent, compared to 40 per cent under the previous SPV regime. Private sector ownership will remain at 60 per cent and the remaining 20 per cent will be owned by a newly established private sector charity.

40. The Deputy First Minister also advised in November 2015 that the two NHS projects and ten council school projects affected by the AWPR classification review, with a combined capital value of about £330 million, could proceed to financial close. The projects include schools such as Midlothian Council's £35 million Newbattle High School and Dundee City Council's £25 million Baldragon Academy. The SFT has confirmed that the delay in reaching financial close would lead to the cost of some projects increasing. This is largely due to the likely need to renegotiate the previously agreed contract prices of some projects. It is not possible to quantify by how much costs might increase until the negotiations are concluded.

41. The Scottish Government and the SFT continue to review options for potential changes to the AWPR project and similar revenue-funded projects. The Scottish Government is also discussing with HM Treasury the budgetary implications of the ONS' classification of the AWPR project. In the meantime, the Scottish Government has set aside £150 million from underspends in 2014/15 to meet any future charge on its capital budget. HM Treasury has also agreed to provide additional budget cover of £300 million. It is likely to be some time before the situation arising from the ONS' classification work is fully resolved. Audit Scotland will continue to monitor developments and report as appropriate.[12]

Part 2

Councils' management of capital investment programmes and projects

Key messages

1. Councils have taken a range of actions in response to the recommendations in the 2013 report. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply fully with the 2013 good practice guide.

2. A capital investment strategy is an essential component of a council's capital investment management as it provides clear links between investment objectives and the council's wider strategic objectives and sets out a vision for major capital investment. Councils' strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long-term capital investment strategy in place and these do not identify opportunities for collaboration with other bodies.

3. To support the long-term capital investment strategy, councils should also have in place a capital plan that outlines annual investment commitments and plans over the medium term. All councils have a capital plan but they need to develop them further. While the plans outline expected programme and project costs, they do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. The councils with a combined capital investment strategy and plan need to better demonstrate how capital investment contributes to their strategic objectives.

4. Councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. This included establishing a dedicated team to manage capital investment, or appointing a lead officer to oversee and develop the monitoring framework. They need to do further work to comply fully with the 2013 good practice guide, such as routinely reviewing business cases throughout the life of every capital project to ensure the effective monitoring of expected benefits.

5. Few councils are carrying out formal mid-term reviews of projects, or post-project evaluations. Those that do are not doing so regularly or in a consistent manner. They are more likely to formally evaluate projects that ran into significant difficulties. This limits councils' ability to identify areas of good practice, share lessons learned and identify the benefits that the investment activity realises.

councils have improved their management of capital projects but further progress is needed

6 Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils focus on reporting capital spending in the current financial year. Councils could do more to provide reports to members that clearly outline cumulative capital spending for individual projects, project risks and non-financial information, such as the benefits that individual projects realise. Councils provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.

Almost all councils considered the 2013 report but they need to take further action to implement its recommendations

42. Thirty of Scotland's 32 councils considered the 2013 report at the full council or at a relevant committee meeting. The report was considered by officers only at Clackmannanshire and Dumfries and Galloway Councils. Thirty-one councils have either developed an action plan based on the report's recommendations, or progressed recommendations without preparing a formal action plan. Common actions include:

- making organisational changes, for example establishing a dedicated team to manage capital investment or appointing a lead officer to oversee and develop the monitoring framework
- developing internal project and programme management practices, for example reviewing and developing their business case requirements for capital projects or reviewing the format of capital reports to increase the effectiveness of scrutiny and monitoring.

43. Twenty-six councils distributed and used the 2013 good practice guidance to assess how well they were managing capital investment projects and a further three councils are planning to use it. About two-thirds of councils have also used the good practice checklist to help to develop their business case methodologies, or to review internal capital monitoring documentation.

44. As at October 2015, Comhairle nan Eilean Siar has taken no specific action in response to the 2013 report. It is planning to use the good practice guidance to help it review project management arrangements.

Councils need to improve the quality of their capital investment strategies and plans

45. In 2013 the Accounts Commission recommended that councils should have a clear capital investment strategy, covering the long term (over ten years), to direct and control their investment activities. A capital investment strategy is an essential component of a council's capital investment management as it provides clear links between investment objectives and the council's strategic objectives defined in corporate plans or Single Outcome Agreements (SOAs). SOAs are agreements on local service priorities between councils and their partners such as NHS boards, and the Scottish Government. A strategy should also set out a vision for major capital investment, and provide clear priorities for deciding on the level and nature of investment spending within available resources and the overall funding strategy.

46. To support the long-term capital investment strategy, councils should also have in place a capital plan that outlines annual investment commitments and plans over the medium term (typically 3-5 years). These plans should include the rationale for all of the main capital investment projects, forecasts of project costs and how they are to be funded. This allows officers and elected members to consider capital investment plans when assessing the affordability and design of long-term financial plans.

A third of councils have a capital investment strategy in place and none of these fully complies with good practice

47. Twelve councils have a capital investment strategy in place. Most of these cover a period of between five and ten years, with two covering a period of over ten years. Councils' strategies display some features of the good practice guide (Exhibit 7, page 25). These include setting out clearly how councils expect their planned capital investment to contribute to their strategic priorities. Elected members of all eight of the councils reviewed in detail considered that the links were particularly well set out for the councils' schools programmes. The review of capital investment strategies and 13 business cases of major capital projects across the eight councils confirmed this view. Councils need to improve their capital investment strategies further, for example by showing clear links between individual projects and wider capital investment programmes.

48. Councils told us they were actively exploring opportunities for joint investment in assets but this was often not reflected in their capital investment strategies. There are some examples of councils jointly procuring support services but little evidence of them investing in assets jointly with other public bodies. For example, councils in the Highlands and Islands (Argyll and Bute, Highland, Comhairle nan Eilean Siar, Orkney, Moray and Shetland) jointly procured engineering consultancy services but they terminated this agreement in March 2015. Angus Council is a member of Tayside Procurement Consortium which is shared with Perth and Kinross and Dundee City Councils, and with Tayside Contracts.

49. Joint procurement through the five Scottish hubs is becoming more widespread, with councils seeking to supplement their in-house skills and expertise. For example, Inverclyde Council procured St Patrick's Primary School jointly with East Dunbartonshire Council's Lenzie Primary School through the West hub. Other examples of joint hub projects include community hubs that comprise several local services such as schools, health centres and libraries.

50. There are also examples of councils sharing accommodation with other public bodies, particularly with Police Scotland or the NHS. This is a result of councils reviewing their offices to identify the most efficient way to use them, and selling some properties. For example, Angus Council shares office accommodation with Police Scotland and NHS Tayside. Police Scotland staff also operate from other council offices, for example in Highland and Fife Councils. Health and social care integration will require further joint working by councils.

51. Officers and elected members of the eight councils reviewed in detail stated there were a number of barriers to successful joint working and sharing resources. The main ones were differences in systems and processes between different organisations, for example some councils perceived that the approval process in the health sector can lead to time delays. Geographical barriers could, they added, also prevent successful joint working, particularly for councils in more remote areas.

Exhibit 7
Comparison of councils' capital investment strategies against the 2013 good practice guide
Capital investment strategies of the 12 councils that have them display some features of good practice although councils need to improve them further.

Good practice criteria for an investment strategy	Do capital investment strategies comply with good practice?	
Shows the council's consideration of its potential future service and community infrastructure needs and ambitions compared to the current position.	Partially	Two-thirds of strategies (8/12)
Shows how investment may be funded sustainably and outlines a method for choosing capital investment priorities within available resources and the overall funding strategy.	Partially	Two-thirds of strategies (8/12)
Provides clear links between investment objectives and the council's strategic objectives.	Yes	All strategies (12/12)
Identifies and coordinates investment requirements from across each service area.	Partially	Half of strategies (6/12)
Provides clear links between individual projects and wider programmes.	Limited progress	One-third of strategies (4/12)
Clearly outlines investment plans over a number of years, including contractually committed and uncommitted projects.	Partially	About 60 per cent of strategies (7/12)
Provides an assessment of the various funding options available to the council and how these may be used.	Partially	About 60 per cent of strategies (7/12)
Provides clear information on asset management activity and the overall condition of the council estate.	Yes	Over 80 per cent of strategies (10/12)
Identifies opportunities for collaboration with other councils, public bodies and the private sector.	Limited progress	Only a quarter of strategies (3/12)

Source: Audit Scotland

All councils have a capital plan in place although they need to develop them further

52. All councils have a capital plan in place. Two-thirds of capital plans cover between three and eight years, with the remaining ones covering ten years or more. Most plans outline annual capital programme and project costs for the period the plan covers but do not set out clearly changes in timing of capital spending between financial years. They do not provide details of slippage, or delays, between years and how this affects the delivery of the plan. Capital plans also do not outline the rationale for progressing major projects, the expected benefits of these or which projects are a council's priority (Exhibit 8, page 26).

Exhibit 8

Comparison of councils' capital investment plans against the 2013 good practice guide

Capital investment plans comply with some elements of good practice but councils need to develop them further.

Good practice criteria for a capital investment plan	Do capital investment plans comply with good practice?	
The rationale for all the main capital investment projects identified as priorities within the plan period, including the expected benefits and any options around the selection of projects.	No	Seven out of 32 capital plans explain the rationale for prioritising projects. Only one plan provides expected benefits of these projects and none provides options for project selection.
Includes details of the planned annual project and programme costs.	Yes	Most capital plans (29/32)
Details funding arrangements, including grant funding, borrowing, use of private finance.	Yes	Most capital plans (30/32)
Details any shortfalls or surpluses in available funding and actions to address these.	Yes	Most capital plans (30/32); councils also address this by linking their capital investment activity with treasury management functions.
Sets out clearly re-profiling of capital spending between years.	**Limited progress**	Less than a quarter of capital plans **(7/32)**
Provides details of project or programme slippage between years and how this affects the delivery of the plan.	**Limited progress**	Less than a quarter of capital plans **(7/32)**
Provides clear links between the overarching capital investment strategy and annual capital budget monitoring.	**Limited progress**	Only five out of 12 capital plans[1] **(5/12)**

Note: 1. Only 12 councils have a capital investment strategy in place (paragraph 47).
Source: Audit Scotland

53. It is important that the capital plans of the 20 councils that do not have a capital investment strategy in place demonstrate good practice features that a capital investment strategy would normally include. Two-thirds of capital plans do not demonstrate how councils expect planned capital investment to contribute to their strategic objectives. Three plans consider joint working and none provides clear information on asset management activity. These issues, especially a lack of clear links between councils' capital investment and their strategic objectives, are particularly concerning in the absence of a capital investment strategy. It is not clear how these councils demonstrate how planned capital investment is expected to contribute to delivering their strategic objectives.

54. Highland and Fife Councils both use scoring methodologies to prioritise planned capital investment and to demonstrate how it will contribute to achieving strategic priorities and outcomes. In Highland Council, the Capital Planning Officers Group scores each capital project against asset condition and performance, political priorities and financial implications. They attach a higher weighting to meeting the council's programme of priorities. Fife Council is planning to redevelop its scoring mechanism for 2016 to ensure it better takes into account qualitative factors such as expected benefits and risks.

55. All eight councils selected for detailed review have consulted with stakeholders, such as service users and suppliers, on their capital programme or individual projects, although this varies across councils. Some councils carry out formal consultations for higher-profile major capital projects, or for the overall capital programme. Consultations in other councils are more informal. Three councils are planning to improve how they consult with stakeholders. For example, East Ayrshire Council plans to prepare a communication plan at the start of each major capital project outlining how the council will communicate with the stakeholders it identifies. Angus Council will add capital investment to its existing budget consultation processes, and Fife Council is planning to expand consultation to non-school projects.

Councils have improved arrangements for management and monitoring of capital investment

56. Since the Accounts Commission published the 2013 report, four out of the eight councils selected for more detailed review have implemented revised structures to help them manage and monitor capital investment activity more effectively. This included establishing a dedicated team to manage capital investment, or appointing a lead officer to oversee and develop the monitoring framework. The remaining four councils already had a capital projects monitoring group or equivalent in place before the 2013 report.

57. In Angus Council the group's membership includes elected members, enhancing their ability to scrutinise capital investment programmes. The Policy and Budget Strategy Group (PBSG) and the Capital Projects Monitoring Group (CPMG) in Angus Council include seven and three elected members, respectively. The PBSG is responsible for setting the council's overall budget strategy. The CPMG is a sub-group of the PBSG and is responsible for overseeing delivery of the agreed capital programme. This means that elected members scrutinise both strategic and operational aspects of the council's capital investment.

58. The review of the eight councils identified that they were linking capital investment activity with their treasury management functions to ensure that cash is available when needed.[13] This is in line with the findings of the Accounts Commission's *Borrowing and treasury management in councils* [PDF], published in March 2015, and helps to ensure that capital plans are affordable and appropriately funded. All eight councils refer to capital investment activity within their treasury management strategies, and at least two have a single manager in charge of both areas to promote joined-up working.

Business cases for major capital projects identify expected benefits but councils do not routinely monitor them

59. In 2013 the Accounts Commission reported that councils had weak processes for developing and using business cases. All eight councils reviewed in detail have clear procedures for preparing outline and full business cases but they do not always apply them fully. The review found that the content of business cases is not consistent for all capital projects. Five out of eight councils do not routinely revisit and review business cases throughout projects and this limits their ability to identify benefits that individual projects have realised. Three of the eight councils are currently reviewing their practices for preparing business cases, including how they measure and monitor intended benefits.

60. The review of 13 major capital projects across the eight councils showed that most were based on sound business cases. In some councils business cases existed for the wider schools modernisation programme rather than for the individual projects. Twelve of the 13 business cases clarified timescales and project values, and clearly demonstrated how projects were expected to contribute to the councils' strategic priorities. The exception to this was Dundee City Council's Longhaugh Primary School, where the project was in the early stages of development and a detailed business case had yet to be prepared. The majority of projects had appropriate governance arrangements in place with roles and responsibilities clearly allocated.

Few councils are doing formal mid-term reviews of projects and post-project evaluations

61. Most councils do not carry out independent expert reviews of projects at key stages, known as gateway reviews. In contrast, South Lanarkshire Council has implemented a review process of the key stages of its long-term Primary Schools Modernisation Programme, which includes reviews of design, maintenance and servicing issues, contract management and community benefits. Similarly, the City of Edinburgh Council has established a council-wide Programme, Project and Change Management Community as an informal forum for officers involved in capital investment to share good practice and lessons learned. The community meets several times a year and any good practice or lessons learned are reflected in the council's approach to managing capital projects.

62. Councils do not routinely carry out post-project evaluations. They perform these on an ad hoc basis and their approaches can differ for individual projects. Councils are more likely to formally evaluate projects that ran into significant difficulties. For example, the City of Edinburgh Council completed a comprehensive post-project evaluation of phase one of its Water of Leith flood prevention project and used lessons learned in developing phase two of the project. It is important that councils evaluate all major capital projects on completion, not only the ones with one or more phases or those that did not go to plan. Failure to review projects can limit the ability of councils to identify areas of good practice, share lessons learned and monitor benefits that the investment activity realises.

Elected members are not receiving adequate information on capital investment

63. The 2013 report emphasised that elected members should be provided with regular, appropriate and accurate information to allow them to properly scrutinise councils' capital investment activity. The vast majority of councils currently provide elected members with capital monitoring reports that allow elected members to scrutinise total annual capital spending against budget. Most councils also provide capital spending on individual projects in the current financial year.

64. Councils often need to spend money on individual capital projects over a number of years. It is important for elected members to receive information on this cumulative capital spending. About a third of councils do not routinely provide information to elected members on cumulative spending against total capital budget on a project-by-project basis. There were varied views among the eight councils' elected members on the information they need for scrutinising capital investment effectively. Some felt that cumulative spending against total capital budget on a project-by-project basis should be reported to them. Others thought this information would be too detailed and they were content for the councils' officers to alert them to any issues as appropriate. There is a risk that not providing cumulative spending on a project-by-project basis limits the ability of elected members to scrutinise effectively the performance of the capital programme.

65. Some councils provide better information to elected members. For example, East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report (Appendix 2). Members can also access annual spending information in supplementary papers to help them scrutinise capital investment. Similarly, Dundee City Council has recently revised the format of its capital monitoring report to ensure this reports total capital spending against total project budgets as well as project completion dates to elected members.

66. Officer-led project boards are primarily responsible for managing risks as councils see this as part of the operational management of capital projects. As a result, councils only provide limited information to elected members on project risks and overall capital programme risks. Elected members indicated that officers could alert them to significant risks earlier and, in some cases, also provide them with a better explanation of possible actions that could reduce the risks. Failing to provide information about significant risks to elected members does not allow them to oversee capital investment effectively.

67. Councils could do more to provide reports to members that clearly outline the benefits that individual projects realise. We found that, while business cases included expected benefits, these were not monitored or set out in the reports to members. Three out of the eight councils are currently developing performance measures to enhance how they evaluate their overall capital programme. Members of some councils indicated that they wished to be involved in shaping councils' capital programmes much earlier in the process.

68. Overall, councils need to improve scrutiny of capital investment. The Accounts Commission reported the same finding for councils' borrowing and treasury management in its March 2015 report. Like treasury management, capital investment is a complex and technical subject, and officers need to provide councillors with better information through clear, good-quality reports.

Councils provide elected members with a variety of training opportunities

69. Councils provide members with a variety of training opportunities on capital investment matters. They largely provide one-off training and are willing to organise further training if elected members ask but no council has a continuing programme of training in place on capital issues. A limited number of councils have recently provided training in response to the 2013 report and the recent Accounts Commission's report on borrowing and treasury management in councils.[14] This included training on treasury management, capital finance and scrutiny training that highlighted elected members' responsibilities.

Endnotes

1 *Major capital investment in councils* [PDF], Accounts Commission, March 2013.

2 The 2013 report used 2011/12 as the last year for the analysis of capital spending figures.

3 *Summary Statistics for Schools in Scotland*, Statistical Bulletin (Education Series), Scottish Government, February 2015.

4 2013/14 is the latest year for which information is available.

5 *Scottish Spending Review 2011 and Draft Budget 2012-13*, Scottish Government, September 2011.

6 *Local Government Funding: Draft Budget 2015-16 and provisional allocations to local authorities*, Financial Scrutiny Unit Briefing, November 2014.

7 *Police reform: Progress update 2013* [PDF], Audit Scotland, November 2013.

8 Scottish Futures Trust's Aim.

9 *An overview of local government in Scotland 2015* [PDF], Accounts Commission, March 2015.

10 *Building Better Schools: Investing in Scotland's Future*, Scottish Government, September 2009.

11 *Review of the Construction project for the Victoria and Albert Museum of Design*, John F. McClelland C.B.E., July 2015.

12 *ESA10: Classification of privately funded capital projects – Briefing paper* [PDF], Audit Scotland, October 2015.

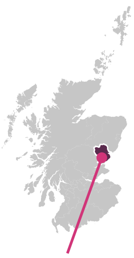
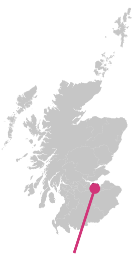
13 Treasury management includes managing cash to ensure enough is available to meet day-to-day expenses like paying salaries or electricity bills, and for building new assets, such as a new school, or improving existing ones, such as roads. It also involves ensuring that any temporary surplus cash is safely invested.

14 *Borrowing and treasury management in councils* [PDF], Accounts Commission, March 2015.

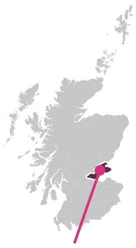
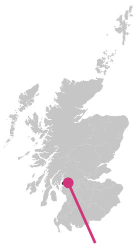
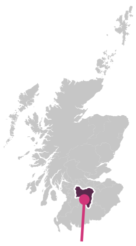
Appendix 1

Councils selected for the targeted follow-up

We performed a more detailed evaluation of capital investment at a sample of eight councils.

Council	Capital spending between 2012/13 and 2014/15, at 2014/15 prices (£m)	Planned capital spending in 2015/16 as at October 2015 (£m)	Number and value of projects in progress at the council	Thirteen major capital projects selected for a business case review
 Angus	124.0	55.0	4 projects £62.8 million	Brechin Community Campus (£26.2 million)
 City of Edinburgh	794.7	201.2	11 projects £233.7 million	Water of Leith flood prevention scheme (phase 2) (£25 million)
 Dundee	248.3	75.1	7 projects £197 million	Harris Academy (£32.4 million) Longhaugh Primary School (£16 million)
 East Ayrshire	160.7	46.1	6 projects £135.2 million	Bellfield and Kirkstyle Primary School merger (£12.4 million) Knockroon Learning and Enterprise Campus (£63.5 million)

Cont.

Council	Capital spending between 2012/13 and 2014/15, at 2014/15 prices (£m)	Planned capital spending in 2015/16 as at October 2015 (£m)	Number and value of projects in progress at the council	Thirteen major capital projects selected for a business case review
 **Fife**	506.3	265.9	19 projects £482.2 million	Dunfermline Museum and Art Gallery (£12.7 million) Kirkcaldy East High School (£26.2 million)
 **Highland**	397.9	178.3	16 projects £285.1 million	Wick new Noss Primary School (£16.7 million) A862 Muir of Ord Railway Bridge (£5.4 million)
 **Inverclyde**	107.9	30.0	3 projects £23.1 million	St. Patrick's Primary School (£7 million) Ardgowan Primary School (£6.2 million)
 **South Lanarkshire**	472.4	143.0	4 projects £425.9 million	Halfmerke Primary School (£12.1 million)

Source: Audit Scotland

Appendix 2

Good practice examples in managing capital investment

The eight councils reviewed in detail displayed the following good practice in managing capital investment.

Area of managing capital investment	Good practice examples
Linking capital investment with councils' strategic objectives	Highland and Fife Councils both use scoring methodologies to prioritise planned capital investment and to demonstrate how it will contribute to achieving strategic priorities and outcomes. In Highland Council, the Capital Planning Officers Group scores each capital project against asset condition and performance, political priorities and financial implications. They attach a higher weighting to meeting the council's programme of priorities. Fife Council is planning to redevelop its scoring mechanism for 2016 to ensure it better takes into account qualitative factors such as expected benefits and risks. (Paragraph 54)
Membership of capital projects monitoring group	In Angus Council the group's membership includes elected members, enhancing elected members' ability to scrutinise capital investment programmes. The Policy and Budget Strategy Group (PBSG) and the Capital Projects Monitoring Group (CPMG) in Angus Council include seven and three elected members, respectively. The PBSG is responsible for setting the council's overall budget strategy. The CPMG is a sub-group of the PBSG and is responsible for overseeing delivery of the agreed capital programme. This means that elected members are involved in both strategic and operational aspects of the council's capital investment to help them scrutinise. (Paragraph 57)
Mid-term reviews of capital projects	South Lanarkshire Council has implemented review process of the key stages of its long-term Primary Schools Modernisation Programme, which includes reviews of design, maintenance and servicing issues, contract management and community benefits. (Paragraph 61)
Sharing good practice and lessons learned	The City of Edinburgh Council has established a council-wide Programme, Project and Change Management Community as an informal forum for officers involved in capital investment to share good practice and lessons learned. The community meets several times a year and any good practice or lessons learned are reflected in the council's approach to managing capital projects. (Paragraph 61)
Post-project evaluations	The City of Edinburgh Council completed a comprehensive post-project evaluation on phase one of its Water of Leith flood prevention project and used lessons learned to develop phase two of the project. (Paragraph 62)
Provision of good-quality information to elected members	East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report. Members can also access annual spending information in supplementary papers to help them scrutinise capital investment (page 35). Similarly, Dundee City Council has recently revised the format of its capital monitoring report to ensure that this reports total capital spending against total project budgets as well as project completion dates to elected members. (Paragraph 65)

Example of a good-quality capital monitoring report provided to elected members

East Ayrshire Council presents cumulative capital spending on a project-by-project basis in its quarterly 'East Ayrshire Performs' report. Members can also access annual spending information in supplementary papers to assist them with their scrutiny of capital investment.

The council's quarterly performance report provides performance information in a range of key areas, including finance. The range of information provided includes: current financial position, progress against expenditure reduction measures, performance against treasury indicators, progress of the capital programme, absence management rates, numbers of complaints received, health and safety issues, and risk management. Presenting the capital programme information with other performance themes gives wider operational context to members.

The report also advises members that additional supporting information is available on the Members' Portal, and that Depute Chief Executives and Heads of Service are available to discuss any aspect of performance. Additional information available on the Members' Portal includes:

- summarised revenue information by department
- capital programme monitoring report
- employee statistics
- health and safety performance report
- council performs: key statistics
- corporate risk register.

An executive summary provides an overview of all areas of performance. In respect of capital projects, this includes information on individual projects covering:

- the type of project and its purpose
- latest progress against the timetable and description of the recent stages
- reasons behind any delays
- the estimated financial impact of identified changes and variances
- any proposals for amendments to a project, together with the reasons for this
- funding sources for any additional costs
- any additional budget requests.

The executive summary ends with a list of recommendations for members. The list refers to individual paragraphs and asks members to note, agree and approve specific points and changes for the outlined projects. It also has contact details for the responsible council officer and a list of background papers.

The report then goes into more detail about individual projects, presented in a series of tables covering each of the council's main service areas. Cumulative spending and forecast spending for each project are shown against the approved budget, with delivery status indicated using colour coding to ease interpretation of performance.

The council's colour coding system uses the following classifications to highlight performance.

✗	**Significantly off target** +/– 2% or more budget, or £0.500m, whichever is less
⇄	**Slightly off target** +/– 0.5% to 2% of budget, or £0.125m, whichever is less
✓	**Broadly on target** Within +/– 0.5% of budget

An example of how this information is presented is shown below.

Project	Budget allocation (£m)	Cumulative expenditure to date (£m)	Forecast expenditure (£m)	Current milestone	Delivery status
Project 1	5.000	0.075	5.000	Design	✗
Project 2	2.500	1.250	2.700	Development	⇄
Project 3	1.500	0.033	1.500	Tender	✓
Project 4	10.250	10.200	10.250	Complete	✓
General Projects	4.422	2.850	2.850	N/A	N/A

Below each service table, the report provides further information on individual projects including:

- current stage of the project and main activities undertaken during the period
- anticipated works start and completion dates
- explanations for budget and time variances
- highlighted risks and planned responses
- early indications of changes that might be required
- estimated financial impact of the changes
- details of discussions with internal and external stakeholders
- description of upcoming work stages
- recommendations for members.

Appendix 3

Alternative funding methods

Councils are considering alternative funding methods to supplement direct funding of their capital projects, or as alternatives to established forms of Public Private Partnerships.

City Deal

Agreement between the Scottish Government, the UK Government and councils to stimulate the economy in Scottish cities and their regions. The UK and Scottish Governments provide specific capital grants to city regions over ten to 20 years for infrastructure and economic development projects. The councils borrow further funds to supplement government grants. In August 2014, the two governments agreed to provide £500 million funding each, over 20 years, to the Glasgow and Clyde Valley City Deal, the first deal of its kind in Scotland. Eight councils across Glasgow and Clyde Valley are expected to provide an additional £130 million to improve transport infrastructure and public transport, and provide new sites for housing and employment. Several other councils have submitted or are currently preparing bids for further City Deals, including the City of Edinburgh Council, Fife Council, Dundee City Council and Highland Council. The councils are mainly doing this in collaboration with their neighbouring authorities.

Growth Accelerator Model (GAM)

Similar to TIF, the GAM model involves public sector investment that promotes further private sector investment. This is expected to result in additional local tax income, which councils use to repay their borrowing. The GAM scheme attaches specific conditions to creating the circumstances for the private sector to invest, including job creation targets, training opportunities and a share of any private sector profits. GAM is currently available in Scotland's seven cities. An example is the St James Quarter in Edinburgh, with an estimated value when finished of approximately £850 million. Of this, City of Edinburgh Council is planning to invest about £61 million in enabling infrastructure, such as improvements to public transport, pavements and cycle facilities. It will also invest in building a sustainable energy centre that will provide power, heating and cooling to the new development.

Tax Incremental Financing (TIF)

A new financial model that combines public and private sector investment in local infrastructure to deliver economic growth. Councils use borrowing to fund investments in public infrastructure with the aim of attracting further private sector investment. As a result of this, councils are expected to receive higher local tax income which they use to repay their borrowing. Six councils are currently piloting TIF schemes in Scotland: Argyll & Bute, City of Edinburgh, Falkirk, Fife, Glasgow and North Lanarkshire. The councils are expected to borrow about £350m under this scheme to fund enabling infrastructure such as improvements to local roads and railway links.

UK Green Investment Bank (UKGIB)

UKGIB invests in environmentally friendly areas with the aim of attracting further private sector investment into green projects. In particular, it helps to fund new energy and waste infrastructure across the UK to achieve environmental targets, such as reducing the amount of waste sent to landfill. UKGIB investments in Scotland so far include Scottish wind farms, low-energy street lighting through the bank's green loans scheme, recycling and waste plants, and community renewables. Councils told us that the UK Green Investment Bank is currently not a popular choice for funding capital projects since interest rates on borrowing are usually higher than other sources of borrowing.

Appendix 4

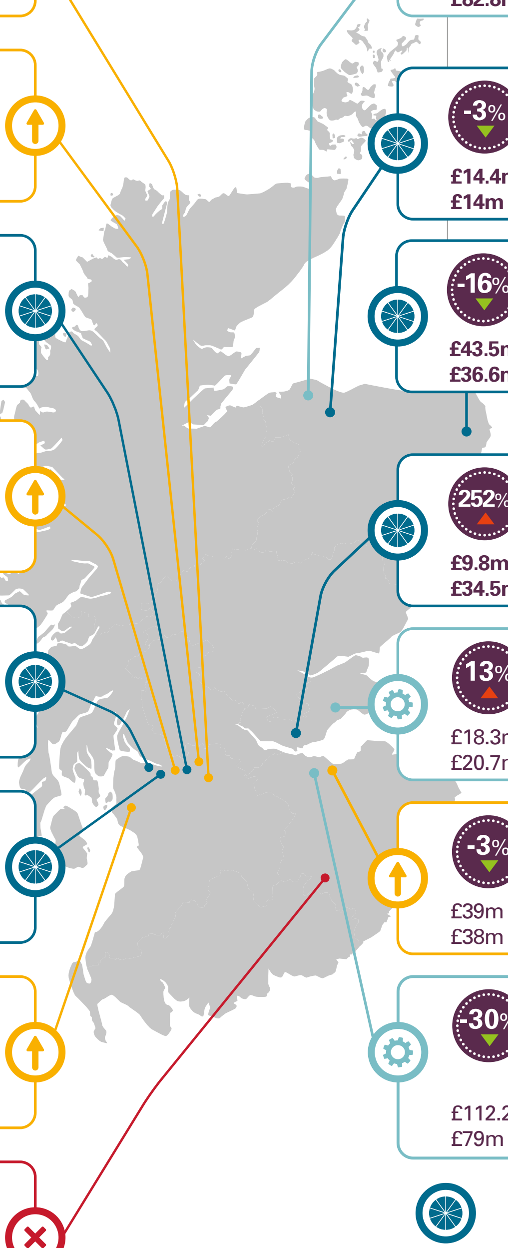
Update on the 15 projects reviewed in the 2013 report

Of the 15 capital projects that were in progress at the time of the 2013 report, nine were complete, five were under way and one had been cancelled as at October 2015.

Percentage change from initial cost estimate

Change in timescale from initial estimate

Project	Area	Percentage change from initial cost estimate	Initial cost	Completion/estimate cost	Change in timescale from initial estimate	Initial date	Completion/estimate date
Ravenscraig Regeneration Site	North Lanarkshire	N/A	£73m	Not known	N/A	2018	Not known
Council House New Build	North Lanarkshire	0% =	£150m	£150m	0 months	2020	2020
Pre-12 Schools strategy	Glasgow	39%	£128m	£178m	+8 months	Dec 12	Aug 13
Care homes	Glasgow	29%	£71.2m	£91.8m	+28 months	Mar 15	Jul 17
Linwood Sports Hub	Renfrewshire	-7%	£24.1m	£22.3m	+1 month	Jan 13	Feb 13
Park Mains High School	Renfrewshire	-14%	£33.7m	£29.1m	-1 month	Aug 12	Jul 12
Garnock Academy	North Ayrshire	-2%	£43m	£42m	+16 months	Aug 15	Dec 16
Waste Treatment	Scottish Borders	N/A	£18.2m	£2.4m	N/A	Oct 12	N/A
Elgin Flood Alleviation Scheme	Moray	0% =	£83m	£82.8m	+38 months	Jun 12	Aug 15
New Council House Build	Moray	-3%	£14.4m	£14m	0 months	Mar 13	Mar 13
Ellon Academy	Aberdeenshire	-16%	£43.5m	£36.6m	+2 months	May 15	Jul 15
Dunfermline Flood Prevention	Fife	252%	£9.8m	£34.5m	+45 months	Mar 11	Dec 14
Bankhead Depot Rationalisation	Fife	13%	£18.3m	£20.7m	+34 months	Feb 13	Dec 15
Portobello High School	City of Edinburgh	-3%	£39m	£38m	N/A	Not known	Aug 16
Edinburgh International Conference Centre Extension	City of Edinburgh	-30%	£112.2m	£79m	+47 months	Jun 09	May 13



Completed

Operational with final costs to be confirmed

In progress

Cancelled

Reasons for overspends and delays:

Bankhead Depot Rationalisation

Fife Council revised the budget in February 2012 to take account of additional design works and extended the construction programme. The installation of a biomass boiler was subject to planning delays but this did not delay the use of the facility. The council is still to complete sub-metering that will detail energy use in different locations, a small element of the project with the estimated cost of £0.07 million.

Dunfermline Flood Prevention

Phase 1 was delayed significantly because of contractual disputes, and design and site supervision failures. The council terminated the contract in January 2014 due to problems with the contractor's performance and delays in project delivery. This led to additional costs and significant professional fees for recovering costs but any recovery from the design consultant will reduce the total completion cost (Case study 1, page 19).

Pre-12 Schools Strategy (Phase 4)

As reported in the 2013 report, the movements in cost were due to problems with identifying a site and with planning approval, changes to design requirements and unforeseen additional ground works. The council increased the budget to £178m in November 2012. Delays were mainly due to adverse weather, unforeseen ground conditions and additional structural works in one of the existing buildings. There were also delays in procurement and in agreeing changes to the project's scope.

Edinburgh International Conference Centre extension

The project was delayed significantly because the original contractor withdrew in 2007 and because the council reappraised the project's scope with a reduced budget of £84.6 million. The revised budget included £71 million for the main construction phase and £15 million for development costs and the lease of the land. The council delivered the construction phase at £64 million, £7 million under the revised budget.

Ravenscraig Regeneration Site

In September 2015 Ravenscraig Ltd, the joint venture company overseeing the development of the former Lanarkshire steelworks site, announced its intention to update the Ravenscraig regeneration plan. As a result, the town centre element of the original plan was temporarily put on hold. Between 2006 and 2015 Ravenscraig Ltd. invested over £200m in the project and is now working with North Lanarkshire Council to finalise a revised plan for the site.

Reason for project cancellation:

Waste Treatment facility

The Scottish Borders Council cancelled the project due to project-specific issues. In particular, the council failed to demonstrate the project's technical viability and was therefore unable to secure funding for the project. External auditors are satisfied that it followed appropriate procedures in relation to this decision.

Source: Audit Scotland's analysis of supporting documentation

Major capital investment in councils

Follow-up

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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Appendix 2

Accounts Commission 'Major capital investment in councils follow up' key recommendations – reminder of existing actions to address these

Accounts Commission key recommendation	**Existing / planned actions that exist to address this**
Councils should develop and confirm long-term strategies to set out the needs and constraints for local capital investment and consult with stakeholders, such as service users and suppliers, as they develop these strategies. These should demonstrate to elected members and service users how planned capital investment will help achieve councils' long-term strategic priorities as defined in corporate plans and Single Outcome Agreements (SOAs).	The Council has a ten year capital plan. This was rolled forward to the period 2019/20 to 2023/24 and approved by Council in February 2014. This was subsequently updated in January 2016. From 2019/20 onwards, with the exception of £7m of funding that remains unallocated pending a decision by Members as to where best to redistribute this, the capital plan was rolled forward on the basis of directing approximately £40m of capital expenditure per annum to the same priority areas as before. As part of the budget framework process, a list of unfunded capital priorities is collated to inform Members of likely future requirements. As part of the 2016/17 process, a list of unfunded capital priorities over the period 2016-2021, including an element of works across the Council estate was collated from each service Director and presented to Elected Members. A list totalling £142m was presented as part of the budget framework process which links to the Corporate Asset Strategy based on considering each priority using the standard assessment criteria (condition, sufficiency, suitability and affordability). The Corporate Asset Strategy, which sets out the Council's approach to capital investment was presented and approved by Members in May 2015. The strategy identifies the capital investment needs in relation to the condition of the Council estate and service implementation plans. The strategy focuses on four key objectives: 1) meeting statutory obligations 2) aligning property priorities to service delivery outcomes 3) smaller and better quality estate 4) optimising asset performance.
Councils should ensure that they:	Requirements for outline and full business case information are set out within core project toolkit

Accounts Commission key recommendation	**Existing / planned actions that exist to address this**
- prepare business cases that comply with good practice for every capital project - revisit and monitor business cases throughout every capital project - regularly carry out post-project evaluations to help establish whether planned benefits are realised and to identify good practice or lessons learned - consider how best to review projects at key stages, using independent experts as necessary, to help provide assurance about project progress and to identify any potential problems - are proactive in sharing lessons learned from projects, both, successful ones or those that ran into significant difficulties,	documentation produced by the Corporate Programmes Office (CPO – the function now transferred to the newly created Strategy and Insight Division). The most up to date version has incorporated feedback from Procurement, Finance and Service Areas. All major projects provide a status report to the CPO function on a bi monthly frequency. In addition to highlighting upcoming milestones the reporting framework provides visibility of all project milestones so that delivery of the project can be tracked against these. Furthermore, assurance reviews are agreed with the Project Sponsor early in delivery and will normally be aligned to key milestones. CPO and Finance undertake joint assurance reviews and the focus on project/programme budgets, actual spend/forecasts and benefits is strengthened through this joint working. Work has progressed on the monitoring of financials and particularly benefits with CPO and Finance working closely to ensure projects deliver the benefits stated within their business cases. Post project/programme reviews (that focus on realisation of benefits) are now undertaken within a year of formal project/programme closure. Project close reviews are now undertaken for all major projects and include a review of lessons learned. Lessons learned reports are available to other projects and the CPO and Project, Programme and Change Community promote the availability of these.

Accounts Commission key recommendation	**Existing / planned actions that exist to address this**
within the organisation and with other councils.	
Councils should ensure that they provide elected members with regular, appropriate and accurate information to allow them to scrutinise properly capital investment activity. Council's should ensure that they develop their capital monitoring to include: - cumulative spending against total capital budget and the progress of each significant project against its key milestones - reasons for and consequences of slippage, or delays, of capital projects and any changes in the timing of capital spending - clear outlines of the benefits that individual projects have realised, and how these	The Corporate Programmes Office (CPO) continues to report on all major projects (which include capital projects) to Council Leadership Team (bi-monthly), Finance and Resources Committee (quarterly) and Governance, Risk and Best Value Committee (six monthly). Financials, performance, risk, governance and benefits are key areas reported. Reporting to Governance, Risk and Best Value Committee is provided to strengthen transparency and accountability and enable effective scrutiny. Work has progressed on the monitoring of financials and particularly benefits with CPO and Finance working closely to ensure projects deliver the benefits stated within their business cases. Post project/programme reviews (that focus on realisation of benefits) are now undertaken within a year of formal project/programme closure. Slippage and the reasons for it are reported as part of Capital Monitoring report presented to Finance and Resources and Governance, Risk and Best Value Committee. This includes categorising the slippage by type. Future planned actions are for the Capital Monitoring report to incorporate information on the cumulative spending against total capital budget and estimated completion dates for each of the Council's major capital projects (total spend of £5m and greater).

Accounts Commission key recommendation	**Existing / planned actions that exist to address this**
compare with the expected benefits outlined in business cases - updates of the risks associated with capital projects and programmes, including their financial and non-financial implications	
Councils should provide elected members with regular training on capital investment to enable them to scrutinise effectively capital investment activity.	As part of the ongoing programme of training provided for elected members, training on understanding financial statements is provided which includes some coverage of capital issues. Additional informal or ‘ad hoc’ training is provided on specific capital-related issues upon request. Councillor briefings on Treasury Management and the capital investment programme were offered to Members in August 2015. A presentation on the capital investment programme and how it is funded was delivered to Members of the Finance and Resources and Governance, Risk and Best Value Committees in September 2015.

Governance, Risk and Best Value Committee

10.00am, Thursday 21 April 2015

Internal audit and risk services delivery model

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive summary

The Council is operating in a challenging environment and the Council transformation programme aims to ensure a continued focus on outcomes whilst supporting key initiatives and achieving required financial savings.

As the Council moves through a period of transformation it is critical that internal controls continue to be a focus. However, it is important to recognise the constraints on service delivery as a result of the savings that require to be achieved.

The contract between the Council and PwC for the co-sourced delivery of internal audit and risk management services was extended to 31 March 2017 by Council in December 2015.

This report sets out officer recommendations in relation to future service delivery.

Links

Coalition pledges	PO30
Council outcomes	CO25
Single Outcome Agreement	

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Internal audit and risk service delivery model

Recommendations

1.1 To note the proposals for future service provision for internal audit and risk services.

Background

Current service provision - co-source partnership with PwC

2.1 Internal audit services are currently provided through a co-source partnership with PwC. The Council's Chief Internal Auditor is provided by PwC under the co-source arrangements and further capacity and capability is provided by PwC colleagues working in partnership with Council staff in a 'one team' approach.

2.2 In addition, specialist risk management input has been drawn down under the co-source contract to assist the Council in developing a risk management framework and methodology. The Chief Risk Officer role is presently undertaken by a PwC member of staff. The primary ongoing purpose of this role is to continuously improve the risk management system, set overall direction and ensure smooth operation of the various senior risk committees.

Main report

Current environment

3.1 The improvements made in the Council's internal audit function, as well as its risk management arrangements, through the co-source partnership with PwC have been well documented and are outlined in previous reports to Committee in May and October 2013, May 2014, March 2015 and June 2015.

3.2 It is clear that the Council's internal control environment will be critical over the next 18-24 months, as the Council moves through a period of major change. However, it is important to recognise the constraints on service delivery as a result of the savings that require to be achieved.

Future service provision

3.3 The Council is operating in a challenging environment, with increased demand for services and continuing financial constraints. As a result, the existing arrangements for internal audit and risk cannot be brought within the available financial envelope for future years. The internal audit function is clearly critical to the Council's internal control and assurance framework. Within the reduced budget available, it will be important to maintain the integrity of this core service. The risk management arrangements have brought considerable benefits in engaging discussion and linkage between risk and the provision of assurance but in light of the need to prioritise the internal audit service it is no longer proposed to continue with the PwC arrangements as they currently stand.

3.4 A review of the service has now been undertaken and subject to staff consultation through the usual Council processes, which commences in mid-April 2016, it is proposed that Risk and Internal Audit are bolstered by the permanent recruitment of a Chief Internal Auditor and a Chief Risk Officer. Further risk resource will also be recruited to increase the current internal resource within the existing Risk function.

3.5 It is proposed that, to ensure that the Internal Audit and Risk functions maintain the strength and depth of expertise, the continuation of a co-source "light" arrangement is retained through a new procurement.

3.6 It is estimated that savings of up to £150,000 could be achieved by adopting this approach when compared to the current arrangements.

3.7 PwC have been asked to provide some assistance on a transitional basis during the period of recruitment and bedding-in of the in-house senior risk management resource as well as generating early momentum in the development of the in-house service.

3.8 It is anticipated that recruitment for the Chief Internal Auditor and a Chief Risk Officer posts will commence within the next 6-8 weeks, with appointments hopefully made within 4-6 months. The process for procuring a co-source light option will commence in summer 2016, with a view to the new arrangement being in place from March 2017.

Measures of success

4.1 Maintaining the effectiveness of the Council's control environment during a period of major change.

Financial impact

5.1 Savings of up to £150,000 could be achieved.

Risk, policy, compliance and governance impact

6.1 A strong internal audit function will play a significant role in providing assurance over the controls in place to mitigate the Council's most significant risks.

6.2 Efficient and effective risk management arrangements will help ensure that the Council's key risk areas are identified and monitored.

Equalities impact

7.1 No full ERIA is required.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 None.

Background reading/external references

Internal Audit and Risk Service delivery model – Report to Council: 10 December 2015, referral from GRBV

Internal audit and risk service delivery – Report to GRBV Committee: 18 June 2015

Internal audit and risk service delivery update – Report to GRBV: 5 March 2015

Internal Audit co-source update – Report to GRBV: 22 May 2014

Internal Audit co-source update – Report to GRBV: 10 Oct 2013

Internal Audit co-source update – Report to GRBV: 23 May 2013

Hugh Dunn

Acting Executive Director of Resources

Contact: Nick Smith, Acting Head of Legal and Risk

E-mail: nick.smith@edinburgh.gov.uk Tel: 0131 529 4822

Links

Coalition pledges	PO30 - Continue to maintain a sound financial position including long-term financial planning

Council outcomes	CO25 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs
Appendices	None.

Governance, Risk and Best Value Committee

10.00am, Thursday 21 April 2016

Schools Assurance Framework Pilot

Item number	7.5
Report number	
Executive/routine	
Wards	

Executive summary

The Schools Assurance Framework, launched as a pilot in 2015/16, combines a Local Assurance Statement completed by the Head Teacher of each school with a programme of 15 school visits undertaken by a combined Internal Audit and Corporate Health & Safety team.

This report outlines the key themes emerging from the school visits and also our recommendations to facilitate improvement in schools' control environments.

Links

Coalition pledges	
Council outcomes	.
Single Outcome Agreement	

Report

Schools Assurance Framework Pilot

Recommendations

1.1 It is recommended that the Committee notes this report.

Background

2.1 The Schools Assurance Framework launched as a pilot in 2015/16. It combines a Local Assurance Statement completed by the Head Teacher of each school and a programme of 15 school visits undertaken by a combined Internal Audit and Corporate Health & Safety team.

2.2 The 15 Schools visited were:

Secondary Schools	**Primary Schools**	**Special Schools**
Balerno	Broughton	Panmure
Castlebrae	Bun-Sgoil Taobh na Pairce	Redhall
Craigmount	Dalry	
Liberton	James Gillespie's	
Royal High	St Peter's	
Trinity Academy	Sciennes	
South Queensferry		

Main report

Approach

3.1 The combined Internal Audit/Health & Safety team reviewed the controls in place at each school visited using a standard validation checklist which covered 8 different areas:

Finance	Workforce controls
Health & Safety	Property & Statutory requirements
Resilience	Information Security
Child Protection	Communication of 'Risk Matters' bulletin

3.2 The validation checklist contained a breakdown of all processes and controls that would be expected for each of the 8 areas. The combined Internal Audit/Health & Safety team used a simple Red, Amber, Green (RAG) scale to grade the operation of each process or control to establish an overall RAG grading for each area.

3.3 The validation checklist was compiled using the Council's set procedures for schools and in consultation with members of the Communities & Families, Corporate Health & Safety, Corporate Property, Corporate Risk, Information Governance and Finance teams.

Reporting of results

3.4 Each school received an individually tailored report that highlighted good practice in each of the areas looked at by the combined Internal Audit/Health and Safety team and identified improvements required. Each school was invited to prepare an action plan to address the areas identified for improvement. Where we were unsatisfied with the responses received from an individual school, a member of the combined team returned to help the school improve its action plan. We revisited seven schools on this basis.

3.5 To supplement the individual school reports we prepared an overall report for Communities and Families analysing the results of the school visits, identifying the key themes that emerged and making recommendations as to how Communities and Families as a Directorate can assist schools in making improvements to their control environments. This overall report is attached as Appendix 1.

Going forward

3.6 Following completion of the visits Internal Audit consulted with all the stakeholders to establish their view as to the value of the exercise and whether it was worth repeating. This feedback, while identifying some potential enhancements, was overwhelmingly positive and accordingly it is our intention to continue with the process and visit 15 different establishments next year.

3.7 We have used the experience gained from the 2015/16 cycle and the feedback that we received both from individual schools and from other stakeholders to review and strengthen the validation checklist for 2016/17. In particular we intend to strengthen our checklist in the areas of ICT and Records Management and expand it to include Equalities and Facilities Management.

3.8 We also intend to broaden the range of the assurance programme to include Early Years Centres, Residential Schools and Community & Education Centres amongst the 15 establishments that we will visit in 2016/17.

Measures of success

4.1 A strengthened governance framework and control environment in schools.

Financial impact

5.1 No direct financial impact.

Risk, policy, compliance and governance impact

6.1 The findings of the work performed by the combined Internal Audit and Corporate Health & Safety teams will be incorporated into the Communities & Families Annual Assurance process.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The Internal Audit team consulted with representatives from the Communities & Families, Corporate Health & Safety, Corporate Property, Corporate Risk, Information Governance and Finance teams during the development and implementation of this process.

Background reading / external references

None.

Magnus Aitken

Chief Internal Auditor

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Links

Coalition pledges

Council outcomes	
Single Outcome Agreement	
Appendices	Appendix 1 – Schools Assurance Framework Pilot – Thematic Report

The City of Edinburgh Council

Internal Audit

Schools Assurance Framework Pilot

Final Report

February 2015

Contents

Executive summary

The Schools Assurance Framework launched as a pilot in 2015/16. It combines a Local Assurance Statement completed by the head teacher of each school, with a programme of schools visits by Internal Audit and Health and Safety.

Administration is devolved to schools in the Edinburgh area, and schools are responsible for developing satisfactory processes to implement corporate policies and manage areas of risk. The Assurance Framework was instigated after concerns were raised about financial management following overspends in a number of schools. In its first year the project covered:

- finance;
- workforce controls (training, performance and absence management);
- health and safety;
- property and statutory controls;
- resilience;
- child protection;
- information security; and
- communication of risk bulletins.

Internal Audit and Corporate Health and Safety visited 15 schools to assess the internal controls and processes in place. Each school was provided with a report and action plan following the visit to help them improve their processes. This report summarises common themes arising from our audit visits and highlights areas where schools would benefit from additional support and guidance from the corporate Communities and Families team.

The detailed management information gathered from audit visits and schools' self assessments was welcomed by schools, Finance, and Communities and Families. It is proposed that the Local Annual Assurance Statement will now be embedded in the Communities and Families governance arrangements and extended to include community centres, residential schools and early years centres as well as primary, secondary and special schools. Internal Audit and Corporate Health and Safety will continue to visit 15 units each year to assess the controls in place and validate responses to the Local Annual Assurance Statement.

Background

The Schools Assurance Framework is a new initiative for 2015/16, designed to inform and support the Director of Communities and Families' annual assurance statement and enhance the Communities and Families control framework.

As part of this Framework, Internal Audit and the Corporate Health and Safety visited 15 schools to assess the internal controls in place over:

- finance;
- workforce (training, performance and absence management);
- health and safety;
- property and statutory controls;
- resilience;
- child protection; and
- information security.

The assurance checklist used by Internal Audit and Corporate Health and Safety is attached in **Appendix 1**.

Note that the structural condition surveys for properties were not considered as part of the H&S audits.

The findings were discussed with the head teacher and business manager at the close of each audit visit. Each school was provided with an action plan to help them develop and improve their controls and processes.

The 15 schools selected for audit were:

Secondary Schools	**Primary Schools**	**Special Schools**
Balerno	Broughton	Panmure
Castlebrae	Bun Sgoil Taobh na Pairce	Redhall
Craigmount	Dalry	
Liberton	James Gillespie's	
Royal High	Sciennes	
Trinity Academy	St Peter's RC	
Queensferry		

The assurance work conducted by Internal Audit and Corporate Health and Safety supplements the Local Annual Assurance Statement which all head teachers have been asked to complete this year. Head teachers were asked to confirm the controls in place and to highlight any areas of risk which they felt were not managed effectively.

Head teachers at five of the 15 schools visited had returned their assurance statement before the audit visit. A comparison of their responses to the self-assessment questionnaire with the results of audit work is attached in **Appendix 2**.

Findings

A: Financial Controls

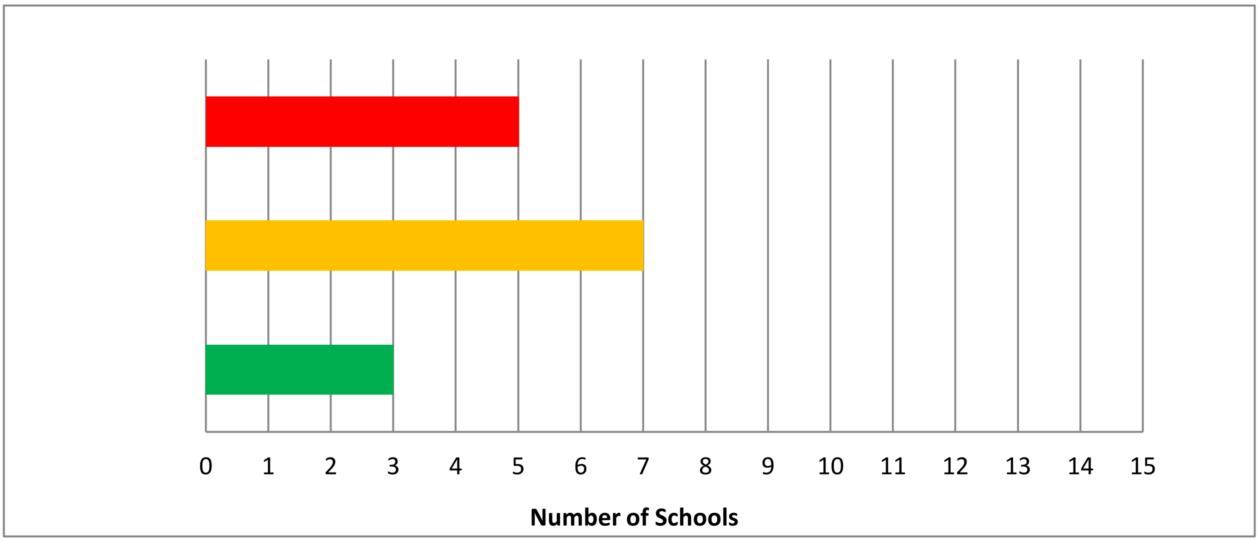


Fig A.1: RAG Status (Financial Controls)

In the absence of standard financial processes, the strength of financial controls was dependent on whether or not the school had an experienced management team. There was a new head teacher or business manager in post at each of the five schools where significant control weaknesses were identified.

Financial record keeping

Schools which were assessed as 'amber' or 'green' used simple accounting software to manage the School Fund or had developed their own manual system to account for income and expenditure and reconciled accounting records to bank statements each month. The five schools assessed as 'red' did not keep sufficient accounting records to allow reconciliations to be performed.

All schools now submit quarterly budget monitoring reports to the Communities & Families finance team. This meant schools were aware of their financial position through the year, and historic overspends at certain schools are being addressed by the school management teams and Communities & Families.

Common areas for improvement across the 15 schools visited included:

Oversight of financial controls

Schools were unable to demonstrate segregation of duties over key financial processes. Expected controls were missing including:

- Cash banked was not reviewed periodically by the business manager (12 schools)
- Bank reconciliations were not reviewed by a member of the school management team (10 schools)
- Schools were unable to demonstrate that expenditure had been authorised by a member of the school management team (8 schools)
- Schools were unable to demonstrate that budget monitoring reports were reviewed by the head teacher (8 schools)

Cash

Seven of the schools visited did not have an accurate record of petty cash held at the date of audit and were unable to demonstrate that cash held is counted periodically and reconciled to the petty cash book.

Cash was visible and unsecure in the school office at four schools visited.

Equipment and High Value/Desirable items

While all but two of the schools had a record of high value computing equipment such as iPads, asset registers were incomplete or inaccurate at eight of the 15 schools visited. New purchases were often not recorded promptly, and high value and/or portable equipment such as smartboards, cameras and monitors were not always listed.

B: Workforce Controls

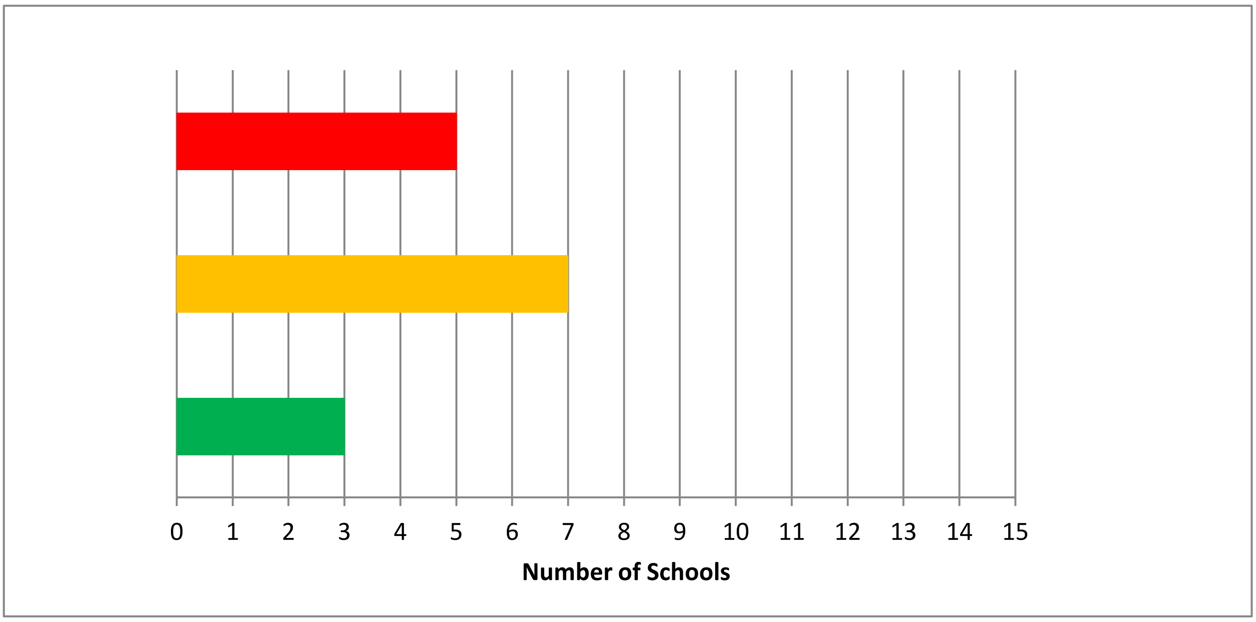


Fig. B.1: RAG Status (Workforce Controls)

Practice for managing professional development, absence and induction varied considerably from school to school. Common areas for improvement across schools visited included:

Non-teaching staff

Professional development was managed well for all teaching staff, and 'Protection of Vulnerable Groups' ('PVG') checks were completed before the teacher started at the school.

However, auditors identified catering, cleaning, administration and IT staff working on school premises during school hours who were not covered by PVG checks and who had not completed Child Protection Level 1 training. It was also unclear whether PVG checks should be completed for adults living on school premises in 'tied properties'.

Mandatory training

Communities & Families have developed an Essential Learning Matrix which sets out mandatory and recommended training for each post in a school. The Matrix had not been circulated at the time of our audit.

Only six of the 15 schools were able to demonstrate that staff had completed 2015/16 mandatory training by the extended schools deadline of 30 September.

Induction

As Council employees, all new school staff should complete the induction checklist with their line manager to ensure they understand their role and responsibilities and are familiar with key corporate policies. The checklist was not consistently completed and recorded on iTrent at 11 of the schools visited.

Absence management

The ‘Managing Attendance’ policy was not well embedded in schools. Sickness absence was not consistently recorded on iTrent at 9 of the 15 schools visited. This means the Council does not have accurate management information about sickness absence in schools.

Return-to-work interviews should be carried out after every sickness absence and recorded on iTrent. This did not happen consistently at 10 of the schools visited.

Registers of interest, gifts and hospitality

Schools are required to record conflicts of interest and gifts and hospitality received by staff. Only five of the schools visited keep a register of interests at present.

C: Health and Safety Controls

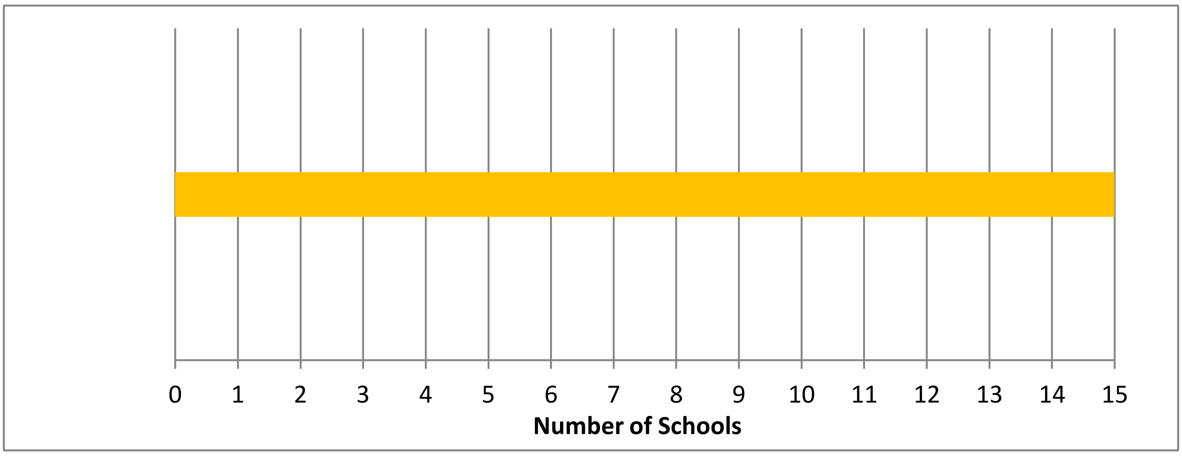


Fig. C.1: RAG Status (Health and Safety)

H&S roles and responsibilities

Roles and responsibilities for discharging H&S accountability and responsibility were unclear for some risks, in particular those risks which arise as part of the teaching curriculum.

Limited evidence for H&S responsibilities being included in the PRD process.

H&S training

Communities & Families have developed an Essential Learning Matrix which sets out mandatory and recommended H&S training for each post in a school. This was under review at the time of the audits. However, not all mandatory H&S training as set out in the Essential Learning Matrix had been completed.

There was a lack of H&S training for SSOs.

H&S Communications

H&S communications were generally good, including communications on health and safety to staff and pupils.

H&S Risk Assessments and Controls

Gaps were identified in H&S risk assessments for both curricular and non-curricular activities. There was a lack of H&S risk assessments for activities undertaken by the SSOs.

Health surveillance screening was overdue for the majority of CDT teaching staff.

Workplace Inspections

Gaps were identified in workplace inspections which should be carried out each term.

Emergency Procedures

Emergency arrangements were generally good, including fire safety, first-aid, swimming pools and H&S incidents.

D: Property & Statutory Controls

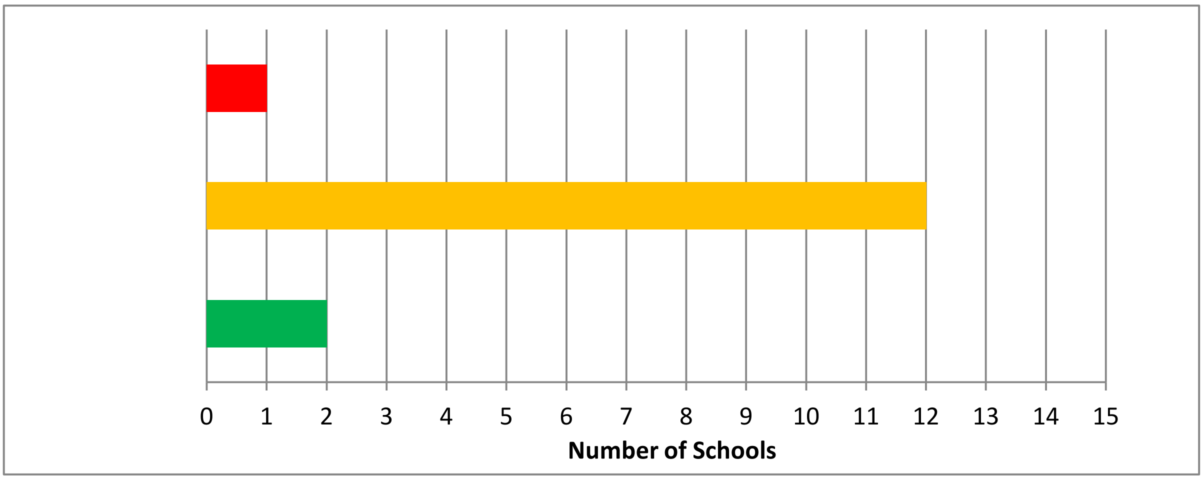


Fig. D.1: RAG Status (Property & Statutory Controls)

Statutory inspections and tests

Statutory inspections and tests were in place for those risks traditionally managed by Property Facilities Management Teams including asbestos, electrical safety, water safety (*legionella),* lifts, and boilers.

However, arrangements for record keeping were inconsistent and no records were held on site at a number of schools.

Gaps were identified for inspection and testing of play ground and fixed gym equipment, and for inspection of window restrictors.

Note that the structural condition surveys for properties were not considered as part of these audits.

E: Resilience

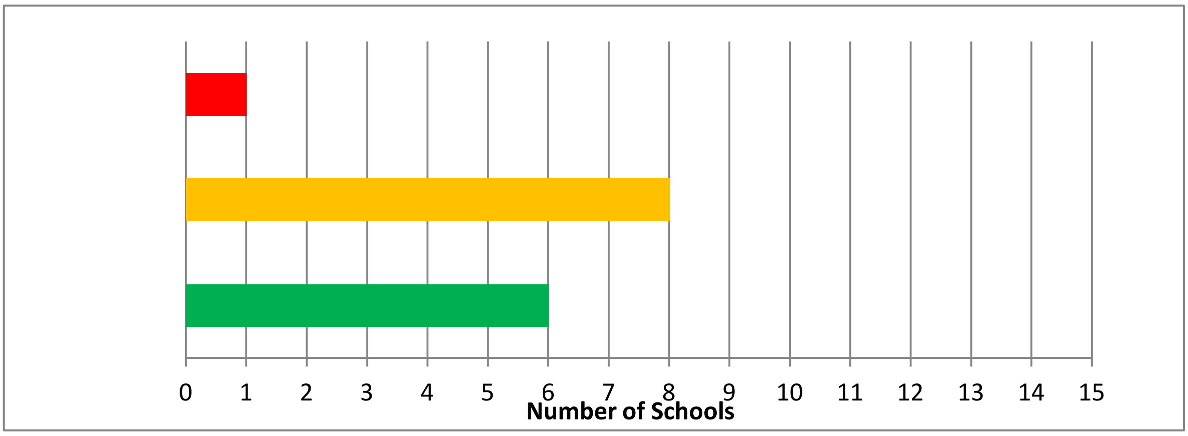


Fig. E.1: RAG Status: Resilience

Resilience plans for severe weather, infection control and significant occurrences were well communicated to schools. At least one member of the senior management team had attended significant occurrence training at all but one of the schools.

Schools were assessed as ‘amber’ where roles and responsibilities in the event of an incident were not well defined (5 schools) and where the emergency contact list was out of date or not readily accessible (5 schools).

F: Information Security

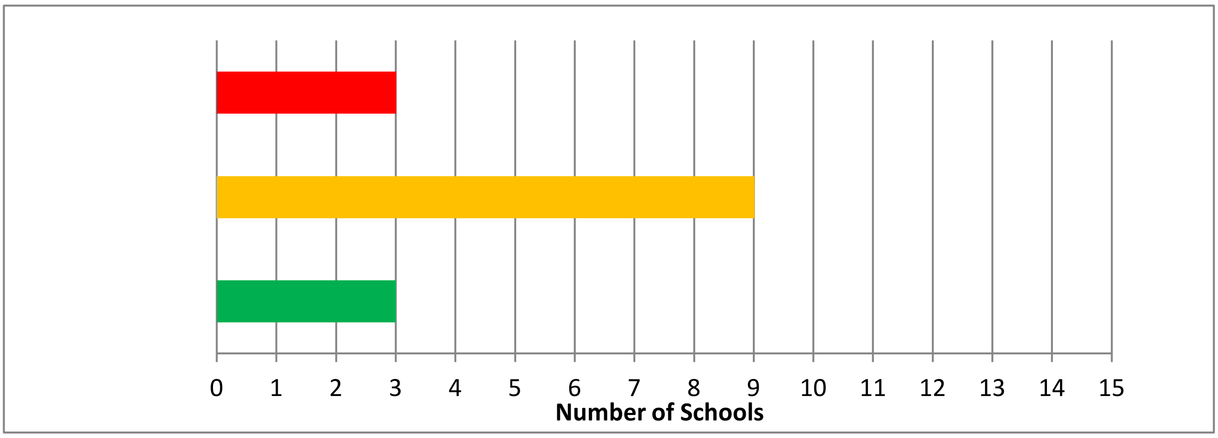


Fig. F.1: RAG Status: Information Security

Information governance

The Council introduced a new Information Governance Policy in 2015 which required schools to review the way in which they obtained, retained and destroyed data. Most schools were aware of its existence, but had not yet embedded recommended practices: schools highlighted the need for guidance on destroying data at the end of its retention period, and how to carry out and record record reconciliations or audits.

Schools were assessed as 'red' where:

- The Information Governance policy has not been communicated to staff;
- No attempt at carrying out a records audit has been made;
- A data security breach was reported during the audit (1 school).

ICT co-ordinators

All schools have an ICT co-ordinator, who at secondary schools is usually a member of the ICT teaching staff. Secondary schools also benefit from a shared ICT technician. Concerns were raised by a number of primary schools that they did not have a member of staff with the technical experience to take on the role of ICT co-ordinator and that they did not fully understand what the role involved.

G: Child Protection

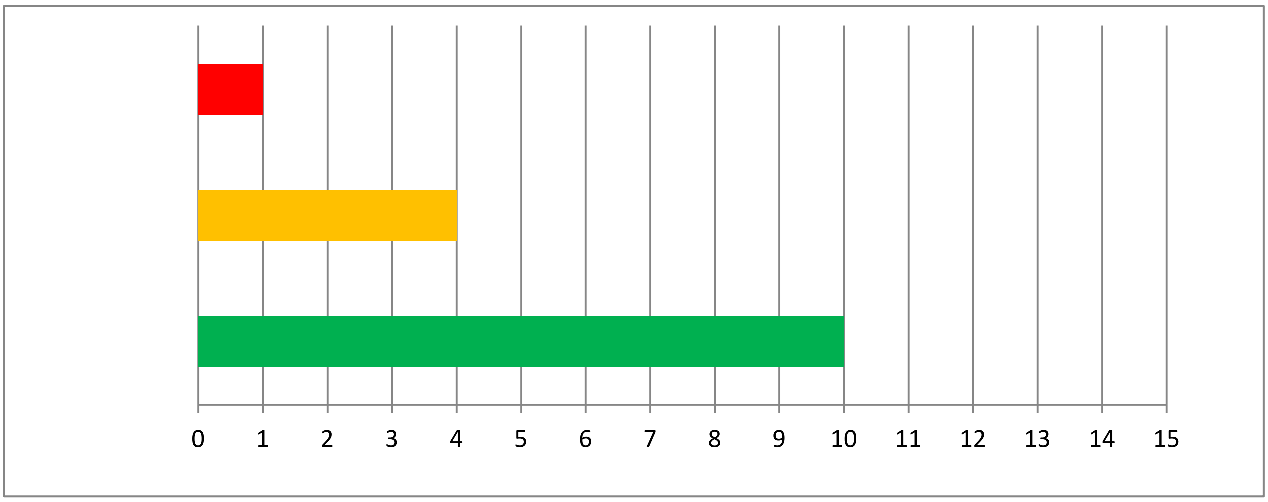


Fig. G.1: Child Protection

There was a high level of compliance with Child Protection requirements. Ten of the 15 schools visited maintained good records of child protection training and were able to demonstrate that:

- All staff had attended the 2015/16 Child Protection briefing and were familiar with key child protection policies
- All staff had completed Child Protection Level 1 or 2 within the past 3 years
- Designated child protection staff had completed Child Protection Level 4 training within the past 3 years; and
- The head teacher had completed training in managing allegations of abuse against staff and volunteers within the past 3 years.

Two schools had not recorded attendance at the Child Protection briefing, and a further two schools only had one designated child protection staff member.

One school was assessed as having significant control weaknesses in relation to child protection. The school had no training records to demonstrate that all staff had completed Child Protection Level 1 or 2 within the past 3 years, had not recorded attendance at the child protection briefing. The head teacher was new in post and had not yet completed training in managing allegations of abuse.

H: Risk Matters

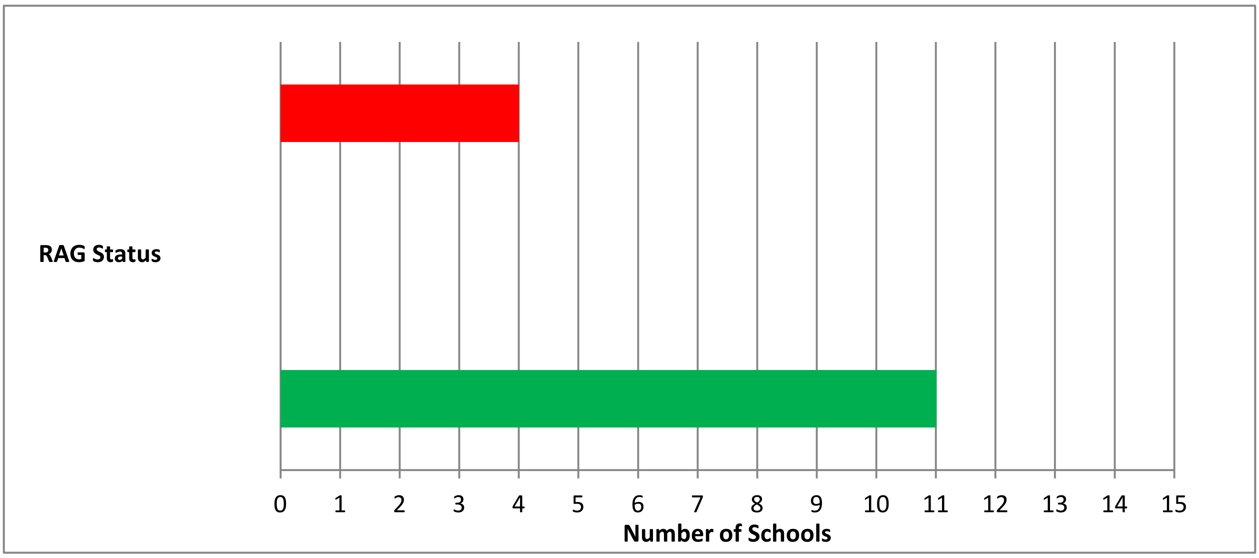


Fig. F.1: Risk Matters

Communities & Families issued a ‘Risk Matters’ bulletin in May 2015. This test was designed to test the dissemination of information in schools. Eleven of the 15 schools visited had circulated the bulletin to staff.

At the time the Schools Assurance Framework was developed, it was expected that ‘Risk Matters’ would be a quarterly bulletin. Only one bulletin has been issued to date, so we do not anticipate including this section in next year’s assurance checklist.

I: Reliability of self assessment

The assurance work conducted by Internal Audit and Health and Safety supplements the Local Annual Assurance Statement which all head teachers have been asked to complete this year. Head teachers were asked to confirm the controls in place and to highlight any areas of risk which they felt were not managed effectively.

Head teachers at five of the 15 schools visited had returned their assurance statement before the audit visit. They assessed their compliance against 45 questions. We compared their responses to our assessment of their controls. The graph below shows the average distribution of red, amber and green ratings at the five schools. A detailed comparison is included in Appendix 2.

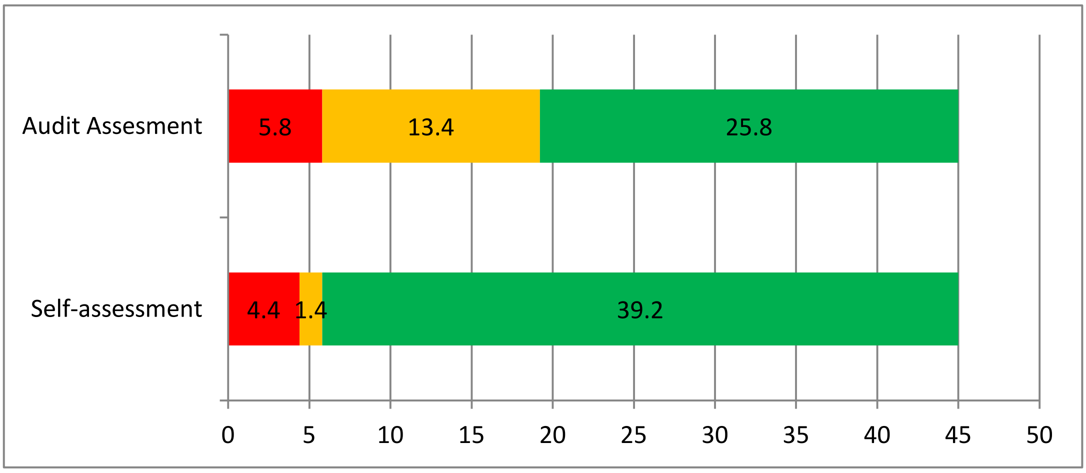


Fig. I.1: Average RAG scores

Schools identified areas where there were significant control deficiencies with reasonable accuracy. Across the 5 schools, 12 affirmative responses were converted to a ‘red’ risk rating following the audit visit. However, schools were asked to give a yes/no response to the each question. This meant that schools did not highlight areas where basic controls were in place but the control environment could be improved.

The Local Annual Assurance Statement will be rolled out to all Communities & Families establishments in 2016/17. The schools’ responses will inform the Director’s Statement of Assurance and will be used to identify weaknesses in the schools control framework. Internal Audit will continue to visit 15 establishments a year, but do not have the capacity to increase the audit programme.

It is recommended that Communities & Families consider visiting further schools to validate their responses to the finance and administration sections of the Local Annual Assurance Statement and benefit from a more nuanced assessment of controls than schools themselves are able to provide.

Corporate Health and Safety will continue with their rolling annual audit programme, including the 15 under the Assurance Framework programme. The health and safety audit requires technical knowledge and H&S competence which means H&S audits cannot be carried out by Communities & Families staff.

Recommendations

Each school was given an action plan at the end of the audit visit to help them develop and improve their controls and processes. There were a number of common areas of improvement across the schools where additional support and guidance from Communities and Families or Corporate Property would be beneficial.

Section	Finding	Recommendation
Governance		
Sharing good practice	There is little standardisation of administrative work carried out by the head teacher and business manager. There are lots of examples of good practice, where individual business managers and head teachers have developed robust and effective tools for use in their own schools, but these were not shared amongst the school community.	A toolkit should be produced and shared with schools, which includes recommended processes and templates which schools can use for key control areas such as School Fund financial records, petty cash books, asset registers, and records audits. Schools should be encouraged to 'buddy up', so experienced business managers can share their knowledge with schools with weaker controls.
Communication	In all schools concerns were raised over the method of communication from the corporate Communities and Families team back to the Schools. As an example, schools noted that the Information Governance policy was not clearly communicated, and was circulated as an attachment to a general email.	Head teacher and business manager groups should be consulted to establish the most effective way of communicating key messages to schools.
Local Annual Assurance Statement	The Local Annual Assurance Statement will be rolled out to all Communities and Families units in 2016/17. Responses will inform the Director's Assurance Statement.	Internal Audit and Corporate Health and Safety will continue to visit 15 units each year. Communities and Families should consider supplementing the audit programme with visits to schools to validate responses to the finance and administration sections of the self-assessment questionnaire. Corporate Health and Safety will continue to undertake H&S audits for additional units as part

		of their rolling audit programme. The health and safety audit requires technical knowledge and H&S competence which means audits cannot be carried out by Communities & Families staff.
Finance		
Online Payments	There were significant control weaknesses in cash management identified at 7 schools visited. An online payment system has been sucessfully trialled in a number of schools, but has not yet been introduced across the school estate.	Communities & Families may wish to consider rolling out the online payment system to all schools. This would improve compliance with Council procedures and consistency in practice throughout the school estate.
Workforce		
Registers of Interest and Recording of Gifts and Hospitality	Only two of the 15 schools visited have created a register of interests. Similarly, few schools recorded gifts and hospitality received by staff.	Additional guidance should be issued to all schools confirming the requirement to maintain registers of interests, gifts and hospitality.
Recording Training	There was a lack of awareness of the requirements for recording all training for teaching and non-teaching staff. There is also no automated method of producing monitoring information on the attendance and non-attendance rates for courses booked, with no guidance available noting that this management information should be monitored.	Guidance on the most appropriate method of capturing full training information for all staff and extracting attendance information is required. Some schools monitor training well: the tools they have developed to identify training needs and monitor attendance at courses could be rolled out to all schools as a standard template.
Essential Learning Matrix	The ELM has been published in draft for some time but is not accurate for the key roles in schools. Application of the matrix in its current form requires standardisation of key activities which are not yet present in schools.	The ELM should be finalised. Representatives from schools should be consulted to ensure it is accurate before it is circulated more widely.
Performance Review	Performance reviews were not routinely held for non-teaching staff. Clarification is required about whether some form of	A number of schools supported administration and teaching support staff with professional development. Corporate C&F

	performance review is required for staff at grade 4 or below.	team should consider whether this should be rolled out across the school estate.
Health and Safety		
Roles and responsibilities for discharging H&S responsibilities	Lack of clarify on roles and responsibilities for **discharging** H&S accountability and responsibility (to a lesser extent in PPP schools).	Clarify roles and responsibilities for discharging H&S responsibilities across C&F, Schools and Property. (This work is currently underway and is being led by Corporate H&S). Ensure roles and responsibilities are understood and executed.
PRD Process	H&S roles and responsibilities are not included as part of the PRD process.	Consideration should be given to setting personal H&S objectives for Head Teachers, and including as part of the PRD process.
H&S training	Lack of clarity on mandatory H&S training for key role holders in the school.	The C&F Essential Learning Matrix should be finalised with input from Corporate H&S for H&S training. Completion of mandatory H&S training should be monitored and reported at appropriate SMT forums for oversight. Note that the proposed Corporate H&S Training Strategy includes the re-design of H&S training in schools to make it proportionate and relevant.
Property and Statutory Controls		
Records management	Arrangements for record keeping for statutory inspections and tests were inconsistent and no records were held on site at a number of schools.	Review record keeping arrangements for statutory inspections and tests, to ensure records are readily available at each unit.
Sharing best practice	Lack of sharing of best practice.	Consideration should be given to sharing best practice between PPP and non-PPP managed schools.
Information Security		
Records Management	There was a lack of understanding of the record management requirements of the Council, particularly in the	Clear guidance and training in records management should be provided to schools to help them comply with the Information

	recording of data destruction.	Governance policy.
ICT Coordinators	There is a lack of clarity over the role of the ICT Coordinator. Not all staff members taking on this role have the necessary technical skill set.	Clarification should be provided to all ICT co-ordinators with additional training provided to those who have less technical experience. Consideration should be given to rolling out the role of cluster ICT Technicians to primary schools to support the use of ICT in schools and compliance with information security requirements.
Child Protection		
'Protection of Vulnerable Groups' Disclosure and Child Protection	Guidance is unclear on whether non-teaching staff such as cleaners and technicians and those who live on school grounds should have a PVG disclosure and be trained to child protection level 1.	Communities and Families should confirm which adults connected with a school must have PVG disclosure and attend Child Protection training.

Future of Schools Assurance Framework

Looking Back and Lessons Learned

Timing of audits and early communication with schools

The format and demands of an audit visit were unfamiliar to schools, and were not sufficiently communicated to head teachers and business managers before audit visits were scheduled. This led to delays to the audit programme in the first year until the programme could be introduced to schools at the Head Teacher's Executive and business manager and head teacher forums. These presentations provided the schools with an opportunity to clarify the audit process, assurance requirements and their responsibilities during the audit.

A significant number of the audit visits were rescheduled as a result of this initial delay and to accommodate school commitments. This had a knock on effect on the work programme of both the Health and Safety Officer and the Internal Auditor in other areas of the Council.

Working group members

A working group was set up at the beginning of the Pilot to develop the audit procedures and establish the assurance framework. The membership of the working group will be revised for 2016/17 to ensure areas such as Facilities Management who have a strong presence in schools are represented.

Communication of 'high' risk findings.

Significant control findings were not consistently communicated to the key corporate officer until the final report was issued. Given delays in issuing final reports caused by slow responses from schools, the relevant corporate officer will be alerted to significant control findings at draft stage in future to ensure that the school receives immediate support to address control weaknesses.

Going Forward and Improved Process

Embedding the Assurance Statement

The detailed management information gathered from audit visits and schools' self assessments was welcomed by schools, Finance, and Communities and Families. It has been agreed that the Schools Assurance Framework will now be embedded in the Communities and Families governance arrangements and extended to include residential schools and early years centres as well as primary, secondary and special schools. Internal Audit and Corporate Health and Safety will continue to visit 15 units each year to assess the controls in place and validate responses to the Local Annual Assurance Statement.

A working group will be set up to finalise the areas of assurance, select units to be audited and agree a timetable for audit. The working group will consist of representatives from:

- Internal Audit
- Corporate Health and Safety
- Communities and Families
- Finance
- Corporate Property
- Record Management
- Organisational Development.

Audit procedures

Auditors used a validation checklist (attached in Appendix 1) to assess the control framework in place at each school and validate the school's responses to the Local Annual Assurance Statement where available. The checklist will be reviewed with the experience of the pilot assurance programme behind us to enhance the audit process in future years.

Schools will be provided with a list of documents which should be included in an evidence pack to help them complete the self-assurance statement accurately and prepare for an audit visit.

Communication

The Assurance Framework will be introduced at New Leaders' Forums so new head teachers understand the format and process. Schools will receive the 2016/17 audit schedule in April 2016 to give them time to prepare for audit visits. Communities and Families will be consulted in preparing the audit schedule to minimise disruption to teaching and learning.

Significant control weaknesses will be discussed with the Senior Officer within the relevant Corporate area to ensure full support and accountability before the draft report is prepared.

Presentation of lessons learned and future plans

Internal Audit and the Resilience and Risk Manager will present a summary of findings, lessons learned and the proposal for moving forward to the Communities & Families Risk Committee and the Head Teachers' Executive, noting that the assurance statement and audit programme are now an integral part of the department's governance arrangements.

Summary of RAG Scores- Sections A, B, E, F,G and H

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
Section A- Financial Controls																				
Ref	***Monitoring and Budget Outturn***																			
1.1	Confirm that Business Manager provides sufficient financial monitoring to Head Teacher																0	8	7	0
1.2	Obtain latest projections from Finance and establish whether meeting budget																2	2	11	0
1.3	If in potential overspend confirm whether discussions are in place with Finance or C&F Snr Mgrs to mitigate issue																1	3	11	0
	Income																			
2.2.2	Ascertain whether prime records exist that ensure all income is known and recorded (z totals, receipt book, community class list etc)																2	5	8	0
2.2.3	For an appropriate sample of each category verify that the total income expected was banked intact																3	3	9	0
2.2.4	Ascertain whether there is segregation of duties in relation to collection of cash and banking																3	4	8	0
2.2.5	Bankings periodically checked by Business Manager to ensure completeness and accuracy (signed & dated)																6	6	3	0
	Expenditure																			
2.3.1	Scrutinise school fund expenditure to ascertain that expenditure appears reasonable and is compliant with the current guidance																2	3	10	0
2.3.2	Vouch a sample of 20 payments to invoices or other prime record. Ensure properly authorised and appropriate																2	5	8	0
2.3.3	Obtain current cheque book and ensure no presigned cheques																3	0	12	0
2.3.4	Confirm that 2 signatures are required on cheque																1	1	13	0
	For last 3 months of the school fund (and any other bank account administered by CEC staff) check																			
2.4.1	Reconciled within month of month end (signed & dated)																5	1	9	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
2.4.2	School fund cash book shows balances by category (i.e general, school trip x, uniforms etc)																3	4	8	0
2.4.3	Reviewed and authorised by Business Manager (signed & dated)																6	4	5	0
2.4.4	Check addition, vouch totals to prime cash book, verify o/s cheques and lodgements to following bank statement																4	2	9	0
2.4.5	Confirm errors / issues addressed and not simply accumulating																4	2	9	0
	Cash																			
3.1.1	Reconcile petty cash to cash and vouchers																4	2	9	0
3.1.2	Confirm that petty cash is reconciled at least monthly (signed & dated)																6	1	8	0
3.1.3	Petty cash reconciliation reviewed and authorised by Business Manager (signed & dated)																6	1	8	0
3.1.4	Confirm that cash is held securely and in																4	2	9	0
3.1.5	Confirm that income (cash) is banked at appropriate intervals																3	3	9	0
	Equipment and High Value / Desirable Items																			
3.2.1	Verify that records are held of equipment and other high value or desirable items, i.e ipads, mobile phones, electrical equipment																2	5	8	0
3.2.2	Confirm that records are up to date																2	6	7	0
3.2.3	Physically check a sample of assets																2	3	10	0
Section B- Workforce Controls																				
	Key Corporate Workforce Policies & Procedures																			
1.1.1	Review records to establish whether training in the key Corporate Policies and Procedures (defined in App1 Self Assess Questions) is embedded and adequately recorded																1	10	4	0
1.1.2	Review how conflicts of interest (including perceived) are managed and recorded and establish whether records appear accurate and up to date																4	7	4	0
1.1.3	Establish what the local guidance if any is in relation to amounts , types of gifts and hospitality deemed acceptable																4	6	5	0
1.1.4	Review the gift and hospitality register and establish whether it is operating as required, including the recording of declined gifts and hospitality																5	5	5	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
	Mandatory C&F Training (ELM)																			
2.1.1	All staff are aware of the C&F Essential Learning Matrix																5	6	4	0
2.1.2	Attendance and non attendance as mandatory training and essential learning is recorded and reported regularly to HT																4	7	4	0
	Recruitment & Induction																			
	For a sample of 6 employees starting within the last year verify:																			
3.1.2	The induction checklist has been followed and completed appropriately to the relavant stage																3	9	3	0
3.1.3	The employee has been made aware of their roles and responsibilities																3	8	4	0
3.1.4	Suitable references have been checked and are held on file																2	5	8	0
3.1.5	PVG documentation has been verified prior to the start of the employment.																1	4	10	0
	Performance and Attendance																			
3.2.1	**For the sample of 6 employees above verify:**																			
3.2.2	PRD records are complete and up to date on Itrent																3	4	8	0
3.2.3	Sickness has been recorded on system correctly																0	9	6	0
3.2.4	Managing attendance procedure has been followed properly and evidenced on iTrent if applicable																2	8	5	0
	Section C- Health and Safety																			
1	**Health and Safety Roles and Responsibilities**																			
	For a sample, verify for Head Teacher, Business Manager, 2 Curricular Heads, and SSO:																			
1.1	H&S roles, responsibilities and accountabilities set out in the Council H&S Policy are understood for key roles, e.g. Head Teacher																1	1	13	0
1.2	Roles and responsibilities are clearly set out in the school, and understood, e.g. Head Teacher, Business Manager, Curricular Heads, Teachers, SSO																1	5	9	0
1.3	H&S responsibilities are included in personal objectives (PRDs) for key roles, e.g. Head Teacher, Business Managers, Curricular Heads																4	8	3	0
2	**Health and Safety Training**																			
2.1	Induction H&S training is carried out for all staff (*verify for 2 recent new staff members)*																1	2	12	0
2.2	All staff have completed all C&F 'mandatory/essential' H&S training set out in the C&F Leaning and Development Matrix																5	9	1	0
2.3	All other H&S training needs have been identified, and implemented																5	9	1	0
2.4	Training has been provided to all relevant staff on dealing with violence and aggression																4	1	8	2
3	**Health and Safety Communications**																			
3.1	The Council H&S Policy and guidance is readily accessible to all staff and third parties																0	1	14	0
3.2	HSE Health and Safety Law Poster is displayed																3	1	11	0
3.3	The Employers' Liability Certificates is displayed																0	0	15	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
	For a sample, verify meeting minutes for Head Teacher staff meetings, 2 Department Team meetings (CDT and PE) in last 6 months																			
3.4	H&S is discussed at Head Teacher staff meetings																0	4	11	0
3.5	H&S is discussed at Department staff meetings																1	4	9	1
3.6	H&S instructions are given to pupils (*verify for 4 pupils*)																0	0	14	1
4	**Health and Safety Risk Assessments**																			
4.1	Adequate H&S risk assessments in place for all curricular activities (*verify for CDT, PE, Science, Excursions*)																1	11	3	0
4.2	Adequate H&S risk assessments in place for all non-curricular activities (*verify for 2 non-curricular activities, including driving minibus if applicable*)																4	8	3	0
4.3	COSHH assessments in place for activities with significant exposure to hazardous substances (*verify for Science and CDT*)																2	11	2	0
4.4	Manual handling assessments in place, as appropriate																13	1	1	0
4.5	Working at height assessment(s) in place (over 2m rule of thumb)																9	4	2	0
4.6	Workstation/DSE assessments in place, as appropriate																6	3	6	0
4.7	Expectant / nursing mothers risk assessments in place, as appropriate																2	0	6	7
4.8	Noise sources above 85dB(A) have been identified, and risk assessment(s) in place																4	0	1	10
4.9	Radiation assessment(s) in place																2	0	3	10
5	**H&S Control Measures**																			
5.1	Controls identified in risk assessments for all curricular activities in place (*verify for CDT, PE, Science, Excursions*)																0	11	4	0
5.2	Controls identified in risk assessments for all non-curricular activities in place (*verify for driving on business, and one other activity)*																4	9	2	0
5.3	Permit to work in place for high risk activities (e.g. access to roof)																1	1	7	6
5.4	Ladders inspected on a regular basis. Records available																5	1	9	0
5.5	Personal protective equipment is provided. Records available																2	10	3	0
5.6	Health surveillance is carried out, as appropriate																4	2	1	8
5.7	All hazardous substances are clearly labelled and stored appropriately (locked cupboard)																0	2	13	0
5.8	Workstation/DSE adjustments implemented, as appropriate																6	4	5	0
5.9	Weekly and pre-use minibus checks are carried out																2	0	2	11
5.10	Leak test for radiation is carried out																1	0	3	11
5.11	Procedures in place to deal with violence and aggression																1	3	11	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
6	**Statutory tests and inspections for teaching equipment**																			
	For a sample, verify for fume cupboard, forge, crucible, kiln																			
6.1	Requirements for statutory tests and inspections for teaching equipment have been identified																1	6	4	4
6.2	All statutory tests and inspections for teaching equipment are up to date and records are available																2	6	2	5
7	**H&S Workplace Inspections / Housekeeping**																			
	For a sample of the last 12 months, verify:																			
7.1	H&S Workplace Inspections are carried out each term																3	8	4	0
7.2	There is a plan of Safety Inspections by Trade Union Safety Reps, and these are carried out according to the plan																5	4	0	6
7.3	Satisfactory standard of housekeeping																0	2	13	0
7.4	Items stored at height are accessible, secure and safe																0	2	13	0
7.5	No accumulation of rubbish																0	1	14	0
8	**Stress / Employee Assistance Programme**																			
	For a sample, verify for 3 departments																			
8.1	Team stress risk assessments are carried out																13	1	1	0
8.2	Individual stress risk assessments are carried out for individuals, as appropriate																8	1	5	1
8.3	Information on the EAP is readily available to staff, and staff are aware about the range of services (online, telephone and counselling services) plus EAP support for managers (*verify for 4 staff*)																3	1	11	0
9	**First-aid arrangements**																			
9.1	Adequate number of first-aiders																0	0	15	0
9.2	First-aider training is up to date (*training records verified*)																0	0	15	0
9.3	Information on first-aid arrangements is displayed																5	0	10	0
9.4	First-aid box(es) checked on a regular basis (verify first aid-boxes are fully stocked)																0	0	15	0
9.5	First-aid room is clean and tidy																0	1	10	4
9.6	Defibrillator is serviced annually																2	0	1	12
	Overall rating																1	4	10	0
10	**Fire safety and emergency response arrangements (H&S)**																			
	Fire safety																			
10.1	Fire risk assessment in place																1	3	11	0
10.2	Fire evacuation plan is in place																0	1	14	0
10.3	Fire evacuation notices are suitably displayed																2	4	9	0
10.4	Planned fire evacuation drills are held once per term (*verify records for last 3 terms*)																1	4	10	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
10.5	Nominated individual and deputy to co-ordinate emergency response (fire / other emergencies)																0	0	15	0
10.6	Adequate number of fire wardens																0	0	7	8
10.7	Fire warden training is up to date (*training records verified*)																0	1	5	9
10.8	All emergency escape routes, fire doors and assembly routes are free from obstruction																0	0	15	0
10.9	Fire alarm call point is tested weekly (different call point each week)																2	0	13	0
10_10	Aqueduct provision of portable extinguishers																0	1	14	0
10.11	Adequate emergency lighting																0	5	10	0
10.12	Adequate fire signage																0	7	8	0
10.13	Fire assembly point is suitably demarcated																0	3	11	1
	Emergency response																			
10.13	Emergency procedure in place for lift breakdowns																1	0	8	6
10.14	Information on emergency procedure for lifts is displayed (near the lift)																1	0	8	6
10.15	Emergency procedure is in place for swimming pool incidents, and has been communicated to all relevant staff staff																0	0	5	10
10.16	Bomb threat plan is in place																0	9	6	0
10.17	All emergency shut offs are clearly identified, accessible and functioning																1	0	13	1
11	**Reporting and Investigation of Incidents**																			
	Verify records for last 6 months																			
11.1	All incidents, accidents and work-related ill health cases are reported																0	1	14	0
11.2	All incidents, accidents and work-related ill health cases are investigated																0	0	15	0
11.3	Information on incident reporting is communicated																0	0	14	0
12	**Escalation and monitoring of H&S risks and issues**																			
12.1	There is a risk notification procedure that sets a protocol in case of any serious or imminent H&S risk																0	2	13	0
12.2	The risk notification procedure has been communicated to staff and pupils (*verify*)																1	4	10	0
12.3	Implementation of H&S measures identified in H&S workplace inspections, audits, accident investigations etc. is tracked to completion (*verify for last H&S audit and H&S workplace inspection and incident investigation*)																4	8	3	0
13	**Control of Contractors**																			
13.1	All contractors and visitors are required to sign in and out *(verify signing in book)*																1	1	13	0
13.2	All contractors and visitors are provided with H&S information, including emergency procedures																0	3	12	0
13.3	All work undertaken by contractors is authorised by relevant service (e.g. Property) *(verify for all work undertaken by contractors in last 6 months)*																0	2	12	1

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
13.4	Systems are in place to ensure contractors are provided with adequate H&S information, and adequately supervised																0	3	12	0
14	**H&S Arrangements with Voluntary Organisations**																			
14.1	Organisations that use the schools' facilities are provided with H&S information including emergency procedures																3	1	9	2
	Section D-Property & Statutory Inspection Controls																			
1	**Statutory Inspections**																			
	All statutory tests and inspections are up to date and records are available:-																			
1.1	Fire safety																1	5	9	0
1.2	Evac' chairs																2	1	4	8
1.3	Fixed electrical testing																5	0	10	0
1.4	Electrical safety (portable appliance testing)																0	2	13	0
1.5	Water safety (*legionella*)																0	1	14	0
1.6	Gas safety																1	1	13	0
1.7	Hoists and mobile lifting equipment																3	1	1	10
1.8	Boiler safety																1	0	14	0
1.9	Pressurisation units																3	0	6	6
1.10	Carbon monoxide monitors																0	0	0	15
1.11	Lifts & Escalators: "Thorough Examination"																0	1	8	6
1.12	Lift maintenance																0	0	9	6
1.13	Bleacher seating inspection (hydraulic or mechanical)																0	0	1	13
1.14	Lightning protection inspection																3	1	4	7
1.15	Lighting rigs & PAT testing of stage equipment (combined structure and electrical integrity inspection)																3	1	2	9
1.15	Mansafe System Inspection																0	2	2	11
1.16	Anchor points - load tested																0	2	2	11
1.17	Tallescope Inspection																1	0	1	13
	Add any others																0	0	0	15
2 & 3	**Asbestos**																			
2.1	The presence and location of asbestos has been identified																0	0	12	3
2.2	Information on the presence and location is readily available (on site)																0	1	11	3
3	Asbestos management plan is in place and implemented (including inspections on the condition of asbestos)																0	3	9	3
4	**Water safety (including *legionella*)**																			
4.1	*Legionella* risk assessment in place																0	3	12	0
4.2	Adequate maintenance and operation of water management system (L8). Records available																0	1	14	0
4.3	Water temperature checks are carried out to prevent scalding. Records available																5	1	9	0
4.4	Temperature of radiators are monitored and maintained to avoid thermal injuries																5	1	6	3
5	**Playground equipment**																			
5.1	Playground equipment has been inspected in last 12 months (by external specialist). Records available																6	1	1	7
6	**Fixed gym equipment**																			
6.1	Fixed gym equipment has been inspected in last 12 months (by external specialist). Records available																8	3	3	1

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
7	**Window restrictors**																			
7.1	Window restrictors are checked on a regular basis																7	2	3	3
7.2	Window restrictors suitability check has been carried out in last 12 month. Records available																6	2	4	3
8	**Vehicular segregation**																			
8.1	There is clearly marked segregation between vehicles and pedestrians																1	0	13	1
	Section E - Resilience																			
1.1	Confirm that there is evidence to show Management team have attended Significant Ocurrence training.																1	5	9	0
1.2	Have staff been made familiar with the contingency arrangemements, Severe Weather, Infection Outbreak																0	3	12	0
1.3	are roles and responsibilities clearly defined																0	5	10	0
1.4	Is there a log of emergency contact details																2	3	10	0
1.5	Is the log easy to access																2	1	12	0
1.6	Has the log been updated recently.																2	3	10	0
	Section F- Information Security																			
1.1	Have staff old and new been made aware of the information governancy policy of CEC?																1	6	8	0
1.2	Is there evidence to show that all staff have undertaken the CeCil Info Gov essential learning module?																3	6	6	0
1.3	What are the required record retention guidance for schools,																0	9	6	0
1.4	When was the last record reconciliation carried out, is there evidence that information was destroyed appropriately in line with policy																3	9	3	0
1.5	are there controls in place to protect information held by the school?																0	6	9	0
1.6	Are council procedures adhered to policy for personal data re staff and pupils.																2	5	8	0
1.7	How are records retained in the school managed in accordance with the policy? do you have a data management officer responsible for this?																3	8	4	0
	Section G- Child Protection																			
1.1	Evidence that the Policy and Procedures for Child Protection, Allegations of Abuse Against Members of Staff, Whistle Blowing, have been read and understood by all school staff.																0	3	12	0

		School															Total RAG ratings			
		CF 1502	CF 1503	CF 1504	CF1505	CF1506	CF 1507	CF1508	CF 1509	CF1510	CF 1511	CF1512	CF 1515	CF 1516	CF1517	CF 1518	NO	Partial	YES	N/A
1.2	Evidence that the annual Child Protection briefing has taken place and that all staff were present?																0	3	12	0
1.3	Evidence that all staff have completed Child Protection Level 1/2 in past 3 years?																0	3	12	0
1.4	Designated Child Protection staff have completed Level 4 training in past 3 years																0	3	12	0
1.5	HT has completed training in managing Allegations of Abuse Against Staff and Volunteers in the past 3 years.																0	3	12	0
Section H- Risk Matters																				
1.1	Evidence that the new Risk Matters briefing is part of the team meeting agenda.																2	2	11	0
1.2	Evidence that all staff are aware of this bulletine and have access to it.																2	2	11	0

Appendix 2 - School Self Asssessment

		CF1503		CF1507		CF1512		CF1515		CF1518	
		Self-assessment	Audit assessment	Self-assessment	Audit assessment	Self-assessment	Audit assessment	Self-assessment	Audit assessment	Self-assessment	Audit assessment

A FINANCIAL CONTROLS

1 I am provided with sufficient financial information by my Business Manager to allow me to manage within my budget.

2 Financial controls are in place to demonstrate completeness and accuracy of management of income and appropriateness of expenditure.

3 Cash and other assets / equipment are safeguarded

B WORKFORCE CONTROLS

1 Compliance with Key Corporate Policies and Procedures (as listed in Self Assessment questions) is embedded in the establishment

2 The Children & Families Essential Learning matrix is used as guidance for staff mandatory training. Headteachers and Establishment Managers discuss specific training requirements with their staff to ensure clarity.

3 Role specific training has been completed for H&S roles (first-aiders, fire wardens), and records are available.

4 Role specific H&S training for the SSO is up to date, and records are available.

5 There is evidence in place to demonstrate staff induction and PRD procedures are fully implemented

C HEALTH & SAFETY

1 Local roles and responsibilities for health and safety are defined and communicated. These are included in personal objectives (PRDs) for key roles.

2 Health and safety training (covering induction training, and C&F ‘mandatory/essential’ H&S training) has been completed and records are available.

3 H&S information and guidance is readily accessible and communicated to staff and pupils.

4 All significant H&S risks have been assessed (including life threatening safety risks) by competent person, and controls are in place that are deemed to be adequate by a competent person. The risk assessments are documented and dated, and are reviewed at least annually.

5 Adequate controls identified in the health and safety risk assessments are in place and are working effectively.

6 All statutory tests and inspections are up to date for teaching equipment, and records are available.

7 H&S Workplace Inspections are carried out.

8 Stress risk assessments are carried out as appropriate, and information on the Employee Assistance Programme has been communicated to all staff.

Appendix 2 - School Self Asssessment

		CF1503		CF1507		CF1512		CF1515		CF1518	
		Self-assessment	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**
9	Adequate first-aid arrangements are in place, and communicated.										
10	Fire safety and emergency response arrangements are in place, and communicated										
11	There is a systematic approach in place to report and investigate all incidents, accidents and work-related ill health, to identify immediate and underlying causes – plus root causes for the more serious ones.										
12	There is a process in place to escalate and monitor health and safety risks and issues (including H&S audit/H&S workplace inspection actions), to ensure the required remedial action is taken.										
13	There are effective arrangements in place to ensure that health and safety is managed for works undertaken by contractors, including recording of contractor's visits.										
14	There are effective arrangements in place to ensure the health and safety is managed for voluntary organisations (e.g. football clubs) that use the school's facilities.										
D	**PROPERTY & STATUTORY INSPECTION CONTROLS**										
1	All statutory tests and inspections are up to date, and records are available.										
2	Information on the presence and location of asbestos is known, and is readily available.										
3	The condition of asbestos is inspected in accordance with the asbestos plan, and records are available.										
4	There is adequate maintenance, testing and inspection of the water management system										
5	Playground equipment has been inspected in the past 12 months.										
6	Fixed gym equipment has been inspected in the past 12 months.										
7	Window restrictors' suitability check has been carried out in the past 12 months.										
8	There is segregation between vehicles and pedestrians.										
E	**RESILIENCE**										
1	The school management team have attended Significant Occurrence training. All staff have been briefed on the procedure and roles/responsibilities are defined.										
2	Staff are familiar with the following contingency arrangements and roles/responsibilities are defined: Children & Families Severe Weather Arrangements Children & Families Reporting Infection Outbreak Procedures										
3	Emergency contact details are kept and updated for staff.										

			CF1503		CF1507		CF1512		CF1515		CF1518	
			Self-assessment	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**	**Self-assessment**	**Audit assessment**
F		**INFORMATION SECURITY**										
	1	Staff and new staff are knowledgeable on Information Governance.										
	2	Information Governance Essential Learning (Cecil e-learning) is undertaken by all school staff.										
	3	Information is routinely destroyed in line with CEC retention schedules.										
	4	Information is adequately protected by staff.										
	5	Council procedures for personal or other data requests for example pupils/client information are used.										
	6	CEC procedures are used to manage records.										
G		**CHILD PROTECTION**										
	1	The policy and procedure on Child Protection, Allegations of Abuse Against Members of Staff and the Council's Whistle-blowing policy has been shared with staff.										
	2	Staff have had their annual Child Protection briefing at the beginning of term (August) as a reminder of their role in the Child Protection Process.										
	3	Staff have undertaken Child Protection Level 1/2 in the past three years.										
	4	All designated members of staff for Child Protection have undertaken a level 4 child protection training course within the last three years.										
	5	The Headteacher has undertaken training in Managing Allegations of Abuse Against Staff and Volunteers within the last three years.										
H		**RISK MATTERS**										
	1	Risk Matters the new Children & Families risk newsletter is shared with the staff at team meetings										
		Red	2	2	0	1	2	6	2	2	16	18
		Amber	0	8	0	10	2	15	3	19	2	15
		Green	43	35	45	34	41	24	40	24	27	12

Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

Best Value Audit Report 2016 - referral from the City of Edinburgh Council

Item number	7.6
Report number	
Wards	All

Executive summary

The City of Edinburgh Council on 10 March 2016 considered a report which provided the findings of the most recent Best Value Audit progress report. The report was referred to the Governance, Risk and Best Value Committee for scrutiny and information.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Best Value Audit Report 2016

Terms of referral

1.1 The Council had presented its Best Value Audits to the Accounts Commission in February 2007 and May 2013 with a progress update presented to the Accounts Commission in December 2014.

1.2 On 10 March 2016, the City of Edinburgh Council considered a report on the findings of the most recent Best Value Audit progress report which had been presented to the Accounts Commission in February 2016 together with an update on changes to the scrutiny of all local authorities' work programmes by Audit Scotland.

Motion

1.3 1) To note the findings from the report.

2) To note changes to Audit Scotland's work programme.

3) To refer the report to the Governance, Risk and Best Value Committee for further scrutiny and information.

- moved by Councillor Burns, seconded by Councillor Ross

Amendment

1.4 1) To note the findings from the report.

2) To note that the exceptional reports from the Accounts Commission reflected concerns about the Council in 2013.

3) To note that the focus was not on additional areas of Council service delivery to the people of Edinburgh.

4) To note the continuing high level of risk.

5) To note the progress reflected in the Accounts Commission report.

6) To note that many of the areas of concern addressed in the report flowed from poor decisions taken by the current Administration and that the response had been too little and too late.

7) To refer the report to the Governance, Risk and Best Value Committee for further scrutiny and information.

- moved by Councillor Rose, seconded by Councillor Whyte

Voting

1.5 The voting was as follows:

For the motion	-	44 votes
For the amendment	-	13 votes

Decision

1.6 To approve the motion by Councillor Burns.

For Decision/Action

2.1 The City of Edinburgh Council has referred the attached report to the Governance, Risk and Best Value Committee for further scrutiny and information.

Background reading / external references

Minute of the City of Edinburgh Council 10 March 2016

Kirsty-Louise Campbell

Interim Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

E-mail: louise.p.williamson@edinburgh.gov.uk | Tel: 0131 529 4264

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

The City of Edinburgh Council

10.00am, Thursday, 10 March 2016

Best Value Audit Report 2016

Item number	8.4
Report number	
Executive/routine	
Wards	All

Executive summary

The first Best Value Audit report was published in February 2007, followed by a second in May 2013. Two further progress reports have been requested by the Accounts Commission at 18 month intervals.

This report details the findings of the most recent Best Value Audit progress report that was presented to the Accounts Commission in February 2016. It also provides an update on changes to the scrutiny of all local authorities' work programmes by Audit Scotland.

Links

Coalition pledges	All
Council outcomes	All
Single Outcome Agreement	All

Report

Best Value Audit Report 2016

Recommendations

1.1 That Council

1.1.1 notes the findings from the report;

1.1.2 notes changes to Audit Scotland's work programme;

1.1.3 refers this report to the Governance, Risk and Best Value Committee for further scrutiny and information.

Background

2.1 The first Best Value Audit report on the City of Edinburgh Council was published in February 2007 and the second in May 2013.

2.2 Audit Scotland carried out a follow up audit in the summer of 2014 to track progress on key issues and areas for improvement. Key areas included:

2.2.1 the Council's challenging financial position and the capacity to achieve the planned overall level of savings;

2.2.2 issues that challenged public confidence such as the trams project and statutory repairs;

2.2.3 ensuring that effective risk management and internal audit arrangements were in place;

2.2.4 developing a workforce strategy and improving ICT further to help improve services and deliver savings; and

2.2.5 improving a range of services including adult social work, waste management and meeting housing need.

2.3 This report was considered by the Accounts Commission in December 2014 and additional recommendations were made, with the Commission requesting a further update in 18 months.

2.4 Audit Scotland carried out the audit at the end of 2015 and presented the Best Value Audit Report 2016 to the Accounts Commission in February 2016.

Main Report

3.1 The Best Value Audit Report 2016 notes Edinburgh's progress since the 2014 Best Value Report and highlights a number of achievements:

3.1.1 Considerable progress has been made in addressing the increasingly challenging financial position. The Council has a clear strategy for changing the way it delivers services, reducing its workforce, and achieving substantial financial savings.

3.1.2 Elected members and senior managers now have a shared understanding of the challenges facing the Council and the action that needs to be taken.

3.1.3 The Council's various improvement projects have been consolidated into a single transformation programme. The programme is now being used to redesign services and change the way the council operates.

3.1.4 A workforce strategy has been developed, supported by more detailed plans, setting out the size and shape of its future workforce needs.

3.2 The Councils needs to:

3.2.1 Maintain stability of good Council Leadership over the next few years.

3.2.2 Monitor the changes within workforce and service delivery and be able to demonstrate that decisions, such as retaining in-house estates services, represent Best Value.

3.2.3 Ensure the transformation programme is fully implemented and delivers the planned savings.

3.3 Going forward Audit Scotland will take a new approach to progressing Best Value with all local authorities. This work will be developed on a longer term basis through more strategic scrutiny. It will be delivered within a five year programme and will include annual progress reports to the Commission. The programme will include performance audits, audits of Best Value, *How Council Work* series, overview reporting and statutory reporting.

3.4 The Council will work closely with Audit Scotland to embed this new programme of work and align with existing reporting such as Local Scrutiny Planning.

Measures of success

4.1 The Accounts Commission acknowledged a range of improvements since the last Best Value audit and the report states that the Commission welcomes the Council's approval of a new four-year budget framework and business plan, and how a balanced budget will be achieved for each of the next three financial years.

4.2 Progress will be measured annually through the five year audit programme of work.

Financial impact

5.1 There is no financial impact resulting from the Best Value follow up report. All improvements implemented should lead to greater efficiencies and value for money.

Risk, policy, compliance and governance impact

6.1 There are no risk, policy, compliance or governance issues arising from the Best Value report.

Equalities impact

7.1 There are no equalities issues arising from the Best Value report.

Sustainability impact

8.1 There are no sustainability issues arising from the Best Value report.

Consultation and engagement

9.1 Key stakeholders have been consulted and interviewed during the Best Value audit process including:

- Elected Members;
- Council Leadership Team; and
- Managers and Staff.

Background reading / external references

The City of Edinburgh Council Best Value Report May 2014

Andrew Kerr

Chief Executive

Contact: Kirsty-Louise Campbell, Interim Head of Strategy and Insight

E-mail: kirstylouise.campbell@edinburgh.gov.uk | Tel: 0131 529 3654

Links

Coalition pledges	All
Council outcomes	All
Single Outcome Agreement	All
Appendices	The City of Edinburgh Council Best Value Audit Report 2016

The Audit of Best Value and Community Planning

The City of Edinburgh Council

Best Value audit 2016

ACCOUNTS COMMISSION

Report from the Controller of Audit
February 2016

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Commission findings

1 The Commission accepts the Controller of Audit's report, which was required as part of the Commission's findings on the Council in December 2014.

2 The Commission is encouraged with the progress being made in those areas on which we expressed particular concern in our previous findings, namely that:

- substantial progress has been made in meeting savings targets and identifying and planning further savings within a four-year budget framework
- a high-level workforce strategy is now in place
- various improvement activities have been consolidated in the council's ambitious Transformation Programme, some aspects of which have seen good progress made.

3 We underline, however, that uncertainties around future funding and service demands – faced by all councils – mean there will be continuing risks around progress and delivery of plans and improvement.

4 Clear leadership by members and officers, and a shared understanding between them of the challenges faced by the council, have been the basis of accelerated change. This is against a backdrop of continuing substantial change in the corporate leadership team.

5 We note the risks inherent in the Transformation Programme: many components remain in progress and it is largely too soon to see its effects on the delivery of services and on outcomes for communities. For example, effective management of ongoing organisational reviews, and their implications for staffing levels, is vital. It is essential that the council manages the risks by ensuring it has the necessary skills and management capacity to secure Best Value through successfully implementing the programme.

6 We will therefore maintain our interest in the council's progress, with the Controller of Audit monitoring progress through the annual audit process.

Summary

1. Over the past two years, the Accounts Commission has raised significant concerns about the City of Edinburgh Council, particularly over its increasingly challenging financial position and the action needed to address this. The council has made considerable progress in addressing these concerns. While it still faces significant challenges, the council now has a clear strategy for changing the way it delivers services, reducing its workforce, and achieving substantial financial savings. There is growing evidence that these savings are being achieved.

2. Elected members and senior managers now have a shared understanding of the challenges facing the council and the action that needs to be taken. Members have tried to set priorities that will help protect front-line services but, where necessary, they have shown a willingness to make difficult decisions and reduce services. There have been widespread changes at senior manager level. The council appointed a new CEO in July 2015 and none of the directors of the council's 2013 Corporate Leadership Team (CLT) is still in post. Despite these changes, there has been continuity in the council's approach to reshaping its services and making the necessary savings. If anything, the pace of change has quickened in recent months.

3. The council's various improvement projects have been consolidated into a single transformation programme. The individual projects are at different stages of completion, but there is evidence that they are now being used to redesign services and change the way the council operates:

- A new ICT contract has been signed, with projected savings of £45 million over the next seven years.
- As a result of the Channel Shift project, increasing numbers of customer transactions are being made available online.
- In line with the council's transformation programme, the council has created four localities and is using these to restructure and integrate much of its operational decision-making.

4. The council now has a workforce strategy, supported by more detailed plans, setting out the size and shape of its future workforce needs. Implementation of these plans is under way, with a reduction of around 4.6 per cent of the total workforce, worth around £25.8 million per year, due to be completed by March 2016. Plans are now well developed for the next phase of workforce reductions.

5. As a result of these initiatives, the council has made considerable progress in planning and delivering financial savings. It has now agreed a four-year budget framework and business plan. This sets out a balanced budget for 2016/17 and each of the two following financial years, with £15.3 million of savings still to be identified for 2019/20. This is in sharp contrast to the unidentified savings gap of £67 million that was reported in 2014. There is now evidence that these planned savings are being achieved. The council met its savings target of £39 million in 2014/15, mostly from planned savings projects, and is on target to meet most of its planned savings of £49 million for the current financial year.

6. In line with other local authorities, the council continues to face uncertainties about future funding levels and service demands. It is now in a stronger position to meet these challenges.

Audit assessment

Background

The Accounts Commission has highlighted growing concerns in recent years about the council's financial position and its capacity to implement the changes required to achieve substantial reductions in its spending

7. Since 2013, the Accounts Commission has expressed significant continuing concerns about the arrangements in place at the City of Edinburgh Council to secure Best Value. These concerns have particularly focused on the council's financial position and the increasingly pressing need for it to deliver significant savings.

8. In May 2013, in response to my report, the Accounts Commission expressed concern about the need for the council to achieve recurring annual savings of £107 million by 2017/18, with plans for £17 million of these still to be identified. Significant concerns were also raised about the need for the council to develop a workforce strategy, and improve its use of information and communications technology (ICT), risk management, and scrutiny. The Commission asked me to report again by the end of 2014.

9. In December 2014, the Accounts Commission considered my follow-up report. This provided some assurance that the council had made good progress in a number of areas, such as risk management and scrutiny. However, the Commission expressed growing concern over the council's financial position, with an increase in the recurring annual savings that were needed from £107 million to £138 million, and in unidentified savings from £17 million to £67 million. It recognised that the council was developing a transformation programme in order to help generate the savings required. But this initiative was still in an initial phase and it was too early to assess its likely success.

10. The Commission requested a further report on progress over the next year. In responding to that request, this audit looked at:

- the capacity of the council to continue to meet the challenges it faces in future years
- the continued development of the council's transformation programme and savings plans
- the development of a workforce strategy
- the extent to which savings will now be achieved.

11. My conclusions are based on detailed audit work carried out between August 2015 and January 2016, which included the following:

- reviewing key reports prepared for council and committee meetings
- observing council and committee meetings
- interviewing a range of elected members and senior officers.

12. The audit work also took into account the ongoing work of the council's local external auditors, summarised in the annual audit report submitted to me in September 2015.

Leadership

Elected members and officers have continued to develop a shared vision for the council and the city it serves, despite continuing changes at senior manager level

13. There is evidence that members and officers have a shared vision for the City of Edinburgh and for the council. Over the past year or so, they have developed a better understanding of the pressures facing the council, with an expectation that resources will continue to fall while demands on services continue to increase. Through a series of strategic documents, such as Organise to Deliver and Better Outcomes through Leaner Delivery (BOLD), they have set out how the council will need to reshape its services to meet these challenges.

14. Over the past year, at a time of significant financial pressures, elected members have shown clear leadership. They have increasingly been involved in setting the broad direction of savings plans and have shown a willingness to make difficult decisions, including reductions in staffing levels and services. Members are provided with regular progress reports and updates on the various strands of the council's transformation programme and savings plans, and show a readiness to ask questions and challenge officers. The introduction of regular performance 'dashboard' reports, for example, is a step forward in summarising complex issues, such as workforce reductions and savings plans, and highlighting areas of concern.

15. Senior managers have also continued to provide strong leadership, despite a high turnover in personnel. In addition to a new CEO being appointed in July 2015, there has been a series of changes at director level. As a result, none of the directors of the council's Corporate Leadership Team (CLT) in post during 2013, remains. This disruption in continuity brings some risks for the council's management capacity, but there is good awareness of these. So far, the new CEO and CLT have brought a renewed energy to the council's transformation programme, with the pace of change noticeably quickening in recent months, particularly over savings plans and workforce reductions.

16. There is also evidence to suggest that service directors are working in a consistent, coordinated manner. All savings proposals are discussed and agreed at CLT meetings before being presented to members for their approval. In addition, directors are working to support one another. During 2015/16, with a forecast overspend of around £16 million in health and social care, other services generated additional savings of £9.8 million which, alongside actions taken within the service, helped offset this pressure on these important community services.

17. There is some ongoing risk relating to management capacity. A new structure for executive directors was approved in December 2015. This rearranges some responsibilities, with areas such as ICT, Strategy & Insight, and Communications now reporting directly to the CEO, and the deputy CEO post now replaced by an Executive Director of Resources. With the council's recruitment contract currently being re-tendered, it is expected that it will take between six and nine months before all CLT posts are permanently filled. In addition, the council is currently reducing the number of senior and middle-management posts. This wider restructuring is being carried out as part of the council's transformation programme, with planned changes in the way the council provides many services. But, again, it will be some time before the effect of the changes on management capacity can be properly assessed.

Financial position

While it continues to face growing financial pressures and uncertainty, the council has made substantial progress in planning and delivering financial savings

18. In recent years, the council's financial position has been of particular concern to the Accounts Commission. With growing demands on its services and reducing resources, the council has needed to make substantial savings. In 2013, it estimated that it needed to make savings of £107 million by 2017/18, around 11 per cent of its annual net expenditure, with savings proposals of £17 million still to be identified. By 2014, the required savings had increased to £138 million, with unidentified savings of £67 million.

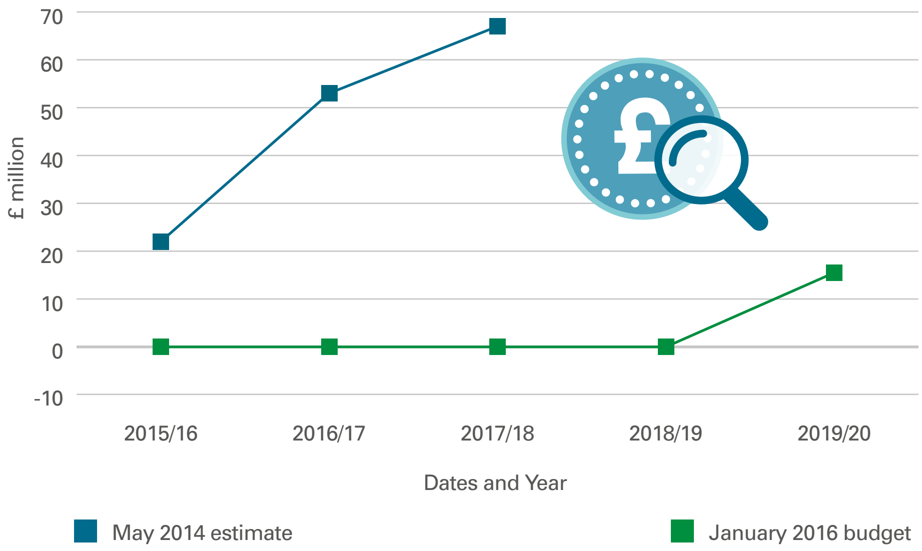
19. There is now clear evidence that the council has made considerable progress in its financial performance. In 2014/15, the last complete financial year, it achieved its savings target of £39 million, largely through planned savings projects, and maintained its level of unallocated reserves. There is also evidence that it should achieve most of its planned savings of £49 million for 2015/16. The latest monitoring reports, submitted to the Finance & Resources Committee in January, show that it is still on track to deliver a balanced budget. This is despite needing to deal with a forecast overspend of £16 million in health and social care earlier in the year (this was addressed through a range of measures, including reducing staff numbers, changes to eligibility criteria, and closure of one care home and two day centres).

20. The council has made substantial progress in developing its longer-term savings plans. This is partly due to the continuing development of its transformation programme. But it is also due to an increase in the pace of change, with workforce reductions being accelerated in order to generate earlier savings. During 2015, a series of detailed proposals have been developed by senior managers, reflecting these internal changes to the way the council delivers its services. In addition, however, the savings plans have also set out reductions in the level of some services being delivered. A consultation and engagement exercise was carried out between October and early December, seeking the views of the public on these proposed changes.

21. In developing its savings plans, the council has also had to respond to growing external financial pressures and uncertainties. As a result of the Local Government Financial Settlement, announced by the Scottish Government in December, the council has estimated its resources will fall by a further £16.7 million for 2016/17. It has planned to cover this shortfall with a range of measures, including a further acceleration of its transformation programme and a reduction in the options members have for not taking forward some savings proposals.

22. As a result, the council approved a four-year budget framework and business plan on 21 January. This sets out how it proposes to deliver a balanced budget for each of the financial years 2016/17, 2017/18 and 2018/19. While savings of £15.3 million remain unidentified for 2019/20, this shows a marked improvement in the council's financial planning since 2014 (Exhibit 1).

Exhibit 1
Unidentified savings requirements



Source: *Council transformation programme and improvement plan*, F&R Committee, May 2015; and *Revenue and capital budget framework*, F&R Committee, January 2016

23. This four-year budget framework, and its supporting savings proposals, are subject to a series of significant risks and uncertainties. The council has some flexibility, through plans to maintain uncommitted reserves at £13 million over the coming financial year. It also has a contingency of £2.5 million in 2016/17, subsequently rising to £5 million per year, to provide for savings options that are not taken forward. But, as mentioned above, the level of these contingencies is substantially less than initially planned.

24. However, the council has identified the key risks, external and internal, to its financial plans. These were reported to the Finance & Resources Committee in January 2016 and includes assumptions about a wide-ranging set of issues, including:

- the level of future Local Government Financial Settlements
- the ending of the council tax freeze, with the budget framework assuming an increase of three per cent from 2017/18

- inflation
- health and social care integration
- the impact of the national minimum wage.

25. In line with other local authorities, the council faces significant uncertainties about future funding levels and demands on its resources. At this stage, however, the assumptions and risks underpinning its four-year budget framework look to be reasonable and realistic.

26. In previous years, audit reports have raised concerns about the council's statutory repairs service, with delays in billing for work completed and uncertainties about the money that it will be able to recover. The council has made steady progress in addressing these issues, with elected members receiving monthly updates at the council's Finance & Resources Committee. Bills have now been issued for all work completed. By the end of December 2015, the last report available, £10.6 million had been received, with a further £1.3 million secured in payment plans and inhibitions. So far, £11.2 million of debts have been approved for write-off, with the council's accounts containing a provision for an expected total of £17.9 million to be written off.

Transformation programme

The council's various improvement projects have been consolidated into a single transformation programme. This has still to be fully implemented, but it is now starting to reshape the council's services and deliver savings

27. At the time of the last audit of Best Value in 2014, the council was developing a range of improvement projects which were designed to reshape the council and change the way it delivers services in the future. These included Better Outcomes through Leaner Delivery (BOLD), Organise to Deliver and Channel Shift. There were links and overlaps between these various projects and they have now been consolidated into a single transformation programme to help avoid the double-counting of planned savings and to present clearer choices for elected members.

28. During 2015, significant progress has been made on all of the key elements of this overall transformation programme:

- ICT contract – A new ICT contract was signed with CGI in August 2015. The council projects that this will deliver savings of at least £45 million over the next seven years. These projections look to be achievable, given the terms and flexibility of the new contract.
- Channel Shift – The council is currently redesigning many of its customer care services, simplifying them and, where possible, moving to online transactions. This is planned to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact, with 40 transactions already available online and savings of £355,000 over the past year. The council now aims to roll out a further 153 new digital transactions types in 2016/17.

- Corporate Property – In September 2015, the council agreed to rationalise its estate and its property investment portfolio, with the aim of reducing its costs by around £4 million per year. Members rejected proposals to outsource support staff, which officers estimated would save around £6 million per year. Instead they supported an alternative proposal to re-model an in-house service, which is estimated will save around £2.7 million per year. Officers are currently developing the details for this re-shaped in-house model. However, given the decision to proceed with an in-house model was based on the coalition's presumption against outsourcing council services, it will be important for the council to demonstrate that future arrangements do represent Best Value.

- Organise to Deliver – The council has created four localities which for the first time mean that all local public services in the Edinburgh area will share common administrative boundaries. This is planned to help delegate operational decision-making and integrate the delivery of local services. This initiative forms part of the drive to reduce staffing levels and costs. These detailed plans are still being developed and it will be some time before they can be seen to deliver the predicted savings of £20 million per year. However, the Locality Transformation Plan was approved by the Communities and Neighbourhoods Committee in November 2015. The council is currently engaging with its city partners to finalise membership of the four Locality Leadership Groups. The new locality model is then expected to be piloted in March, with a full roll-out in April 2016.

Workforce management

The council now has a workforce strategy, supported by more detailed plans, setting out the size and shape of its future workforce needs. It is now starting to achieve the reductions set out in these plans

29. The council approved a workforce strategy in March 2015. The absence of such a strategy was highlighted by the Accounts Commission in 2013 and 2014 and was seen as a key gap in its efforts to address its growing financial challenges.

30. *An engaged and empowered workforce: workforce strategy 2015-2020* sets out a broad vision for the council's future workforce, linking it to its broader transformation programme and highlighting the need for reductions in staffing levels. Over the following months, as the council's financial plans and transformation programme continued to be developed, this has been supplemented by more detailed workforce plans. In broad terms, the council is seeking to reduce its workforce by around 2,000 full-time equivalents (FTEs) by 2017. Initially, it is seeking to achieve quick reductions through a new Voluntary Early Release Arrangement (VERA). Following a series of service reviews and a reshaped staffing structure, this will be followed by a programme of voluntary redundancies. As a last resort, if these measures do not achieve the required staffing reductions, members have also indicated a willingness to reconsider using compulsory redundancies.

31. There is evidence to show that the council is now making progress in implementing these plans. By mid-January, 1,475 FTE had applied for a VERA; 110 staff, with annual pay costs of £4.3 million, accepted final offers and left the council in December. A further 569 notes of interest, with annual pay costs of £21.1 million are under consideration and progress is being reported monthly to the council's Finance & Resources Committee. The numbers accepted, or currently being considered, for a VERA represent around 4.6 per cent of the council's workforce. In addition, 43 staff, with annual pay costs of £1.7 million, have been redeployed to other jobs.

32. The council is also making progress with a series of organisational reviews, linking its planned restructuring through Organise to Deliver to its future workforce needs. It is due to complete a programme of 28 reviews by May 2016, with those for Tier 3 managers, ICT, Communications and Human Resources now completed. These will then be used to determine the staffing levels and structures needed to deliver council services in future years.

Conclusions

33. The council has made considerable progress in addressing the concerns highlighted by the Accounts Commission in its findings on the Statutory Report in December 2014. In particular, it has:

- agreed a new four-year budget framework and business plan, which is supported by a range of savings proposals which identify how a balanced budget will be achieved for each of the next three financial years
- achieved savings of £39 million in 2014/15, and is on track to deliver further savings of up to £49 million in the current financial year
- approved a workforce strategy, with more detailed supporting plans, and is now beginning to implement these proposals with, for example, a forecast reduction of 4.6 per cent in the size of its workforce during 2015/16 from VERA
- made good progress in developing and implementing its key improvement plans, now the council's transformation programme, to change the way it delivers services
- signed a new ICT contract, with projected savings of £45 million over the next seven years.

34. The council has managed to achieve all this, despite a high turnover in its senior managers. It will need to ensure that it now has a period of stability in its CLT over the next few years. It has also shown that it is prepared to make difficult decisions, with reductions in its workforce and the services it provides. But, it will need to monitor the success of these changes and be able to demonstrate that decisions, such as retaining in-house estates services, represent Best Value.

35. It is important that elected members and senior managers continue to provide good leadership of the council, and that its transformation programme is fully implemented and delivers the planned savings. The council will continue to face significant challenges and uncertainties in the coming years. But it is now in a stronger position to meet these future challenges.

Appendix

Accounts Commission's 2014 findings

The Commission accepts this report by the Controller of Audit which it required as part of its findings on the council in 2013.

In its findings in 2013, in light of the risks and uncertainties in relation to the council's planned savings between 2014 and 2018 the Commission "urged the council to give absolute priority to ensuring the savings identified are both achievable and delivered". We note that in some instances savings have not been achieved or, in the case of procurement, have been scaled back. We have growing concern about the increased level of savings required by the council: our previous findings stated that the council needs to make recurring annual savings of £107 million by 2017/18; now it is £138 million.

In 2013, the council reported that the gap between the savings required by 2017/18 and those already identified in council financial plans was £17 million; now it is £67 million. The means of closing the savings gap have yet to be fully identified. While the council has developed a transformation programme, this is still in its initial phase and it is too early to say that it will deliver its objective. Nor is it clear what alternative strategy, if any, the council would follow if the programme failed to deliver the necessary level of savings. The financial implications associated with the statutory repairs service also remain a substantial risk to the council.

In our last findings we highlighted the need for the council to develop a workforce strategy. This is not yet in place and represents a significant strategic failure by the council. A workforce strategy is essential in enabling the council to manage and plan its required savings. Also in our previous findings we advised that the council needed to improve its information and communications technology: this is fundamental to effective transformation and we note that this is an area that still requires improvement.

We acknowledge, however, that some important elements are now in place to help such a drive for improvement. We are particularly encouraged by the progress made by the council in embedding its governance arrangements, notably around elected member scrutiny of performance. Improved risk management and internal audit is also valuable, and we note the potential influential role of the Corporate Programme Office in making progress. Continuing improvements to communications with staff will also help facilitate staff awareness and buy-in of planned changes.

We identified in our previous findings some service areas where improvement is needed: in adult social work, waste management and meeting housing need. We are encouraged that all have seen improvements, but we recognise that all are subject to substantial pressure.

In the challenging circumstances facing the council the leadership of elected members will be crucial; equally will be a consistent corporate focus by the CMT both in providing elected members with comprehensive and accessible information about the council's financial position and the transparent reporting of all alternative options for service redesign.

The scale of the challenge facing the council has substantially increased since our last findings. We therefore require the Controller of Audit to report to the Commission in a year. We expect the council to have made substantial improvement by that date.

The City of Edinburgh Council

Best Value audit 2016

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Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

Re-employment and Re-engagement of Staff - referral report from the Finance and Resources Committee

Item number	7.7
Report number	
Wards	All

Executive summary

On 17 March 2016 the Finance and Resources Committee approved the implementation of a proposed time-bar of one year before re-engagement or re-employment of former employees who had left the Council via Voluntary Early Release Arrangement (VERA) or Voluntary Redundancy. The report has been referred to the Governance, Risk and Best Value Committee for consideration on 21 April 2016 as part of its work-programme.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

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Terms of Referral

Re-Employment and Re-engagement of Staff

Terms of referral

1.1 Due to the large numbers of employees leaving the Council through Voluntary Early Release Agreement (VERA) and Voluntary Redundancy (VR), it was recognised that a consistent position was required and was communicated and understood by staff, recruiting managers and recruitment suppliers regarding the re-employment of staff leaving through these arrangements.

1.2 The Finance and Resources Committee agreed:

1.2.1 To implement a proposed time bar of one year (from date of leaving) before re-engagement or re-employment of former employees who had left employment with the City of Edinburgh Council via Voluntary Early Release Agreement (VERA) or Voluntary Redundancy (VR).

1.2.2 To refer the report to the Governance, Risk and Best Value Committee as part of its work-programme.

For Decision/Action

2.1 The Finance and Resources Committee has referred the report to the Governance, Risk and Best Value Committee on 21 April 2016 for consideration as part of its work programme.

Background reading / external references

Minute of the Finance and Resources Committee, 17 March 2016.

Kirsty-Louise Campbell

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10.00am, Thursday 17 March 2016

Re-employment and Re-engagement of staff

Item number	7.4
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to seek approval in relation to the re-engagement or re-employment of former employees who have left employment with the Council through Voluntary Early Release Agreement (VERA) or Voluntary Redundancy (VR).

Links

Coalition pledges	All
Council outcomes	All
Single Outcome Agreement	All

Report

Re-employment and Re-engagement of staff

Recommendations

1.1 It is recommended that the Committee agree the proposed time bar of one year (from date of leaving) before re-engagement or re-employment of former employees who have left employment with the City of Edinburgh Council via Voluntary Early Release Agreement (VERA) or Voluntary Redundancy (VR); and

1.2 To refer this report to the Governance, Risk and Best Value Committee to consider as part of its work-plan.

Background

2.1 As part of the Transformation Programme it is estimated that up to 2,000 staff will leave the Council through VERA and VR.

2.2 In relation to employees who leave via VERA our current position is that the Council will not normally re-engage in a similar role or as a consultant in the 6-month period after leaving.

2.3 In relation to VR, the Council's current position is that we will not automatically exclude or refuse to accept an application for a vacancy from a former employee who has received a redundancy payment.

Main report

3.1 The current position on re-engagement of employees who have left via VERA or VR are within current Voluntary Early Release Arrangements (VERA) (paragraph 7.3) and the current Redundancy Procedure (RP) (paragraph 12.4).

3.2 It is recognised that a number of employees will be leaving over the coming months therefore, it is necessary that a consistent position is taken and is communicated and understood by staff, recruiting managers and recruitment suppliers regarding the possible re-employment of staffing leaving through VERA/VR arrangements

3.3 It is recommended that the Council agree a time bar of one year (from date of leaving) before re-employment or re-engagement of employees who have left employment with the City of Edinburgh Council via VERA or Voluntary

Redundancy. This includes permanent positions, fixed term contracts and agency/temporary posts.

3.4 There may be exceptional circumstances to this and these will be approved by the relevant service area Executive Director to ensure this approach is not seen as a form of blanket exclusion. An example of this, might be in certain roles which are difficult to recruit too (although the Council will always seek to resource plan in advance to mitigate such situations), and this position will be kept under review.

3.5 The proposed length of exclusion has been considered against the backdrop of the City of Edinburgh Council's Pledges - Providing for Edinburgh's economic growth and prosperity; reducing poverty, inequality and deprivation. A period beyond one year may be seen to counter these very objectives given the Council is the second largest employer in the city.

3.6 Benchmarking of other local authorities. Of the 14 local authorities who provided benchmarking data:

- three have no time bar; and
- the remaining 11 have time-bars in place ranging from 6 months to never employing again (with 5 having a position of the ex-employee not being employed by the Council again in any capacity).

3.7 Consultancy arrangements are covered by Procurement Guidance and it is not proposed that this recommendation includes the treatment of individuals who tender for public contracts because of the current and new procurement rules in force as from 18 April 2016. The Public Contracts (Scotland) Regulations 2015 and the Procurement (Scotland) Regulations 2016 regulate the treatment of potential providers tendering for public contracts. These Procurement Regulations set out the grounds when a provider must be excluded and when they may be excluded. These grounds are strictly limited to instances such as fraud, non payment of taxes, bankruptcy, professional misconduct, conflicts of interest and serious misrepresentation etc. As the instances are limited it would not be possible to include additional grounds in order to exclude potential providers who have received VERA/VR.

Measures of success

4.1 The Council's ability to monitor and enforce this on a consistent basis and for employees leaving the Council's employment to be aware of this requirement prior to agreeing to VERA or VR terms.

Financial impact

5.1 None.

Risk, policy, compliance and governance impact

6.1 Risk, policy, compliance and governance impact is integrated within the proposal.

Equalities impact

7.1 The proposal incorporates outcomes related to the Council's commitment to reducing inequality and providing employment.

Sustainability impact

8.1 The proposal incorporates outcomes related to the Council's commitment to develop Edinburgh as a Sustainable Capital City, particularly as a key employer.

Consultation and engagement

9.1 The proposal has been developed consultation with stakeholders, including the Corporate Leadership Team (CLT), Trade Unions, and will be embedded through clear communication cascade.

Background reading / external references

External benchmarking across 14 local authorities as to their practice on time bar for re-engagement and re-employment of employees following voluntary redundancy or VERA.

Redundancy policy

Hugh Dunn

Acting Executive Director of Resources

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Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

Induction and Mandatory Learning

Item number	7.8
Report number	
Executive/routine	
Wards	

Executive summary

The committee has previously expressed concerns over the lack of compliance with the Council's suite of mandatory learning and induction processes.

This report summarises the work undertaken to review mandatory learning and introduces a revised approach, coupled with the introduction of a new technology-based solution.

In addition, the report recommends the introduction of a corporate Induction programme to which all new employees will be invited within 8 weeks of joining the Council.

Links

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Report

Induction and Mandatory Learning

Recommendations

1.1 The Committee is asked to note the current position and progress with regard to an organisation-wide review of mandatory learning and the introduction of a Corporate Induction Programme

Background

2.1 There is understandable concern about reported low completion rates for the induction and mandatory training by employees and managers. As at January 2016, there was 21% completion for induction training and 56% completion for mandatory training.

2.2 Induction training

2.2.1 Failure to complete induction means that people join the Council without a full understanding of the organisation, its aims, ambitions and the requirements of their role.

2.2.2 An induction process for staff and managers has been in place for a few years but is not consistently and robustly implemented, therefore compliance is low. This is due in part to being cumbersome and not fit for purpose.

2.2.3 Service areas have carried out their own induction processes and this varies in approach across the Council. There is not a Council-wide induction in which all staff are required to participate.

2.3 Mandatory training

2.3.1 Service areas have different methods of identifying, providing, reporting and recording mandatory learning for new and existing staff and again there is no corporate standard for what constitutes mandatory learning aligned to overall Council Service Plan priorities.

2.4 Induction and mandatory learning require to be reviewed and revised with a view to a single approach across the Council.

Main report

3.1 In order to deliver a skilled and talented workforce the Council needs to develop, a strategy for learning and development, including the creation of induction and mandatory learning.

Mandatory Learning

3.2 The Council is a large, complex organisation with hundreds of job types to legislate for. This makes identification of mandatory learning complicated and therefore implementation, recording and reporting challenging.

3.3 The Council requires an understandable, concise, and easy to access system in place to identify mandatory learning for staff when they are new to post and to address their ongoing needs.

3.4 A framework is being created which identifies mandatory learning at three levels. Level one is applied to all staff; level two is applied to each professional area e.g. Social Work (children), Catering, Manager; and level three is specific to role.

3.5 Work is being done with Agilisys to ensure that the build for the new HR system, which is due for implementation in October 2016, will enable pre-population of levels 1 and 2 required learning. Level 3 requirements will be identified in discussion with the line manager and then recorded on the system. (See Appendix one).

3.6 Guidance will be created to assist with identification and recording of level 3 mandatory learning.

3.7 Mandatory learning at level 1 has two products: an induction programme for new employees and a booklet called 'Knowing the Organisation' for current employees.

3.8 The 'Knowing the Organisation' booklet replaces the Key Policy Awareness Checklist. In its interim format (until implementation of the new HR system) it will be a booklet which can be accessed in hard copy and on the Orb. Support will be offered to line managers with the implementation of this. Employees will read the booklet, which contains key information from all essential policies and includes links to full policy documentation.

3.9 Managers will record on the HR system when an employee has read the 'Knowing the Organisation' booklet.

3.10 There will be an interim mandatory programme in place by the end of April 2016. More extensive, sophisticated products will be produced in time for the new Agilisys go-live date in October.

Induction

3.11 The 'Knowing the Organisation' booklet also forms part of the induction programme.

3.12 Council Induction will include:

- A checklist
- A welcome film to be viewed on day 1
- ‘Knowing your Organisation’ booklet
- A set of activities undertaken with line manager (guidance will be provided)
- Review of mandatory learning and plan to undertake
- A brief suite of e-learning
- 0.5 day induction event run every 6-8 weeks which will include an overview of our Vision and business plan, our Service Areas and services we provide to our customers, and our organisational values.

3.13 There will be separate checklists for employees and for new staff who will have responsibility for managing teams.

3.14 There will be an interim induction programme in place by the end of April 2016.

Measures of success

4.1 All employees have a clear understanding as to what mandatory learning is required of them.

4.2 There is a system in place to identify mandatory learning which is accessible and understandable.

4.3 Mandatory learning can be efficiently and effectively recorded and reported.

4.4 The Induction programme is engaging, informative and easy to manage.

4.5 All new staff participate in the induction programme.

4.6 Induction can be efficiently and effectively recorded and reported on.

Financial impact

5.1 Induction and mandatory learning are already financed within Council budgets. The new information will enable more systematic and effective planning of this.

Risk, policy, compliance and governance impact

6.1 The lack of compliance with mandatory learning and induction was sufficient for it to be considered as one of the Council's top 5 risks on the corporate risk register.

6.2 Introduction of the measures and practices highlighted in this report will allow these risks to be managed and reduced within risk appetite.

Equalities impact

7.1 There are no significant equalities impacts arising as a result of the implementation of the recommendations in this report.

Sustainability impact

8.1 The implementation of the recommendations and practices within this report will ensure that new employees are able to better understand their roles on joining the Council and be quickly assimilated into their work.

8.2 Compliance with revised mandatory learning practices will ensure that our people are fit to practice their roles and the Council can have confidence in the skills and abilities of its people to deliver high quality services.

Consultation and engagement

9.1 The project group comprises staff from former Children and Families, Health and Social Care, Services for Communities and Corporate Governance teams and a representative from Health and Safety.

9.2 The work of the group has been monitored on a fortnightly basis at the human Resources and Organisational Development Strategy Group.

9.3 Consultation and engagement has also taken place with the Corporate Leadership Team, and colleagues form Audit, Risk, Information Governance, Localities and Agilisys.

9.4 Consultation on products created will require to be carried out with appropriate groups.

Background reading/external references

None.

Hugh Dunn

Acting Executive Director of Resources

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Links

Coalition pledges	
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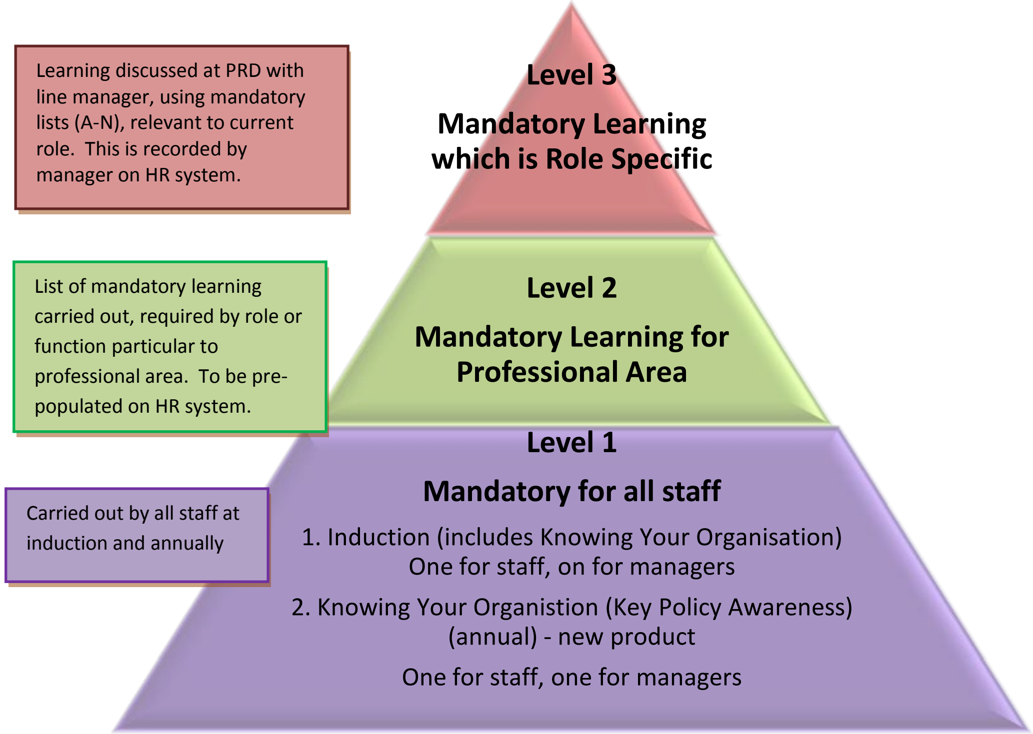
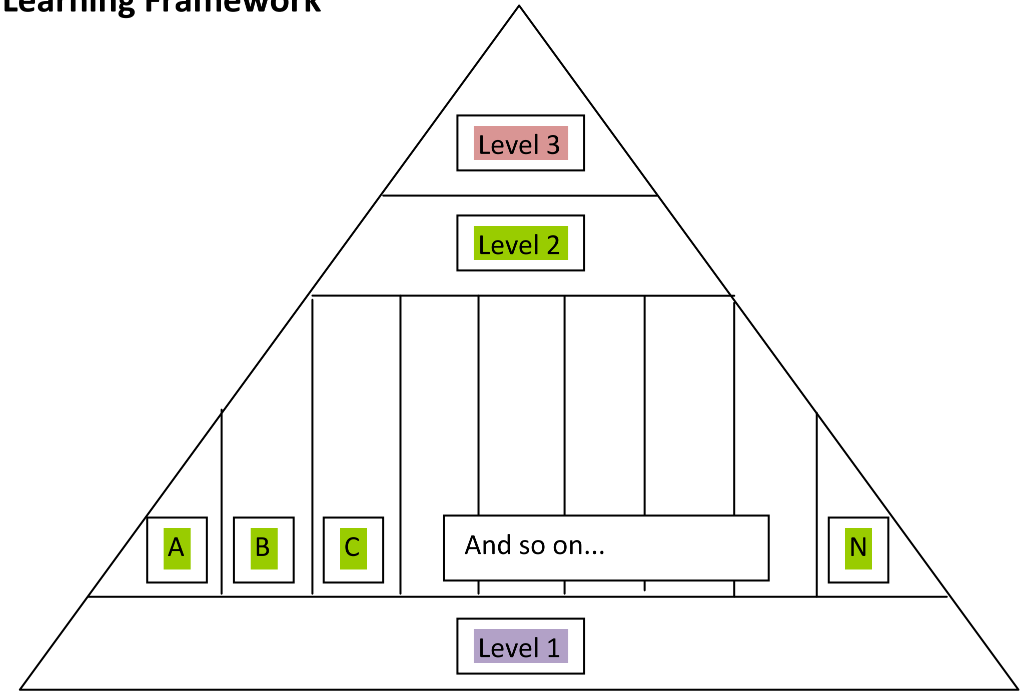
Appendices	Appendix 1 – Induction and Mandatory Learning Framework

Induction and Mandatory Learning Framework





Level 2 (indicative only)													
A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**	**N**
Work with children	**Work with children who are looked after**	**Work with children affected by disabilities**	**Work with vulnerable children**	**Work with the public**	**Social care/work (adults)**	**Social work (children)**	**Planning**	**Legal**	**Catering**	**Office / admin**	**Early Years and childcare**	**Manager People**	**Manager Establish-ment**
1. Child protection Level 2			1. CALM 2. Child Protection Level 3	1. Conflict	1. Hand hygiene 2. Adult support and protection	1. Child Protection Level 3		1. CPD	1. Food hygiene	1. Data protection and information security			

15.3.16

Governance, Risk and Best Value Committee

10am, Thursday, 21 April 2016

Looked After Children: Transformation Programme Progress Report

Item number	7.9
Report number	
Executive/routine	
Wards	All

Executive summary

Expenditure on Looked After Children (LAC) increased by an average of £1.8m a year from 2007 to 2013 as a result of increases in the number of LAC and increased use of purchased foster carers.

Through use of the Early Years Change Fund and initiatives agreed through the Priority Based Planning process the service has developed a transformation programme to shift the balance of care towards more preventative services that reduce the need for children to come into care. This aims to secure better outcomes for children, avoid a continued increase in costs and deliver cashable savings by 2015/16.

This report provides an update on progress to the end of December 2015 against the targets as set out in the original report to Corporate Management Team dated 31 July 2013 and subsequently reported to Governance, Risk and Best Value Committee on 25 September 2013.

Links

Coalition pledges	P1
Council outcomes	CO1-CO6
Single Outcome Agreement	SO3

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The service is on or ahead of target with the overall number of LAC, the number of LAC in foster care and the number placed with kinship carers. The service is behind target on prospective adoptions but this is mainly due to the increased success in placing children with kinship carers.

The service is behind target on the proportion of foster care placements being provided by the Council's own carers and the number of LAC in residential and secure care. Actions are in place to mitigate these issues where possible.

Looked After Children: Transformation Programme Progress Report

Recommendations

1.1 Note the progress made to date against the targets as set out in appendix 1.

1.2 Note the actions in progress to achieve the targets to March 2018.

1.3 Note that the next update will be provided in September 2016.

Background

2.1 The number of LAC increased from 1,228 in 2007 to 1,410 in 2013, an increase of 15% or an average of 30 children a year. The cost of this increase is £1.8m each year, a total increase of £10.8m since 2007. The Council had been budgeting for continued annual increases of £1.8m a year from 2013/14 to 2017/18.

2.2 The growth in LAC was primarily accommodated within fostering with an increase in placements from 386 in 2007 to 601 in 2013, an increase of 56%.

2.3 The majority of this growth was with independent fostering providers with the average cost per placement being £46K pa.

2.4 This trend of increasing numbers of LAC and corresponding increase in purchased fostering was reflected at a national level.

2.5 The Scottish Government, in seeing this trend across Scotland, set up the Early Years Change Fund encouraging each authority to identify funding for a minimum of three years from 2012/13. This was to implement preventative initiatives designed to reduce the continued growth in LAC and shift investment from expensive intervention measures such as purchased fostering, residential care and secure care to early years, pre-school and early intervention support for families that reduce the need for accommodation and improve outcomes for children and young people.

2.6 In February 2012 the Council approved funding of £8.642m from 2012/13 to 2014/15 for the Early Years Change Fund. The Council's Long-Term Financial Plan built in the continuation of £4.038m per year from 2015/16. Services developed through the Early Years Change Fund are being reviewed through the Council's Transformation Programme and proposed move to a locality model.

2.7 Through the Priority Based Planning process the service developed a transformation programme to change the balance of care for LAC to take effect from April 2013 and targets were set to March 2018. The targets reflect the objectives of the Early Years Change Fund to shift investment from expensive care arrangements to early intervention whilst improving the outcomes for LAC.

This includes strengthening universal early years services and providing more support to families to support their children at home.

2.8 LAC can be placed in the following placement types. The direct cost of each placement type is also shown which gives a context to the variance in rates. The transformation programme aims to shift the balance of care towards the lower cost placement types:

Placement type / Client populations	Direct unit cost pa
Looked After at Home	Minimal. Mainly supported through staffing and some preventative services
Kinship care	£7K
Prospective adoption	£7K
In-house foster care	£26K
Purchased foster care	£46K
Young people's centres and close support	£100K - £150K
Residential schools	£100K - £310K
Secure care	£275K

Main report

Balance of Care targets

3.1 Appendix 1 sets out the client populations, the objective, and the target placement numbers as at 31 March for each year 2014 to 2018. The target, actual and variance as at 31 December 2015 is also shown. An indicator is shown to indicate if the performance to date is on or ahead of target (green), behind target (red) or whether performance is not displaying a trend and is therefore uncertain (amber).

3.2 Further information about each target will provide an understanding of the actions to date, any issues that have arisen and actions being taken to ensure future targets are achieved.

Looked After Children (all placements)

3.3 The target is to reduce the rate of annual growth by a third from an average of 30 placements to 20 a year. The performance is ahead of target with a positive variance to target of 48 as at December 2015. This reflects an increase of just 14 placements since March 2013.

3.4 Services designed to stop children needing to become LAC and enabling children to cease being LAC, such as universal Early Years services, parenting support programmes, Prepare, Family Group Decision Making and Family Solutions, will continue to focus on supporting children and families to enable them to not require statutory measures.

Foster Care

Overall placement numbers

3.5 Foster placements had increased at an average of 40 a year from March 2007 to March 2013. The target is for there to be no further growth in this population and in relation to LAC this is on target.

3.6 It should be noted that foster care is also provided on a discretionary basis to former LAC i.e. children who were in a foster placement but are no longer legally classed as Looked After when they reach age 18. As part of throughcare planning for some of these young people a continuation of their foster placement, often whilst attending further education, is agreed. Through the new Continuing Care legislation it will no longer be discretionary to support placements for 18 year olds from April 2017. The Scottish Government will provide additional funding to meet the expected increase in costs as a result of the new legislation.

3.7 In the meantime work is currently taking place to review all placements for former LAC to ensure their continuation is justified under the current legislation.

The City of Edinburgh Council (CEC) Foster Care

3.8 The target is to increase CEC foster placements by 25 a year, with an equivalent reduction in independent placements, and at December 2015 the target would be an increase of 69. The service is behind target by 45 placements although there has been an increase of 24 placements since December 2014 which has been encouraging and is an indication that the actions being taken are resulting in growth.

3.9 Actions taken recently that are expected to further improve this position are:

3.9.1 19 carers from independent agencies are in the process of transferring to become CEC carers. 9 will have been approved by the end of March 2016,

3.9.2 From April – December 2015 there has been a net increase of 12 CEC foster carers. This is a significant increase on the previous year where there was a net decrease of 4 due to an increased number of deregistrations primarily due to carer retirement. On average every carer provides 1.5 placements and therefore placement capacity has increased by approximately 18 places.

3.9.3 A carer capacity exercise was carried out in summer 2013 where approximately 160 existing foster carers were interviewed to discuss their willingness to take additional placements and identify the support required to enable this to happen. This has resulted in 13 carers being prepared to offer up to 19 additional placements if adaptations to their property can be made to increase the number of bedrooms and bathrooms. This is now being progressed using Early Years Change Fund funding and all adaptations are nearing completion.

3.9.4 Improvements in information and processes for new carer enquiries have produced efficiencies in the assessment of carers which may contribute to an increase in approval rates.

Independent Foster Care

3.10 The target is to reduce independent foster placements by 25 a year and at December 2015 the target would be a reduction of 69. The service is behind target by 46 placements. However, there has been a reduction of 16 placements since December 2014 which is encouraging as it demonstrates that the Council is reducing the level of new placements.

3.11 By way of comparison the number of new placements made with independent agencies in the period April – December 2015 is significantly lower than in the previous three years. In 2012 the number was 84 and this has fallen to 39 in 2015, a reduction of over 50%. If this can be maintained over the next 12 months the increase of 24 CEC placements seen in the previous 12 month period may be repeated.

3.12 This position is expected to continue to improve as the impact of the measures detailed in 3.9 above is delivered. The extra capacity should enable the reduction in referrals to independent agencies to be maintained and improve the performance against this target.

3.13 The financial impact of the shortfall in placement reductions for the period April 2013 to March 2015 was covered through the 2015/16 budget process with additional funding of £800K being provided to cover the shortfall in savings on an ongoing basis.

3.14 In January 2015 the service met with all independent agencies to review pricing, particularly in relation to permanent placements and placements for young people aged 18 and over. The service will continue to challenge pricing where appropriate in order to ensure all charges are justified for each placement.

Residential Care

3.15 The target is to reduce residential placements by four a year and at December 2015 the target would be a reduction of 11 since March 2013. The service is behind target by 14 placements.

3.16 The shortfall has been caused by increasing demands for independent residential school placements for children with exceptional needs. Expenditure in 2013/14 was £3.8m but this increased to £4.4m in 2014/15 and is forecast to be approximately £5.4m in 2015/16.

3.17 The service has been successful in reducing demand for internally provided placements through the closure of Wellington School in 2014 and Pentland View in February 2015. Further reductions to the residential estate are budgeted in 2017/18 following the opening of the new Heathervale unit in 2016 and the increased flexibility this will bring. The replacement of Oxgangs Young People's Centre in 2017, to a similar design as Heathervale, will also provide more flexible accommodation for young people and enable the service to manage some of the young people with exceptional needs.

3.18 The service continues to review all internal and purchased residential placements to minimise their use. Independent reviewing officers chair reviews of LAC placements. In the highest spend cases we have put in place a number of practice evaluation sessions which involve senior management scrutiny of ongoing placements and a new exploration of the alternatives. This is leading to some proposed alternative plans for children but in most cases these will need the agreement of a Children's Hearing as the child's place of residence is named in the conditions attached to a statutory supervision order.

3.19 In addition, all placements are undergoing a re-assessment involving relevant social work and education staff to identify opportunities for returning the children to Council provision. This will include utilising the principles of the Social Care (Self-directed Support) (Scotland) Act 2013 where possible, which seeks to engage parents, carers and extended family in developing a support plan that meets their needs and enables the child to be cared for by them, where it is safe and appropriate to do so.

Kinship Care

3.20 The target is to increase kinship placements by 15 a year and at December 2015 the target would be an increase of 41. The service is ahead of target by 21 and has already achieved the 2017/18 target of 24% of LAC placements being with kinship carers.

3.21 Over the past few years kinship support services have been put in place which supports approximately 100 placements a year. The Family Group Decision Making Service has also been expanded, including a pilot on vulnerable babies in South West neighbourhood and reviewing existing residential placements, and taken together the expansion of this support to families is seen to be the main reasons for the increases in kinship placements.

3.22 The vulnerable babies pilot has operated within South West neighbourhood since February 2014. The initial results suggest there has been a positive impact in enabling more babies to either not need to become LAC or be supported with kinship carers. This pilot will continue to be monitored and possible roll outs to other areas of the city will be considered if it is felt it will have a positive effect on the number of babies needing to become LAC and subsequently being placed for adoption.

Prospective adoptions

3.23 The target is to increase the number of prospective adoptions by five in 2013/14 and by 10 from 2014/15. This is to address the gap between the number of children where adoption is seen as being in the best interests of the child and the number being adopted.

3.24 The number of children placed with prospective adopters in 2014/15 reduced by 42% compared to 2013/14. The position has increased during 2015/16 but is still a reduction of 26% on 2013/14 levels. This is a result of the reduction of children being identified where adoption is in their best interests. The work of Family Group Decision Making and Prepare is felt to be instrumental in this as their work aims to support more babies to remain with their parents or with kinship carers.

3.25 It is too early to say if this reduction will be maintained as it depends mainly on the stability of kinship placements being maintained. The service is monitoring the success of kinship placements for babies as this is the population that in the past has been the most likely to require adoption.

Secure Care

3.26 The target is to reduce usage of secure placements from 12 to six by March 2015. At December 2015 the number of secure placements is 13 which is seven short of the target.

3.27 There was a significant increase in the number of secure referrals in 2014/15 with an increase of 85% on 2013/14 levels. Unfortunately this increase has been maintained in 2015/16.

3.28 The service will seek to sell remaining capacity when demand arises but the main target is to keep Edinburgh usage at six beds enabling the eventual reduction in capacity from 12 to six beds.

3.29 Additional measures are being taken to further reduce the need for secure accommodation including enhancing support in residential units, providing intensive family support services and maximising the use of Movement Restriction Conditions (electronic tagging).

3.30 Through analysis of secure admissions it can be seen that the large majority enter from a residential unit. The service is, therefore, preparing to undertake an extensive review of all aspects of Communities and Families services in order to intervene earlier in cases that result in residential care. Utilising the principles of GIRFEC and Self Directed Support the service will seek to support more young people within their families, schools and communities to avoid the need for residential care which in turn should reduce the subsequent demand for secure care. This work will be undertaken during 2016/17 as part of the implementation of the Children and Young People (Scotland) Act 2014 utilising funding provided by the Scottish Government.

Looked After Children at Home

3.31 The target is to increase the proportion of Looked After children supported at home with their parents from 27% to 29% by 2017/18. This reflects a gradual increase over time and the benefits of this are that children remain with their parents and do not require higher cost services such as residential, foster and kinship placements.

3.32 At December 2015 the proportion had reduced to 23% due to a significant increase in the number ceasing to be Looked After at all.

3.33 The service continues to have the long-term aim of increasing the proportion of Looked After at home within the LAC population but at this stage welcomes the reduction in the need for children to be Looked After.

Measures of success

4.1 The programme has the following key measures of success (when compared to the position at March 2013). The position at December 2015 relative to targets is also given. Appendix 1 displays the targets to 2017/18 along with targets and performance as at December 2015.

The target is for:

4.1.1 Annual growth in total LAC to be reduced by 33% from 2013/14 and at December 2015 this is ahead of target.

4.1.2 No net growth in LAC foster placements from 2013/14 to 2017/18 and performance at December 2015 is on target.

4.1.3 The number of LAC foster placements with the City of Edinburgh Council's own carers to increase by 25 a year from 2013/14 to 2017/18, a total increase of 125 placements. Performance at December 2015 is behind target.

4.1.4 The number of foster placements purchased from independent providers to reduce by 25 a year from 2013/14 to 2017/18, a total reduction of 125 placements. Performance at December 2015 is behind target.

4.1.5 The number of residential placements to reduce by 27% by 2017/18. This is a reduction of 24 placements. Performance at December 2015 is behind target.

4.1.6 The number of LAC placed with kinship carers to increase to 24% of all LAC by 2017/18. Performance at December 2015 is ahead of target.

4.1.7 The number of LAC placed for adoption to increase by five in 2013/14 and by 10 a year from 2014/15. Performance at December 2015 is behind target, however, this is due to a reduction in the number of children requiring an adoption placement.

4.1.8 The number of secure placements to reduce by 50% by 2015/16. This is a reduction of six placements and at December 2015 is behind target.

4.1.9 The proportion of children Looked After at home to increase to 29% of the total LAC population by 2017/18 and at December 2015 is behind target.

4.2 Where targets are not being achieved actions are being taken to address this and further details are included in the main report.

4.3 It should also be acknowledged that the aim is to achieve the optimum balance between different care types and in certain instances being behind target is mitigated by other areas being ahead of target.

Financial impact

5.1 The financial impact of the variances to target are shown in the table below.

Client population	Target – December 2015	Actual – December 2015	Variance – December 2015	Average Cost per placement £K	Variance to target – December 2015 £K
CEC foster care	412	367	-45	26	(1.170)
Independent foster care	196	242	46	46	2.116
Residential care	73	87	14	160	2.240
Kinship Care	329	350	21	7	0.147
Prospective adoptions	49	32	-17	7	(0.119)
Secure care	6	13	7	275	1.925
Sub-total					**5.139**
Adjustments					
Additional fostering funding provided to cover 2013/14 and 2014/15 shortfall					(0.800)
Secure care financial target (see note below)			-2	275	(0.550)
Total adjustments					**(1.350)**
TOTAL					**3.789**
Note: the target for secure care is to operate at no more than six placements, however, financially the budget is currently set to enable eight placements to be provided.					

5.2 The service has identified savings from other areas to cover the pressure in 2015/16.

5.3 The service is currently assessing the potential impact of the pressure in 2016/17, taking into account the actions detailed in the main report to address the pressures on independent foster care, residential care and secure care.

5.4 The service is committed to identifying alternative savings to address any residual pressure in 2016/17.

5.5 It should be noted that the success in maintaining overall foster numbers at the March 2013 level, compared to average increases of 40 a year at an annual cost of £1.8m in the previous six years, has delivered an estimated avoided annual cost of approximately £5m a year as at December 2015. This is the additional annual cost the service would have incurred if increases had remained at the 2007 - 2013 level.

Risk, policy, compliance and governance impact

6.1 The top five risks identified are detailed in Appendix 2. The actions detailed in this report seek to mitigate the risks. Where there is a financial impact of a target not being achieved the service is committed to identifying alternative savings.

Equalities impact

7.1 It is anticipated that the overall programme will have a positive impact on outcomes for vulnerable children due to the focus on preventative, neighbourhood and family focused initiatives. A record of Equality and Rights Impact Assessment will be published in accordance with agreed Council processes.

Sustainability impact

8.1 There are no direct sustainability implications arising from this report. A Sustainability and Environmental Impact Assessment will be published in accordance with agreed Council processes.

Consultation and engagement

9.1 Where the transformation initiatives require consultation with the trade unions, public or Scottish Government it will be carried out as necessary.

Background reading/external references

Looked After Children: Transformational Programme Progress Report – Governance, Risk and Best Value Committee 23 September 2015

Early Years Change Fund Progress Update on Year Three – Education, Children and Families Committee 6 October 2015

Implementation of Children and Young People (Scotland) Act 2014 – Education, Children and Families Committee 6 October 2015

Annual Review of Services for Looked After and Accommodated Children- Report to Education, Children and Families Committee 8 December 2015

Alistair Gaw

Acting Director of Communities and Families

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Links

Coalition pledges	P1 – Increase support for vulnerable children, including help for families so that fewer go into care
Council outcomes	CO1 – Our children have the best start in life, are able to make and sustain relationships and are ready to succeed CO2 – Our children and young people are successful learners, confident individuals and responsible citizens making a positive contribution to their communities CO3 – Our children and young people in need, or with a disability, have improved life chances CO4 – Our children and young people are physically and emotionally healthy CO5 – Our children and young people are safe from harm or fear of harm, and do not harm others within their communities CO6 – Our children and young people's outcomes are not undermined by poverty and inequality
Single Outcome Agreement	SO3 – Edinburgh's children and young people enjoy their childhood and fulfil their potential
Appendices	1 LAC Transformation Programme performance reporting as at December 2015 2 LAC Transformation Programme Risk Register

Looked After Children – Balance of Care targets 2013/14 - 2017/18 Appendix 1

			Target at March:					Position as at: December 2015			
Client populations	**Objective**	**Lead Officer(s)**	**2014**	**2015**	**2016**	**2017**	**2018**	**Target**	**Actual**	**Diff.**	**Status**
Looked After Children (covering all sub-sets below)	To reduce the rate of increase for this population to +20 or less for the full year.	Becky Cropper, Team Manager, Family Solutions	1,433	1,456	1,477	1,498	1,519	1,472	1,424	-48	
Foster Care	No growth in overall foster numbers. The net difference for the full year should be 0.	Scott Dunbar, Service Manager, Looked After Accommodated Children Services	608	608	608	608	608	608	609	+1	
CEC foster Care	To increase the number of placements with CEC Carers. The net difference for the full year should be +25 or more.	Scott Dunbar, Service Manager, Looked After Accommodated Children Services	368	393	418	443	468	412	367	-45	
Independent foster care	To reduce the number of placements with Independent Carers. The net difference for the full year should be -25 or more.	Scott Dunbar, Service Manager, Looked After Accommodated Children Services	240	215	190	165	140	196	242	+46	
Residential care	To reduce the number of placements. The net difference for the full year should be -4 or more.	Andy Jeffries, Service Manager for Practice Teams	80	76	72	68	64	73	87	+14	
Kinship care	To increase the percentage to 24% of the overall LAC population. The net difference for the full year should be +15 or more.	Gillian Christian, Team Manager, Family Group Decision Making	303	318	333	348	363	329	350	+21	
Prospective adoptions	To increase the number of placements. The net difference for the full year should be around +5.	Russell Sutherland, Team Manager, Permanence Team	44	49	49	49	49	49	32	-17	
Secure care	To reduce the number of placements from 12 to 6 by 2018.	Carole Murphy, Multisystemic Therapy and Steve Harte, Young Peoples Service	9	6	6	6	6	6	13	+7	
Looked After Children at Home	To increase the percentage to 29% of the overall LAC population. The net difference for the full year should be +10 or more.	Becky Cropper, Team Manager, Family Solutions	389	399	409	419	429	407	333	-74	

Looked After Children Transformation Programme
Risk Register - Top 5 Risks

Risk Reference	Description of risk and implications	Likelihood	Impact	Inherent Risk	Action Plan	Likelihood	Impact	Residual Risk
1	The demand for independent residential school placements continues at current levels. **Implication** - the budgeted savings target of £1.8m a year by 2017/18 is not achieved in full.	8	8	64	Early intervention services within care and education continue to be developed to support children within the Council's own resources. Independent foster providers are approached to discuss the scope of specialist placements being made available for children at risk of residential school. Mandatory referrals to Family Group Decision Making to identify any possible kinship carer opportunities. Further enhanced gatekeeping processes to ensure all options are explored prior to any new approvals. Actively reviewing all current placements to seek to identify alternative options in Edinburgh. The recent Case Evaluation process is expected to return up to 5 placements by August 2016. The principles of Self Directed Support are utilised for children at risk of accelerating to residential care.	5	8	40
2	The demand for residential services does not reduce from existing levels. **Implication** - the budgeted savings target of £1.5m a year by 2017/18 is not achieved in full.	8	8	64	Early intervention services within care and education continue to be developed to support children within less costly forms of care. Mandatory referrals to Family Group Decision Making to identify any possible kinship carer opportunities. Independent foster providers are approached to discuss the scope of specialist placements being made available for children at risk of residential school. The principles of Self Directed Support are utilised for children at risk of accelerating to residential care.	5	8	40
3	Sufficient CEC foster care capacity for the target groups is not achieved. **Implication** - there is insufficient capacity available to place new children requiring a foster placement, therefore, requiring an independent placement to be purchased. The annual value of net savings budgeted is £2.9m by 2017/18 and this would not be achieved in full.	7	8	56	Conduct a full review of foster care recruitment and retention processes. Work with other authorities to reduce the timescals for recruiting foster carers through sharing preparation groups. Continue to actively recruit carers currently with independent agencies. Work with other authorities on the transfer of their placements with independent agencies where the carers can offer further placements to Edinburgh.	5	8	40
4	The demand for secure placements does not reduce to the target level, which is based on the national average for a city of Edinburgh's size of population. **Implication** - the budgeted savings target of £1.0m a year is not achieved in full.	7	7	49	Early intervention services within care and education continue to be developed to support children within less costly forms of care. Actively risk managing cases including piloting the new Missing Persons Protocol with Police Scotland. Enhancing use of MRC's (tags) as an alternative to secure care. The Acting Director of Communities and Families has instructed a strategic review of the use of secure accommodation.	5	7	35
5	There is an insufficient number of existing foster placements with independent agencies ceasing enabling the overall number to reduce. **Implication** - savings are based on 25 placements a year ceasing that are not replaced with new placements. The annual value of net savings budgeted is £2.9m by 2017/18 and this would not be achieved in full.	5	8	40	Existing foster placements are reviewed by practice team social workers on a regular basis to ensure the placement is still necessary for the child. Requests for permanent placements from the independent agencies are scrutinised to ensure they are in the best interests of the child and no suitable alternative to foster care is available. Continue to actively recruit carers currently with independent agencies. Work with other authorities on the transfer of their placements with independent agencies where the carers can offer further placements to Edinburgh.	4	8	32

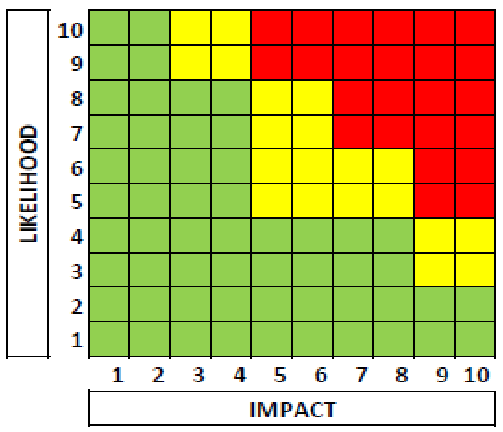
Guidance for Assessing Impact and Likelihood of Risk

Risks are scored using the traffic light system

The impact and likelihood are assessed and multiplied to achieve the risk score

High Risk
Medium Risk
Low Risk

'Likelihood' Scoring			'Impact' Scoring		
		Chance of Occurrence			Effect on Outcomes
1	Rare	Hard to imagine, only in exceptional circumstances	1	Negligible	Minimal effect
2			2		
3	Unlikely	Not expected to occur, unlikely to happen	3	Minor	Minor short term effect
4			4		
5	Possible	May happen, reasonable chance of occuring	5	Moderate	Part failure to achieve outcomes
6			6		
7	Likely	More likely to occur than not	7	Major	Significant failure to achieve obligations
8			8		
9	Almost Certain	Hard to imagine not happening	9	Catastrophic	Unable to fulfil obligations
10			10		



Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

Annual Treasury Strategy 2016-17 - referral from the City of Edinburgh Council

Item number	7.10
Report number	
Wards	All

Executive summary

The City of Edinburgh Council on 10 March 2016 considered a report on the proposed Treasury Management Strategy for the Council for 2016/17 which included an Annual Investment Strategy and Debt Management Strategy. The report was referred to the Governance, Risk and Best Value Committee for scrutiny.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

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Terms of Referral

Annual Treasury Strategy 2016-17

Terms of referral

1.1 The City of Edinburgh Council on 10 March 2016 considered a report on the proposed Treasury Management Strategy for the Council for 2016/17 which included an Annual Investment Strategy and Debt Management Strategy.

1.2 The City of Edinburgh Council agreed:

1) To approve the Treasury Management Strategy for 2016/17.

2) To refer the report to the Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The City of Edinburgh Council has referred the attached report to the Governance, Risk and Best Value Committee for scrutiny.

Background reading / external references

Minute of the City of Edinburgh Council 10 March 2016

Kirsty-Louise Campbell

Interim Head of Strategy and Insight

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

The City of Edinburgh Council

10.00am, Thursday, 10 March 2016

Annual Treasury Strategy 2016/17 - referral report from the Finance and Resources Committee

Item number	8.7
Report number	
Wards	All

Executive summary

The Finance and Resources Committee on 2 February 2016 considered a report that detailed a Treasury Management Strategy for 2016/17. The report has been referred to the City of Edinburgh Council on 10 March 2016 for approval of the Treasury Management Strategy for 2016/17 and to subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

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Terms of Referral

Annual Treasury Strategy 2016/17

Terms of referral

1.1 The Council's Treasury Management activities were carried out in accordance with the Council's Treasury Policy Statement. Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Strategy for the ensuing year.

1.2 The Treasury Management Strategy aimed to ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs; to secure new funding at the lowest cost; and to ensure that surplus funds were invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and to optimise the return on these funds consistent with those risks.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the Treasury Management Strategy for 2016/17.

1.3.2 To refer the report to Council for approval and then subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

For Decision/Action

2.1 The Finance and Resources Committee has referred the report to The City of Edinburgh Council on 10 March 2016 for approval of the Treasury Management Strategy for 2016/17 and to subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

Background reading / external references

Minute of the Finance and Resources Committee, 2 February 2016.

Kirsty-Louise Campbell

Interim Head of Strategy and Insight

Contact: Veronica MacMillan, Committee Clerk

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10.00am, Tuesday 2 February 2016

Annual Treasury Strategy 2016/17

Item number	7.3
Report number	
Executive/routine	
Wards	

Executive summary

The report proposes a Treasury Management strategy for the Council for 2016/17, including an Annual Investment Strategy and a Debt Management strategy.

Links

Coalition pledges	
Council outcomes	
Single Outcome Agreement	

Report

Annual Treasury Strategy 2016/17

Recommendations

1.1 It is recommended that the Committee:

1.1.1 approves the Treasury Management Strategy for 2016/17; and

1.1.2 refers the report to Council for their approval and remit to the Governance, Risk and Best Value Committee for their scrutiny.

Background

2.1 This report sets out a Treasury Management Strategy for 2016/17 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

2.2 The Council's Treasury Management activities are carried out in accordance with the Council's Treasury Policy Statement. Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Strategy for the ensuing year. The Treasury Strategy aims to:

- ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
- secure new funding at the lowest cost; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks.

2.3 Treasury Management is undertaken with regard to CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code. It also adheres to the statutory requirements in Scotland which require this report, including Capital Programme and Prudential Indicators to be approved by the full Council. Appendix 2 gives details of the capital investment programme and prudential indicators which were approved by Council as part of the budget process.

Main report

3.1 Key Points

3.1.1 The key points in the report are that:

- The Council's total capital expenditure is forecast to be £988m between 2015/16 and 2020/21;
- The Council's total underlying need to borrow to finance capital expenditure is forecast to reduce each year to 2020/21;
- From 31 March 2015 to 31 March 2021, the underlying need to borrow is forecast to reduce by £140m from £1.510bn to £1.370bn;
- Over the same period £343m of the Council's external debt is due to mature;
- It is intended to continue to fund the Council's Capital Financing Requirement from temporary investment balances over the next year;
- Investment return is forecast to remain low in absolute terms as no increase in UK Bank Rate is anticipated in 2016/17.

3.2 Capital Expenditure

Overview

3.2.1 This section summarises the Council's anticipated capital expenditure in the period to March 2021 based on the Capital Investment Programme. It also details how that expenditure will be funded.

Total Capital Expenditure (Prudential Indicator 1)

3.2.2 Tables 1 and 2 below show the anticipated expenditure on capital assets for both General Services and the Housing Revenue Account.

Capital Expenditure - General Services	**2014/15 Actual £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Children and Families	16,903	46,877	49,310	6,558	10,019	14,601	393
Corporate Governance	7,582	2,729	18,879	1,028	165	165	165
Economic Development	0	58	0	0	0	0	0
Health and Social Care	4,616	6,328	4,229	114	0	0	0
Services for Communities (SFC)	85,260	76,616	98,942	73,598	30,719	24,201	19,834
SFC - Asset Management Programme	18,657	13,224	24,044	11,035	8,436	19,173	14,000
Other Capital Projects	1,049	259	0	0	0	0	0
Unallocated (indicative 5 year plan 2019-23)	0	0	0	0	0	7,000	7,000
General Services Capital Expenditure	**134,067**	**146,091**	**195,404**	**92,333**	**49,339**	**65,140**	**41,392**
Trams Project as approved in Sept 2011	5,246	0	0	0	0	0	0
Total General Services Capital Expenditure	**139,313**	**146,091**	**195,404**	**92,333**	**49,339**	**65,140**	**41,392**

Table 1 - Capital Expenditure on General Services

Capital Expenditure - Housing Revenue Account	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Total Housing Revenue Account Cap. Ex.	**37,308**	**38,253**	**48,508**	**65,708**	**76,500**	**84,794**	**85,022**

Table 2 - Capital Expenditure on the Housing Revenue Account

Funding Capital Expenditure

3.2.3 Tables 3 and 4 below show how the capital expenditure in Tables 1 and 2 is going to be funded by the Council.

	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
General Services Capital Expenditure	**139,313**	**146,091**	**195,404**	**92,333**	**49,339**	**65,140**	**41,392**
Government Capital Grants	57,675	57,461	38,795	47,921	47,921	41,422	38,000
Cycling, Walking and Safer Streets	762	729	540	0	0	0	
Development Funding	28,512	31,663	29,248	0	0	0	
Trams Funding (Scot Govt grant and 3rd party)	42	0	0	0	0	0	
Total Central Government Grants	**86,991**	**89,853**	**68,583**	**47,921**	**47,921**	**41,422**	**38,000**
Use of Capital Receipts	14,177	12,852	26,575	11,760	1,260	15,503	3,000
Transfer Receipts to Capital Fund for trams	-11,298	-1,000	-8,084	-2,334	-1,500	-1,500	-1,500
Other Capital Contributions	18,469	9,728	3,643	209	0	309	0
Draw down of capital fund - per budget update	0	6,600	0	0	0	0	0
Total Grants & Receipts	**108,339**	**118,033**	**90,717**	**57,556**	**47,681**	**55,734**	**39,500**
GF Cap Ex to be funded	**30,974**	**28,058**	**104,687**	**34,777**	**1,658**	**9,406**	**1,892**

Table 3 - Funding for General Services Capital Expenditure

	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
HRA Cap Ex	**37,308**	**38,253**	**48,508**	**65,708**	**76,500**	**84,794**	**85,022**
Central Government Grants -:	4,259	4,589	736	4,738	2,346	3,861	5,376
Capital Receipts / CFCR / Grants / other conts	13,228	10,360	24,742	30,041	31,677	24,442	14,420
Total Grants & Receipts	**17,487**	**14,949**	**25,478**	**34,779**	**34,023**	**28,303**	**19,796**
HRA Cap Ex to be funded by borrowing	**19,821**	**23,304**	**23,030**	**30,929**	**42,477**	**56,491**	**65,226**

Table 4 - Funding for HRA Capital Expenditure

3.3 Economic and Market Outlook

Overview

3.3.1 Many of the key themes in the UK and global economies are similar to those outlined last year. The UK recovery continues, albeit at a modest rate, the state of the Eurozone economies remain precarious and the global economic outlook is weak.

World Economy

3.3.2 2015 was a challenging year for the world economy. World growth by value (in US Dollar terms), has fallen for five consecutive quarters and by Quarter 3 2015 (the latest available statistic) was 13% lower than a year previously. As shown in Figure 1 below this is the largest fall since the Global Financial Crisis (GFC).

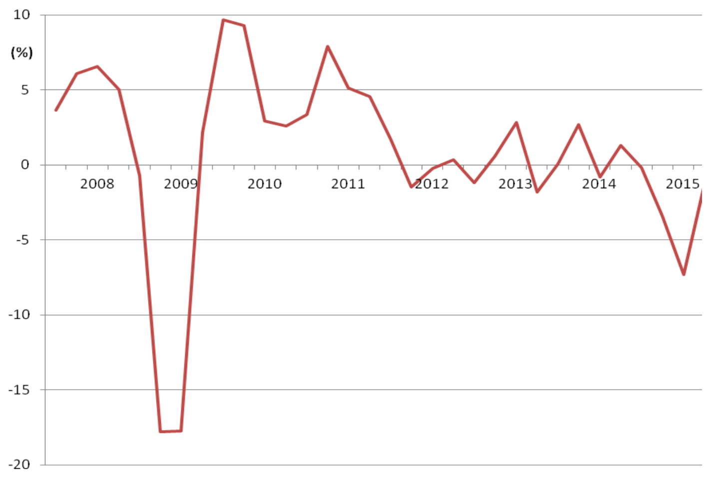

Figure 1 – QonQ Change in World Trade Value in US$

Source: OECD

3.3.3 While the fall is partly due to the strength of the US Dollar and to the fall in commodity prices, there is no doubt that world growth is constrained with Emerging Market economies in particular facing major difficulties.

3.3.4 Figure 2 below shows the Baltic Dry Index (BDI), which measures the rates for chartering the giant ships that transport iron ore, coal and grain. Since it is indicative of the cost of shifting the basic raw materials that are the ingredients of steel, energy and food it is taken as a leading indicator of the state of the world economy.

Figure 2 – Baltic Dry Index

Source: Reuters

3.3.5 While the index is also affected by the oversupply of shipping capacity which means it is an imperfect indicator of the world economy, the drop in the index is clear and can be taken as another indication of the weakness of the world economy.

Inflation Outlook

3.3.6 Figure 3 below shows CPI and RPI since March 2004.

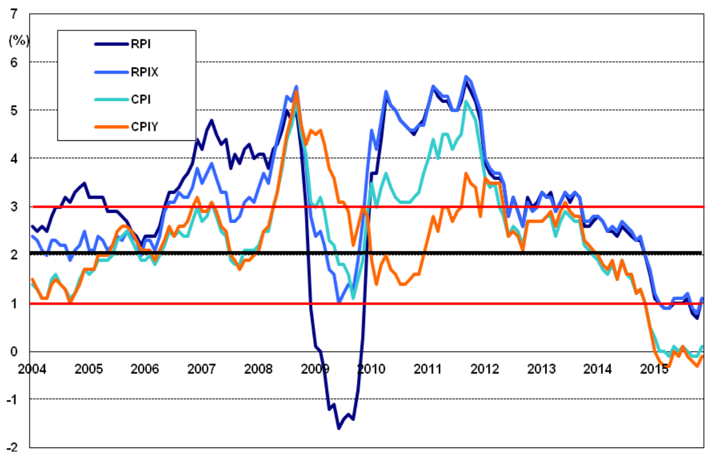

Figure 3 – CPI and RPI

Source: ONS

3.3.7 The Government's preferred measure of inflation, CPI, has remained in a narrow band between -0.1% and 0.1% for all of 2015.

3.3.8 Members were advised last year that there was "likely to be further dis-inflationary pressure as we go through 2015. While it is expected that inflation

(CPI) is likely to turn negative during the first half of 2015, it is anticipated that inflation will revert back to the target range over a two year horizon." However the price of oil (Figure 4 below) has fallen even further than we and most comentators had expected.

Figure 4 – Oil Price

Source: Reuters

3.3.9 Although little of this had fed through in lower domestic energy prices, transport costs alone are substantially reduced. Further, we continue to believe that there is no underlying pressure to core inflation in the UK. Figure 5 below shows the growth in real wages. While this has been positive during 2015, this is more to do with the exceptionally low inflation rate than soar away wages growth. CPI is still expected to increase back to trend, but on a slightly longer timescale.

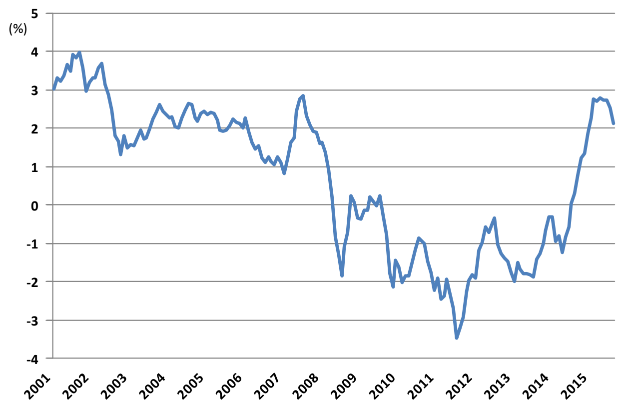

Figure 5 – Growth in Real Wages

Source: ONS

Interest Rate Outlook

3.3.10 The Reuters poll of up to 38 economists, taken 23rd December 2015, shows most economists polled believe that the UK Bank Rate will be at 0.75% by the end of Quarter 2, June 2016. However, for many years, we have consistently maintained a “much lower for much longer” stance on UK Bank Rate, in spite of market sentiment and forecasts, and see no justification for changing this stance at present. There is some pressure from the 0.25% increase in the US Federal Reserve (Fed) Rate and the fact that the Fed is anticipating four 0.25% increases in 2016. However, the reason that the Fed delayed increasing rates in the US from June to September and then to December was the release of poorer than expected economic data. Figure 6 below shows the ‘US Economic Surprises Index’ which shows whether data released was above or below forecasts.

Figure 6 – US Economic Surprises Index

Source: Reuters

3.3.11 The index was heavily in negative territory all year as US payroll and other data came in under expectations and then later in the year the effect of growth in China slowing was felt.

3.3.12 In 2015 UK growth continued to be better than the Eurozone countries and other leading economies. However, Figure 7 below compares the recovery in GDP from start of the 2008 recession with the recovery from the start of the Great Depression in the 1930s. Although the concerted action by central banks around the world averted a deeper recession in 2008, the overall rate of recovery in the UK has been modest, and 30 quarters on from the start of the recession the recovery is significantly weaker than that in the 30s.

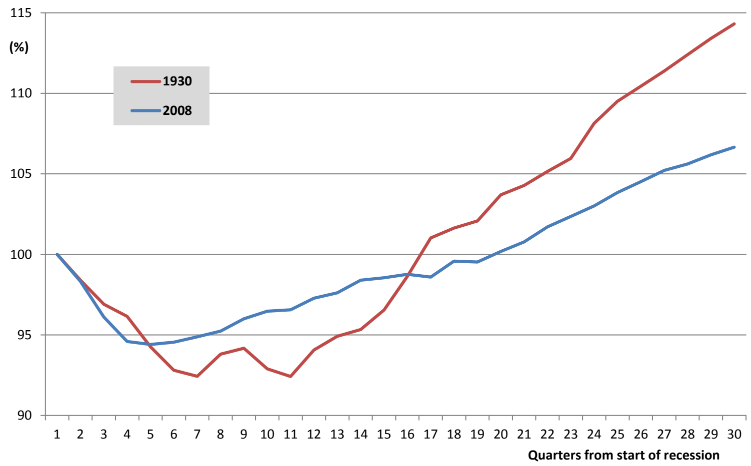

Figure 7 – UK GDP 1930s v 2008/15

Sou rce: ONS

3.3.13 With no substantial pick up in UK inflation, modest UK growth at best, slowing growth in China, on-going issues in the Eurozone, a poor global economic backdrop and rates in the US possibly not increasing as much as is being expected, we see no great justification for increasing UK Bank Rate.

3.3.14 Longer term borrowing rates however are more finely balanced. Longer Gilt Yields are lower than they have been for half a century, having fallen from 15% to around 3%, and some commentators see this as a "Bonds Bubble" which is likely to burst sending interest rates higher. However on a longer term view shown below, the argument could be made that they have simply reverted to a more normal level. With a sluggish global economy, there may well be further 'flights to safety' from riskier asset classes such as equities which would keep yields low. It is difficult to determine how these completing pressures will resolve themselves.

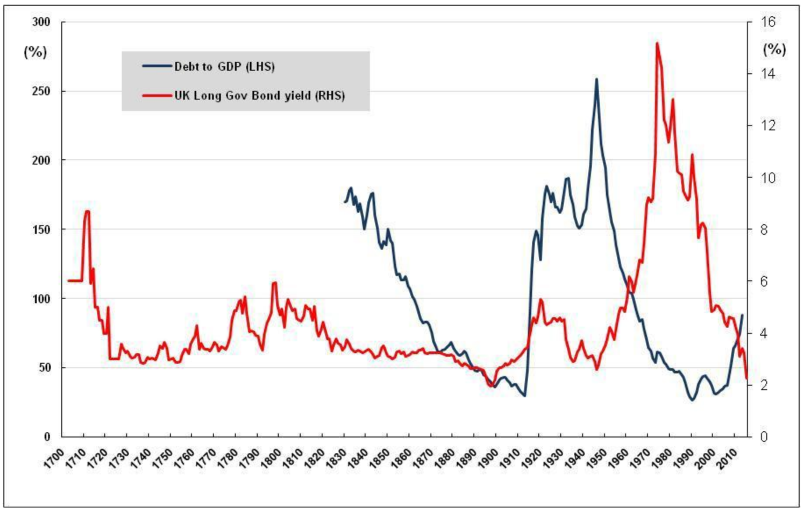

Figure 8 – Three Centuries of Long Gilt Yields

Sou rce: Bank of England / DMO

3.3.15 There is the additional possibility of an early referendum on the UK's membership of the EU. If there were to be polls showing the likelihood of a no vote, it might be anticipated that there would be a sell off in UK Gilts with yields increasing.

3.4 Treasury Management Strategy – Debt

Overview

3.4.1 The overall objectives of the Council's Strategy for Debt Management are to:

- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;
- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule debt to take advantage of interest rates.

Loans Fund Borrowing Requirement

3.4.2 Table 5 below shows the anticipated out-turn for the current year and summarises how much the Council needs to borrow for the following five years, based on the capital investment programme summarised in Tables 1 to 4 above.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Debt b/fd	**1,434,289**	**1,412,998**	**1,367,988**	**1,316,005**	**1,261,650**	**1,256,690**	**1,233,108**
Cumulative Capital Expenditure b/fd	**1,544,437**	**1,510,154**	**1,483,226**	**1,475,344**	**1,453,153**	**1,409,967**	**1,387,149**
Over/underborrowed b/fd	**-110,148**	**-97,156**	**-115,238**	**-159,339**	**-191,503**	**-153,278**	**-154,041**
GF Capital financed by borrowing (Table 3)	**30,974**	**28,058**	**104,687**	**34,777**	**1,658**	**9,406**	**1,892**
HRA Capital financed by borrowing (Table 4)	**19,821**	**23,304**	**23,030**	**30,929**	**42,477**	**56,491**	**65,226**
less scheduled repayments by GF	-60,585	-57,710	-113,526	-62,341	-60,263	-59,923	-62,680
less scheduled repayments by HRA	-21,129	-17,328	-19,112	-21,055	-23,348	-26,022	-27,784
less scheduled repayments by Former Joint Boards	-3,364	-3,252	-2,962	-2,481	-1,575	-517	-544
Underlying Need to Borrow	**-34,283**	**-26,928**	**-7,883**	**-20,171**	**-41,051**	**-20,565**	**-23,890**
plus total maturing debt	27,782	45,010	51,984	54,355	54,960	53,581	55,567
Total Borrowing Requirement	**-6,501**	**18,082**	**44,101**	**34,184**	**13,909**	**33,016**	**31,677**
Planned PWLB or short borrowing for year	0	0	0	0	50,000	30,000	30,000
Actual Other Borrowing	6,491	0	0	0	0	0	0
Debt at end of the year	**1,412,998**	**1,367,988**	**1,316,005**	**1,261,650**	**1,256,690**	**1,233,108**	**1,207,542**
Cumulative Capital Expenditure	**1,510,154**	**1,483,226**	**1,475,344**	**1,455,173**	**1,414,121**	**1,393,556**	**1,369,666**
Cumulative Over/under Borrowed	**-97,156**	**-115,238**	**-159,339**	**-193,523**	**-157,432**	**-160,448**	**-162,125**

Table 5 - Capital Funding v. External Debt

3.4.3 In producing the estimates in Table 5, the following assumptions have been made:

- Capital receipts are received as per the most recent forecast and used to repay prudential borrowing;
- The Council's underlying temporary cash balance representing earmarked reserves, allocated funds and other items on the Council's balance sheet is in the region of £150m in the short term.

3.4.4 The Council's last borrowing from the PWLB was undertaken in mid-December 2012. Since then, the Council's strategy has been to reduce its temporary investment balances to fund capital expenditure in the short term. Figure 9 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

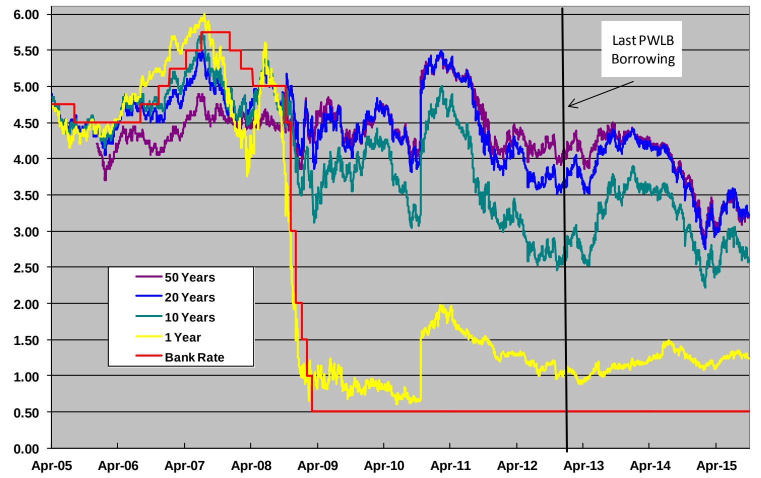

Figure 9 – PWLB Borrowing Rates

Sou rce: PWLB

3.4.5 As markets have realised that lower interest rates might be here to stay, the Gilts yield curve has flattened considerably. In the graph above this means that the difference between the one year borrowing rate in yellow and the 50 year borrowing rate in dark purple reduced significantly between 2011 and 2013 and then even further between 2011 and the current date. The strategy over the last three years to fund capital expenditure from reducing investments has proven successful as not only has the funding achieved significant savings but longer borrowing rates are now lower if the Council chose to lock in longer term borrowing.

3.4.6 On the forecasts in Table 5, the Council's need to borrow reduces in each year. Thus if the Council's external borrowing was exactly matching the need to borrow, the Council's external borrowing would fall year on year. However, at the end of 2014/15 £97m of the need to borrow was being funded by reducing the Council's temporary investments. In addition, there is around £50m of debt maturing each year, some of which was borrowed at much higher interest rates in the 1990s.

3.4.7 It is proposed to continue to fund the borrowing requirement by reducing investments further. However, this will be reviewed in light of market conditions as the competing effects of the weak world economic conditions and the potential EU referendum feed through into UK sovereign debt yields.

3.4.8 The reduction in Loans Charges relating to PWLB debt which is maturing at higher interest rates has already been included within the Council's long term financial plan. In addition to a £1.2m saving in the current financial year, a further £5.2m saving in Loans Charges will be generated in 2016/17 based on the current strategy.

3.4.9 It is not intended to borrow in advance of need during the year. Appendix 1 lists the maturity of the Council's debt as of February 2015.

3.5 Treasury Management Strategy – Investment of Surplus Funds

3.5.1 In line with CIPFA's Code of Practice, the overall objectives of the Council's Strategy for Investment Management are to:

- ensure the security of funds invested;
- ensure that the Council has sufficient liquid funds to cover its expenditure commitments; and
- pursue optimum investment return within the above two objectives.

3.5.2 The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure 10 below shows the distribution of Cash Fund deposits since inception.

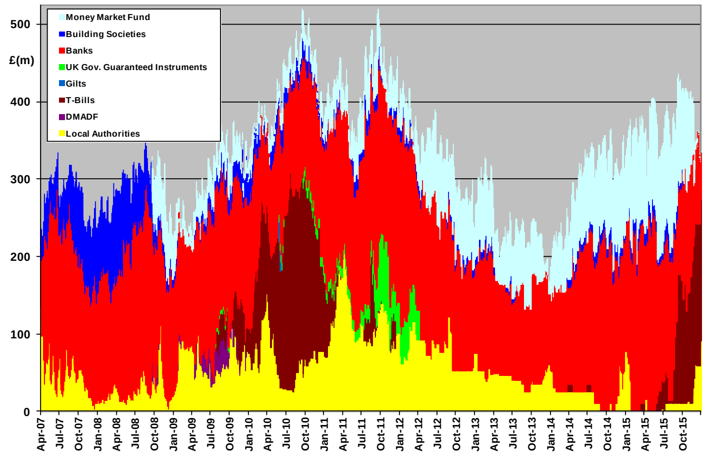

Figure 10 – Counterparty Analysis of Cash Fund Monies

3.5.3 As part of the 2015/16 Investment Strategy, the Cash Fund Treasury Policy Statement was amended to allow use of instruments such as Covered Bonds and FRN's. However, during the year there were better opportunities to invest in UK Treasury Bills. In early July the successful rates at the UK Treasury Bill auctions increased significantly which gave the opportunity to invest in Treasury Bills at a higher rate than we were achieving on the Fund's call accounts. This gave both a better rate of return and reduced counterparty risk. At the same time as the rates on offer increased, the Council's Capital Budget monitoring for Period 3 showed that around £60m had been re-phased from 2015/16 to the following financial year which meant the Council projected a higher cash balance for the rest of the financial year. This allowed the cash to be placed longer, gaining the 6 month Treasury Bill return. Figure 11 below shows the lowest and highest accepted yields in the Treasury Bill auctions since 2010.

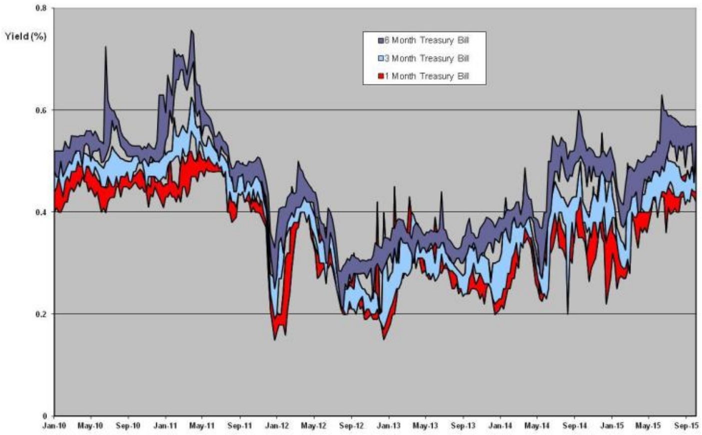

Figure 11 – Treasury Bill Yields since 2010

Sou rce: DMO

3.5.4 This shows how much the 6 month yield (in dark blue) has risen during 2015, although the return is still very low in absolute terms.

3.5.5 It is intended to continue the current investment strategy centred around the security of the investments, taking advantage of longer rates where liquidity allows. The criteria for approved financial organisations for investment in the CEC Treasury Policy Statement have been simplified in light of technical changes made by the Ratings Agencies. Investment will continue to be made via the Cash Fund arrangement and there are no changes to the investment instruments or counterparty limits in the Cash Fund Treasury Policy Statement.

Measures of success

4.1 The success of the Treasury Section can be measured by the out-performance of the Treasury Cash Fund against its benchmark and managing the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

Financial impact

5.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects. Provision for the revenue implications arising from this report have already been included in the Council's long term financial plan.

5.2 The Treasury Cash Fund has generated significant additional income for the Council.

Risk, policy, compliance and governance impact

6.1 The changes to the Treasury Management Policy Statement and strategy are designed to manage and mitigate the risk to which the Council is exposed.

Equalities impact

7.1 There are no adverse equality impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 Not applicable.

Background reading / external references

Capital Investment Programme 2016/17 to 2023/24

http://www.edinburgh.gov.uk/download/meetings/id/49400/item_710_-_capital_investment_programme-plan_2016-17_to_2023-24

Hugh Dunn

Acting Executive Director of Resources

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Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council outcomes	C025 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	Appendix 1 – Maturing Debt Profile as at 31 December 2015

Appendix 2 – Prudential Indicators

Appendix 3 – Treasury Management Policy Statement – The City of Edinburgh Council

Appendix 4 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1

Maturing Debt Profile – February 2015

Market Debt

START DATE	TYPE	MATURITY DATE	PRINCIPAL	INTEREST RATE %	ANNUAL INTEREST
30/03/1992	M	30/03/2017	1,000,000.00	10.25	102,500.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
12/11/1998	M	13/11/2028	3,000,000.00	4.75	142,500.00
15/12/2003	M	15/12/2053	10,000,000.00	5.25	525,000.00
18/02/2004	M	18/02/2054	10,000,000.00	4.54	454,000.00
28/04/2005	M	28/04/2055	12,900,000.00	4.75	612,750.00
25/02/2011	M	25/02/2060	15,000,000.00	7.126	1,068,900.00
25/02/2011	M	25/02/2060	10,000,000.00	7.126	712,600.00
26/02/2010	M	26/02/2060	5,000,000.00	7.085	354,250.00
26/02/2010	M	26/02/2060	10,000,000.00	6.993	699,300.00
30/06/2005	M	30/06/2065	5,000,000.00	4.4	220,000.00
01/07/2005	M	01/07/2065	10,000,000.00	3.86	386,000.00
07/07/2005	M	07/07/2065	5,000,000.00	4.4	220,000.00
24/08/2005	M	24/08/2065	5,000,000.00	4.4	220,000.00
07/09/2005	M	07/09/2065	10,000,000.00	4.99	499,000.00
13/09/2005	M	14/09/2065	5,000,000.00	3.95	197,500.00
03/10/2005	M	05/10/2065	5,000,000.00	4.375	218,750.00
21/12/2005	M	21/12/2065	5,000,000.00	4.99	249,500.00
23/12/2005	M	23/12/2065	10,000,000.00	4.75	475,000.00
28/12/2005	M	24/12/2065	12,500,000.00	4.99	623,750.00
06/03/2006	M	04/03/2066	5,000,000.00	4.625	231,250.00
14/03/2006	M	15/03/2066	15,000,000.00	5	750,000.00
17/03/2006	M	17/03/2066	10,000,000.00	5.25	525,000.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
07/04/2006	M	07/04/2066	10,000,000.00	4.75	475,000.00
05/06/2006	M	07/06/2066	20,000,000.00	5.25	1,050,000.00
05/06/2006	M	07/06/2066	16,500,000.00	5.25	866,250.00
18/08/2006	M	18/08/2066	10,000,000.00	5.25	525,000.00
01/02/2008	M	01/02/2078	10,000,000.00	3.95	395,000.00
			276,900,000.00		14,358,800.00

PWLB Debt

START DATE	TYPE	MATURITY DATE	PRINCIPAL	INTEREST RATE %	ANNUAL INTEREST
06/11/1990	P	25/03/2016	10,000,000.00	11.375	1,137,500.00
17/05/1991	P	25/03/2016	10,000,000.00	11	1,100,000.00
13/10/2009	P	13/04/2016	5,000,000.00	2.95	147,500.00
23/04/2009	P	23/04/2016	5,000,000.00	2.96	148,000.00
17/01/1991	P	15/05/2016	15,000,000.00	11.25	1,687,500.00
09/06/2009	P	09/06/2016	5,000,000.00	3.37	168,500.00
27/09/1991	P	25/09/2016	2,736,307.00	10.5	287,312.24
15/08/1991	P	15/11/2016	10,000,000.00	10.875	1,087,500.00
10/12/2008	P	10/12/2016	5,000,000.00	3.61	180,500.00
02/12/2011	P	02/06/2017	5,000,000.00	2.28	114,000.00
27/03/1992	P	25/09/2017	10,000,000.00	10.625	1,062,500.00
09/10/2008	P	09/10/2017	5,000,000.00	4.39	219,500.00
03/04/1992	P	25/03/2018	30,000,000.00	10.875	3,262,500.00
23/04/2009	P	23/04/2018	15,000,000.00	3.24	486,000.00
17/09/1992	P	15/05/2018	8,496,500.00	9.75	828,408.75
09/06/2009	P	09/06/2018	5,000,000.00	3.75	187,500.00
17/09/1993	P	15/11/2018	5,000,000.00	7.875	393,750.00
23/03/1994	P	15/11/2018	5,000,000.00	8	400,000.00
14/03/1994	P	11/03/2019	2,997,451.21	7.625	228,555.65
18/10/1993	P	25/03/2019	5,000,000.00	7.875	393,750.00
30/03/2009	P	30/03/2019	5,000,000.00	3.46	173,000.00
21/04/2009	P	21/04/2019	10,000,000.00	3.4	340,000.00
23/04/2009	P	23/04/2019	5,000,000.00	3.38	169,000.00
12/11/2008	P	12/11/2019	2,071,695.24	3.96	82,039.13
23/03/1994	P	15/11/2019	5,000,000.00	8	400,000.00
07/12/1994	P	15/11/2019	10,000,000.00	8.625	862,500.00
01/12/2008	P	01/12/2019	2,051,804.91	3.65	74,890.88
01/12/2009	P	01/12/2019	5,000,000.00	3.77	188,500.00
14/12/2009	P	14/12/2019	10,000,000.00	3.91	391,000.00
15/02/1995	P	25/03/2020	5,000,000.00	8.625	431,250.00
21/04/2009	P	21/04/2020	10,000,000.00	3.54	354,000.00
12/05/2009	P	12/05/2020	10,000,000.00	3.96	396,000.00
21/10/1994	P	15/05/2020	5,000,000.00	8.625	431,250.00
07/12/1994	P	15/05/2020	5,000,000.00	8.625	431,250.00
21/11/2011	P	21/05/2020	15,000,000.00	2.94	441,000.00
16/08/1995	P	03/08/2020	2,997,451.21	8.375	251,036.54
09/12/1994	P	15/11/2020	5,000,000.00	8.625	431,250.00
10/05/2010	P	10/05/2021	2,710,314.88	3.09	83,748.73
21/10/1994	P	15/05/2021	10,000,000.00	8.625	862,500.00
10/03/1995	P	15/05/2021	11,900,000.00	8.75	1,041,250.00
12/06/1995	P	15/05/2021	10,000,000.00	8	800,000.00
02/06/2010	P	02/06/2021	5,000,000.00	3.89	194,500.00
16/08/1994	P	03/08/2021	2,997,451.21	8.5	254,783.35
START		MATURITY		INTEREST	ANNUAL

DATE	TYPE	DATE	PRINCIPAL	RATE %	INTEREST
28/04/1994	P	25/09/2021	5,000,000.00	8.125	406,250.00
23/04/2009	P	23/04/2022	5,000,000.00	3.76	188,000.00
12/06/1995	P	15/05/2022	10,200,000.00	8	816,000.00
14/06/2010	P	14/06/2022	10,000,000.00	3.95	395,000.00
31/03/1995	P	25/09/2022	6,206,000.00	8.625	535,267.50
16/02/1995	P	03/02/2023	2,997,451.21	8.625	258,530.17
24/04/1995	P	25/03/2023	10,000,000.00	8.5	850,000.00
05/12/1995	P	15/05/2023	5,200,000.00	8	416,000.00
20/09/1993	P	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	P	14/09/2023	584,502.98	7.875	46,029.61
08/05/1996	P	25/09/2023	10,000,000.00	8.375	837,500.00
13/10/2009	P	13/10/2023	5,000,000.00	3.87	193,500.00
05/12/1995	P	15/11/2023	10,000,000.00	8	800,000.00
10/05/2010	P	10/05/2024	10,000,000.00	4.32	432,000.00
28/09/1995	P	28/09/2024	2,895,506.10	8.25	238,879.25
14/05/2012	P	14/11/2024	10,000,000.00	3.36	336,000.00
14/12/2009	P	14/12/2024	6,637,268.64	3.66	242,924.03
17/10/1996	P	25/03/2025	10,000,000.00	7.875	787,500.00
10/05/2010	P	10/05/2025	5,000,000.00	4.37	218,500.00
16/11/2012	P	16/05/2025	20,000,000.00	2.88	576,000.00
13/02/1997	P	18/05/2025	10,000,000.00	7.375	737,500.00
20/02/1997	P	15/11/2025	20,000,000.00	7.375	1,475,000.00
01/12/2009	P	01/12/2025	10,358,828.33	3.64	377,061.35
21/12/1995	P	21/12/2025	2,397,960.97	7.875	188,839.43
21/05/1997	P	15/05/2026	10,000,000.00	7.125	712,500.00
28/05/1997	P	15/05/2026	10,000,000.00	7.25	725,000.00
29/08/1997	P	15/11/2026	5,000,000.00	7	350,000.00
24/06/1997	P	15/11/2026	5,328,077.00	7.125	379,625.49
07/08/1997	P	15/11/2026	15,000,000.00	6.875	1,031,250.00
13/10/1997	P	25/03/2027	10,000,000.00	6.375	637,500.00
22/10/1997	P	25/03/2027	5,000,000.00	6.5	325,000.00
13/11/1997	P	15/05/2027	3,649,966.00	6.5	237,247.79
17/11/1997	P	15/05/2027	5,000,000.00	6.5	325,000.00
13/12/2012	P	13/06/2027	20,000,000.00	3.18	636,000.00
12/03/1998	P	15/11/2027	8,677,693.00	5.875	509,814.46
06/09/2010	P	06/09/2028	10,000,000.00	3.85	385,000.00
14/07/2011	P	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/1950	P	03/03/2030	3,665.36	3	109.96
14/07/2011	P	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	P	15/05/2031	3,632.59	3	108.98
06/09/2010	P	06/09/2031	20,000,000.00	3.95	790,000.00
15/12/2011	P	15/06/2032	10,000,000.00	3.98	398,000.00
15/09/2011	P	15/09/2036	10,000,000.00	4.47	447,000.00
22/09/2011	P	22/09/2036	10,000,000.00	4.49	449,000.00
START		MATURITY		INTEREST	ANNUAL
DATE	TYPE	DATE	PRINCIPAL	RATE %	INTEREST

10/12/2007	P	10/12/2037	10,000,000.00	4.49	449,000.00
08/09/2011	P	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	P	15/09/2039	10,000,000.00	4.52	452,000.00
06/10/2011	P	06/10/2043	20,000,000.00	4.35	870,000.00
09/08/2011	P	09/02/2046	20,000,000.00	4.8	960,000.00
23/01/2006	P	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	P	23/07/2046	10,000,000.00	3.7	370,000.00
19/05/2006	P	19/11/2046	10,000,000.00	4.25	425,000.00
07/01/2008	P	07/01/2048	5,000,000.00	4.4	220,000.00
27/01/2006	P	27/07/2051	1,250,000.00	3.7	46,250.00
16/01/2007	P	16/07/2052	40,000,000.00	4.25	1,700,000.00
30/01/2007	P	30/07/2052	10,000,000.00	4.35	435,000.00
13/02/2007	P	13/08/2052	20,000,000.00	4.35	870,000.00
20/02/2007	P	20/08/2052	70,000,000.00	4.35	3,045,000.00
22/02/2007	P	22/08/2052	50,000,000.00	4.35	2,175,000.00
08/03/2007	P	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	P	30/11/2052	10,000,000.00	4.6	460,000.00
11/06/2007	P	11/12/2052	15,000,000.00	4.7	705,000.00
12/06/2007	P	12/12/2052	25,000,000.00	4.75	1,187,500.00
05/07/2007	P	05/01/2053	12,000,000.00	4.8	576,000.00
25/07/2007	P	25/01/2053	5,000,000.00	4.65	232,500.00
10/08/2007	P	10/02/2053	5,000,000.00	4.55	227,500.00
24/08/2007	P	24/02/2053	7,500,000.00	4.5	337,500.00
13/09/2007	P	13/03/2053	5,000,000.00	4.5	225,000.00
12/10/2007	P	12/04/2053	5,000,000.00	4.6	230,000.00
05/11/2007	P	05/05/2057	5,000,000.00	4.6	230,000.00
15/08/2008	P	15/02/2058	5,000,000.00	4.39	219,500.00
02/12/2011	P	02/12/2061	5,000,000.00	3.98	199,000.00
			1,092,846,979.05		61,411,262.57

SALIX Debt

START DATE	TYPE	MATURITY DATE	PRINCIPAL	INTEREST RATE %	ANNUAL INTEREST
07/01/2015	Z	01/09/2021	473,742.84	0	0
31/03/2015	Z	01/04/2023	1,352,173.05	0	0
22/09/2015	Z	01/10/2023	351,679.50	0	0
			2,177,595.39		**0**

Appendix 2

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2014/15 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	---------- Capital Expenditure General Services ----------						
	2014/15 Actual £000	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Children and Families	16,903	46,877	49,310	6,558	10,019	14,601	393
Corporate Governance	7,582	2,729	18,879	1,028	165	165	165
Economic Development	0	58	0	0	0	0	0
Health and Social Care	4,616	6,328	4,229	114	0	0	0
Services for Communities (SFC)	85,260	76,616	98,942	73,598	30,719	24,201	19,834
SFC - Asset Management Programme	18,657	13,224	24,044	11,035	8,436	19,173	14,000
Other Capital Projects	1,049	259	0	0	0	0	0
Unallocated - indicative 5 year plan 2019-2023 funding	0	0	0	0	0	7,000	7,000
Sub Total General Services Capital Expenditure	**134,067**	**146,091**	**195,404**	**92,333**	**49,339**	**65,140**	**41,392**
Trams Project as approved by Council in Sept 2011 (not detailed in CIP)	5,246	0	0	0	0	0	0
Total General Services Capital Expenditure	**139,313**	**146,091**	**195,404**	**92,333**	**49,339**	**65,140**	**41,392**

Note that the 2016-2021 CIP includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

	---------- Capital Expenditure Housing Revenue Account ----------						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000
Housing Revenue Account	37,308	38,253	48,508	65,708	76,500	84,794	85,022

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2014/15 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	11.60	12.03	11.98	11.95	11.67	11.56	N/A
HRA	36.01	35.40	36.64	39.33	40.73	42.49	44.60

Note: Figures for 2017/18 onwards are indicative as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan that ends to 2019/20. HRA figures are based on the current business plan.

The estimates of financing costs include current commitments and the proposals in this budget.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31st March 2015 are:

	----- Capital Financing Requirement -----						
	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Services	1,358	1,318	1,298	1,260	1,192	1,133	1,064
HRA	368	374	378	388	407	437	475

he capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Gross Debt and the Capital Financing Requirement

	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Gross Debt	1,629	1,576	1,516	1,454	1,441	1,410	1,377
Capital Financing requirements	1,726	1,692	1,676	1,648	1,599	1,571	1,539
(Over) / under limit by:	97	115	159	194	158	161	162

The Council's Capital Financing Requirement (CFR) is projected to reduce by £34m during 2015/16 as repayments for previous capital advances are higher than advances for in year expenditure. At 31/03/15, the authority was under borrowed by £97m. Current projections suggest that the authority will be under borrowed by approximately £115m at 31/03/16, although this may vary in light of actual capital expenditure and market conditions. This movement is a result of the reduction in CFR, partially offset by maturing external debt.

As demonstrated above, the authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This view takes into account current commitments, existing plans, the repayment of the outstanding capital advance on the EICC - additional function space project following future receipt settlement, assumptions around cash balances and the proposals in this budget.

Indicator 4 – Authorised Limit for External Debt

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. Previously, the definition of long term liabilities was used to include funding required in respect of finance leases and PFI assets. In light of proposed changes to Financing Regulations which are likely to come into force from 1 April 2016, the definition of 'credit arrangements' has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered rather than solely long term liabilities as before. In respect of its external debt, it is recommended that Council approves the following authorised limits for its total external debt gross of investments for the next five financial years. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change:

Authorised Limit for External Debt

	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
Borrowing	1,591	1,617	1,631	1,559	1,508
Credit Arrangements	227	216	205	196	188
	1,818	1,833	1,836	1,755	1,695

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 – Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council is also asked to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change:

Operational Boundary for External Debt

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	1,491	1,487	1,521	1,479	1,457
Credit Arrangements	227	216	205	196	188
	1,718	1,703	1,726	1,675	1,645

The Council's actual external debt at 31st March 2015 was £1,430.711m, comprising borrowing (including sums repayable within 12 months). Of this sum, £21.454m relates to borrowing carried out by the Council on behalf of the former Police and Fire Joint Boards.

In taking its decisions on this budget, the Council is asked to note that the estimate of capital expenditure determined for 2015/16 (see paragraph 1 above) will be the statutory limit determined under section 35(1) of the Local Government in Scotland Act 2003.

Indicator 6 – Impact on Council Tax and House Rents

The estimate of the incremental impact of capital investment decisions proposed in this budget, together with changes in projected interest rates, over and above capital investment decisions that have previously been taken by the Council are:

a) for the band “D” Council Tax

2016/17	2017/18	2018/19	2019/20	2020/21
£	£	£	£	£
2.46	9.19	13.69	18.05	N/A

b) for average weekly housing rents

2016/17	2017/18	2018/19	2019/20	2020/21
£	£	£	£	£
-0.19	-0.68	-0.50	0.55	3.50

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to the Limited Liability Partnerships (LLPs) at agreed periods in the future. As such, there is no cost to the Council in relation to this element of borrowing and therefore it has been omitted in calculating the incremental impact of capital investment decisions.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

-affordability, e.g., implications for Council Tax / House Rents;
-prudence and sustainability, e.g., implications for external borrowing;
-value for money, e.g., option appraisal;
-stewardship of assets, e.g., asset management planning;
-service objectives, e.g., strategic planning for the authority;
-practicality, e.g., achievability of the forward plan.

A key measure of affordability is the incremental impact on the Council Tax / rents, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax / rents.

Indicators included in Treasury Management Strategy

The Council's treasury management strategy and annual plan for 2016/17 will include the following:

- The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services;

- It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sums;

-It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 of 75% of its net outstanding principal sums;

-This means that the Acting Executive Director of Resources / Head of Finance will manage fixed interest rate exposures within the range 25% to 100% and variable interest rate exposures within the range 0% to 75%. This reflects the need for a high level of liquidity to assist in managing counterparty exposure in the current market environment;

-It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit	**Lower Limit**
	%	**%**
under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	20

The maximum total principal sum which may be invested with a maturity of up to 3 years is £100m.

In relation to Gross and Net Debt, the Council will continue its current practice of monitoring throughout the year that the projected Gross Debt position for the financial year does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Appendix 3

Treasury Management Policy Statement – The City of Edinburgh Council

The City of Edinburgh Council

Treasury Management Policy Statement

Summary

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. As part of the adoption of that code, the Council agreed to create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

This document outlines the Council's Treasury Management Policy Statement which provides a framework for the Council's treasury management activities. Any reference in the Treasury Policy Statement to the Chief Financial Officer should be taken to be any other officer to whom the Chief Financial Officer has delegated his powers.

Approved Activities

The Council defines its treasury management activities as:

> "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

Subject to any legal restrictions, this definition covers the following activities:

- arranging, administering and managing all capital financing transactions
- approving, arranging and administering all borrowing on behalf of the Council
- cash flow management
- investment of surplus funds
- ensuring adequate banking facilities are in place, negotiating bank charges, and ensuring the optimal use by the Council of banking and associated facilities and services

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Strategy

The treasury management strategy for the cash fund is to:

- Secure both capital and revenue funding at the lowest cost in the medium term; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Approved Sources of Finance

Finance will only be raised in accordance with legislation and within this limit the Council has a number of approved methods and sources of raising capital finance. No other instrument other than those listed below may be used

- Bank Overdraft
- Temporary Loans
- Loans from the Public Works Loan Board and other government bodies
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (such as Capital Receipts, capital income from third parties and Revenue Balances)
- Commercial Paper
- Medium Term Notes
- Finance and Operating Leases
- Deferred Purchase Covenant Agreements
- Government and European Community Capital Grants
- Lottery Monies
- Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Chief Financial Officer will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

However small operational balances will need to be retained with the Council's bankers, and in other cases – such as devolved schools – relatively small investment balances may be operated locally. Some allowance for temporary deposits has therefore been made.

In addition, the Council has some non-cash investment types and these are also included in the Policy Statement.

The Head of Finance may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) Money Market Funds

(c) Debt Management Office's Debt Management Agency Deposit Facility

(d) Investment Properties

(e) Loans to Other Organisations

(f) Investment in share capital of Council Companies and Joint Ventures

(g) Loans to / investment in the Loan Stock of Council Companies

(h) Investment in Shared Equity Housing Schemes

(i) Investment in the Subordinated Debt of projects delivered via the "HubCo" model

Approved Organisations for Investment

The approved counterparty limits are as follows:

(a) *The Council's bankers with no limit.*

(b) *DMO's DMADF with no limit.*

(c) *AAA Money Market Funds with no limit.*

(d) *financial institutions on the Bank of England's authorised list* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *up to a maximum of £10 million per institution*

(e) *building societies* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *up to a maximum of £5 million per institution.*

(f) *Subordinated debt of projects delivered via "HubCo" model up to a maximum of £1 million.*

In addition, there is no explicit limit at present for the non-cash investment types. However, it is anticipated that each specific investment of these types would be reported individually to Council and a full list of them will be contained in the Treasury Annual Report.

The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is retained by the Council.

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the Chief Financial Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Governance, Risk and Best Value Committee to be responsible for the ensuring effective scrutiny of the treasury management strategy and policies.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Head of Finance will report to the Council as follows:

(a) A Treasury Strategy prior to the commencement of the financial year.

(b) A mid-term report during the financial year

(c) A Treasury Annual Report as soon as practicable after the end of the financial year.

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
c. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence
d. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
e. Investment properties	These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall).	Property holding will be re-valued regularly and reported annually with gross and net rental streams.
f. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
g. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.

h. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i. Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.
j. Investment in the Subordinated Debt of projects delivered via the “Hubco” model	These are investments which are exposed to the success or failure of individual projects and are highly illiquid	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project’s term

The City of Edinburgh Council

Treasury Cash Fund

Treasury Management Policy Statement

Summary

The Council operates the Treasury Cash Fund on a low risk low return basis for cash investments on behalf of itself, Lothian Pension Fund and other associated organisations. This Policy Statement covers the type of investments which are permitted for monies held with the Cash Fund and should be read in conjunction with the Treasury Policy Statement for the City of Edinburgh Council.

Approved Activities

The activity undertaken in the management of cash balances and their investment in cash and near cash instruments. In undertaking this activity, the key objective is the security of the monies invested. Accordingly, the investment types and counterparty limits below represent a prudent attitude towards the instruments with which and the institutions with whom investment will be undertaken.

Treasury Management Strategy

The treasury management strategy for the cash fund is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Permitted Instruments

The Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit, Certificate of Deposit, collaterised deposit, structured deposit, commercial paper, floating rate note or Bonds with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) UK Treasury Bills

(c) Gilt-edged securities

(d) Reverse Repurchase Agreements

(e) Money Market Funds and Bond Funds

(f) Debt Management Office's Debt Management Agency Deposit Facility

Limits on Investment

The approved limits on counterparties and investment types are as follows (where money limits and percentages are stated, the greater of the two should be applied):

(a) DMO's DMADF, UK Treasury Bills and UK Gilts with no limit

(b) UK local authorities with no limit.

(c) other public bodies up to a maximum of £20 million per organisation.

(d) The Council's bankers, where not otherwise permitted under (k) below, up to a limit of £20m on an overnight only basis other than when funds are received into the Council's bank account without pre-notification.

(e) Money Market Funds with no limit in total but with no more than £30 million or 15% of the funds under management with any one Fund.

(f) Bond Funds with no more than £20 million or 10% of the funds under management.

(g) Supranational Bonds with a limit of £60 million or 20% of the fund in total.

(h) financial institutions where the relevant deposits, CDs or Bonds are guaranteed by a sovereign government of AA or above up to a maximum of £60 million or 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.

(i) Local Authority Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution up to a maximum of 5 years in addition to the appropriate counterparty limit for the institution.

(j) Structured deposits up to a maximum of £20 million or 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.

(k) financial institutions included on the Bank of England's authorised list under the following criteria:

Credit Rating	**Banks Unsecured**	**Banks Secured**	**B. Socs. Unsecured**	**B. Socs. Secured**
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £20m	15% or £30m
BBB+	5% or £10m	5% or £10m	n/a	n/a
BBB or BBB-	5% or £10m	5% or £10m	n/a	n/a
None	n/a	n/a	n/a	n/a

The credit ratings quoted in the above table are for the financial institution, instrument or security provided and are the lowest of the relevant long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch.

Time Limits

In addition to the monetary limits above, the following maximum time limits will be placed on investments:

Category	Max. Time Limit
20% of Assets Under Management / £60m	5 Years
15% of Assets Under Management / £30m	1 Years
10% of Assets Under Management / £20m	6 months
5% of Assets Under Management / £10m	3 months

In addition to the above limits, no more than 25% of assets under management will have a maturity greater than 1 year.

In considering an investment, consideration is given to a wide range of information, not simply the credit ratings of the institution being considered. This will include financial information on the institution, relevant Credit Default Swaps and equity pricing data, and the general macro-economic, market and sector background. The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

The Treasury Cash Fund is operated under the Council's Treasury Policy Statement and the delegations are defined in that document.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Head of Finance will report to the Council as follows:

(a) A Treasury Strategy prior to the commencement of the financial year.

(b) A mid-term report during the financial year.

(c) A Treasury Annual Report as soon as practicable after the end of the financial year.

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be used for only a small proportion of the Fund	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
f. Bond Funds **(low/medium risk)**	AAA Rated Pooled cash investment vehicle investing in a range of Government, Financial Institutions and Government Bonds.	Fairly liquid vehicle investing in Bonds with a high average credit rating, will only be used for a relatively small proportion of the fund.
g. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

h. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	The risk on these is determined, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
i. Certificates of deposits with financial institutions **(risk dependent on credit rating)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (d) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
k. Bonds **(Low to medium risk depending on period & credit rating)**	This entails a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. Bonds may also carry an explicit Government Guarantee.
l. Floating Rate Notes **(Low to medium risk depending on credit rating)**	These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.
m. Commercial Paper **(Low to medium risk depending on credit rating)**	These are short term promissory notes issued at a discount par. They entail a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.

	held.	
n. Secured Investments **(relatively low risk due to dual recourse)**	These include Reverse Purchase Agreements (Repo) and Covered Bonds issued by banks and building societies.	Both Repo and Covered Bonds provide opportunities to lower credit risk by having any exposure supported by an enhanced level of high quality collateral such as Gilts in the case of Repo. The lower credit risk is reflected in the Cash Fund being able to invest larger % or value amounts as shown in the criteria for financial institutions in (k).

Governace, Risk & Best Value Commitee

10.00am, Thursday, 12 April 2016

Council Retention Schedule

Item number	7.11
Report number	
Executive/routine	
Wards	

Executive Summary

A retention schedule is a key records management tool that documents how long records should be kept for with reasons. In line with the Council's Records Management Policy, a Council-wide retention schedule has been developed to support the disposal of Council records. The Public Records (Scotland) Act 2011 also places a statutory requirement on the Council to develop and implement retention schedules as part of its Records Management Plan.

Links

Coalition Pledges	
Council Priorities	CO25 The Council has efficient and effective services that deliver on objectives.
Single Outcome Agreement	

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Council Retention Schedule

1. Recommendations

1.1 To note the development and implementation of the Council Retention Schedule.

2. Background

2.1 A retention schedule is a key records management tool that documents how long records should be kept for and reasons. It is based upon an analysis of statutory, regulatory, business and historical requirements in relation to records created as a result of business activities, and promotes organisational confidence that records are being managed and retained appropriately.

2.2 The proper use and implementation of retention schedules helps to prevent the premature destruction of records; ensures that information is not held unnecessarily, saving staff time, space and equipment; and provides transparency as to why information is no longer held.

2.3 The development and implementation of a Council-wide retention schedule is a core element of the Council's Records Management Policy. The Public Records (Scotland) Act 2011 also places a statutory requirement on the Council to develop and implement retention schedules as part of its Records Management Plan.

2.4 The Council's retention schedule is maintained by the Information Governance Unit within the Strategy & Insight Division with a range of work underway as new services develop post transformation.

3. Main report

3.1 The Council approved its first set of corporate retention schedules in 2011, using the Scottish Council on Archives Record Retention Schedules as the baseline. These were organised by local authority functions and activities, and followed the structure of the Local Government Classification Scheme - a national data standard. Prior to this some Council service areas, notably education and social work, had operated local retention rules since the 1980's.

3.2 These function based 2011 retention schedules have now been substantially revised through an eighteen month consultation across the organisation, concluding in November 2015 with a combined authorisation by the Council Leadership Team.

The most significant changes have been the removal of duplicate or conflicting retention rules.

3.3 While the functional structure still remains and is central to the management of the nine hundred and sixteen individual rules, it is intended that they will be searchable against the Council's organisational structure for ease of use – initially by directorate, but also by lower organisational divisions in the new structure on demand.

3.4 Each retention rule details its:

3.4.1 Activity (including examples of records created as a result of that activity);

3.4.2 Retention period (e.g. time period, usually in years but sometimes for shorter durations);

3.4.3 Trigger, which determines when the retention period starts (e.g. file closure);

3.4.4 Disposal decision (destruction, transfer to a third party or preservation within the Council archives); and

3.4.5 Authorisation (e.g. business justification or regulation on which the retention rule is based).

3.5 Retention rules are format agnostic and cover both physical and electronic records that fall under the same activity.

3.6 The retention rules have been available, alongside with relevant guidance, on the Council's intranet since 2012, with the revised rules published and promoted in February 2016.

3.7 A new procedure has also been established for the authorisation and maintenance of individual retention rules. It formalises a process that involves the Council Records Manager and the Directorate Records Officers, as delegated by their Director.

3.8 Retention rules with a permanent retention disposal action are also reviewed and approved by the Council Archives Manager.

3.9 In terms of implementation, each manager is required by the Council's Records Management Policy to document within a 'records management manual' what records are created within their team or service area and which of the Council's retention rules apply to them.

3.10 Managers are also required by the policy to create and maintain a disposals register that documents the disposal of Council records in their custody against individual retention rules.

3.11 These two requirements are reinforced through mandatory policy awareness and a foundation level e-learning module on information governance.

3.12 Further reinforcement will be achieved through a managers' e-learning module on information governance (currently under development) and a communications strategy.

3.13 A template records management manual and disposal register, with corresponding guidance, have also been created and published to assist managers in meeting their policy responsibilities.

3.14 These requirements are still in the early stages of implementation and Internal Audit have recommended that the Information Governance Unit develop and drive a 5 year plan around promoting and supporting the creation of records management manuals and disposal registers throughout the Council. This has been agreed, subject to the Council's Records Management Plan being approved by the Keeper of the Public Records of Scotland (expected April 2016).

3.15 Assurance around the use of the Council's retention rules will be centred on an annual information governance maturity assessment, which will ask questions around retention and disposal practices.

3.16 This maturity assessment is currently being piloted through the Schools Assurance Framework and will be rolled out across all Council services by December 2016.

3.17 Additional assurance activities are planned over 2016.

3.17.1 A review of boxes within the Council's Records Centre will seek to apply the Council's retention rules retrospectively in order to reduce risk and cost.

3.17.2 Information risk management will be promoted as a distinct subset of the Council's Risk Management Framework, with a specific strand supporting managers in understanding how to identify risks around the retention of Council records and how to mitigate them.

3.17.3 Implementation of the Council's Enterprise Content Management Solution (April 2016 onwards) will help streamline and document the disposal of electronic records through workflow and audit trails.

4. Measures of success

4.1 The development and maintenance of local records management manuals and disposal registers that document and control the routine and transparent disposal of Council records

4.2 The ongoing maintenance and update of the Council's Retention Schedule in light of policy, regulatory and statutory changes

4.3 Retention rules applied consistently to all boxes within the Council's Records Centre

4.4 Implementation of the Enterprise Content Management Solution

5. Financial impact

5.1 Though difficult to quantify in financial terms, the over retention of Council records has a cost in relation to both storage and time spent on retrieval.

5.2 Consistent application of retention rules will ensure that the Council retains its records only for as long as it requires under business, regulatory and statutory requirements.

6. Risk, policy, compliance and governance impact

6.1 The undocumented and unmanaged destruction of records creates a significant risk to the Council in leaving it unable to defend its actions, if subject to legal challenge. This could cause both financial and reputational damage.

6.2 In terms of statutory compliance impact, the over retention of records makes it difficult to respond in time to statutory requests for information - both in terms of locating relevant information, as well as in the determination of what must be released once found.

6.3 Principle 5 of the Data Protection Act, 1998, also requires that personal data is only retained for as long as it is needed. Retaining it longer, whether by intention or inaction, unnecessarily increases the impact upon both the Council and any data subjects affected by a security breach.

6.4 The regulator's guidance on the Public Records (Scotland) Act, 2011, specifically requires the development and maintenance of a Retention Schedule. The inability to demonstrate such a schedule and its proper use will mean the Council is failing in its statutory obligations around public records.

6.5 Finally, in a wider governance setting, there are numerous pieces of legislation that govern the retention of specific sets of records. The inability to identify and follow these requirements raises the risk of under retention, breach of statutory obligations and potentially to affected service users.

7. Equalities impact

7.1 There are no equalities issues arising from this policy.

8. Sustainability impact

8.1 There are no sustainability issues arising from this policy.

9. Consultation and engagement

9.1 The current retention rules have recently been substantially revised through an eighteen month consultation across the organisation, concluding in November 2015. These revised retention rules were authorised by the Council Leadership Team in December 2016.

10. Background reading/external references

10.1 [Council Records Management Policy]

10.2 [Council Information Governance Policy]

10.3 [Keeper of the Public Records of Scotland's Model Records Management Plan Guidance for Element 5; Retention Schedule]

Andrew Kerr

Chief Executive

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Links

Coalition Pledges	
Council Priorities	CO25 The Council has efficient and effective services that deliver on objectives.
Single Outcome Agreement	
Appendices	

Governance, Risk and Best Value Committee

10am, Thursday 21 April 2016

Whistleblowing update

Item number	7.12
Report number	
Executive/routine	
Wards	

Executive summary

This report provides a high level overview of the operation of the Council's whistleblowing hotline for the period 1 December 2015 to 29 February 2016.

Links

Coalition pledges	P27
Council outcomes	CO15, CO25, CO27
Single Outcome Agreement	

Report

Whistleblowing update

Recommendations

1.1 To note the report.

Background

2.1 The Council launched its confidential whistleblowing hotline service, provided by independent company Safecall, on 12 May 2014.

2.2 This report covers the period from 1 December 2015 to 29 February 2016.

Main report

Reports to Safecall

3.1 During the reporting period Safecall received four new reports as follows:

Category	Number of disclosures
Major/significant qualifying disclosures	1
Minor/operational qualifying disclosures	1
Category to be determined	1
Non-qualifying disclosures	1

Whistleblowing Review - Action Plan Progress

3.2 The review of the pilot was completed in August 2015 with conclusions and recommendations reported to Finance and Resources Committee on 27 August 2015. An action plan was approved to develop the existing service and prepare for the procurement of continued service on expiry of the pilot term.

3.3 Progress against the action plan is being monitored with re-procurement having been the focus of activity during this reporting period. Tenders were returned on 8 March 2016 and are currently being evaluated with contract award scheduled for early April.

3.4 Guidance and information for staff has been improved and is available on the Orb, with alternative delivery mechanisms for hard to reach staff being explored. Posters publicising the service have been distributed for display on staff notice boards across the Council's estate.

3.5 The implementation of new contractual arrangements is our current priority, along with policy and procedure updates and training for investigating managers.

Measures of success

4.1 Employees feel able to report suspected wrongdoing as early as possible in the knowledge that:

4.1.1 their concerns will be taken seriously and investigated appropriately;
4.1.2 they will be protected from victimisation; and
4.1.3 the provisions of the whistleblowing policy ensure all matters at the Council are fully transparent and officers are accountable.

Financial impact

5.1 The cost of the whistleblowing hotline between 12 November 2015 and 11 February 2016 was £7,024.

5.2 The costs are within the estimated budget for the pilot and are monitored regularly.

Risk, policy, compliance and governance impact

6.1 The whistleblowing policy was developed and agreed to complement existing management reporting arrangements and to ensure employees have the right to raise concerns in the knowledge that they will be taken seriously, that matters will be investigated appropriately and confidentiality will be maintained.

Equalities impact

7.1 There are no direct equalities implications arising from this report.

Sustainability impact

8.1 There are no sustainability implications arising from this report.

Consultation and engagement

9.1 Consultation was undertaken with the trades unions to secure a local agreement.

9.2 A range of stakeholders, including whistleblowers and trades unions, were consulted during the pilot review.

Background reading/external references

Finance and Resources Committee 19 September 2013: item 7.2 - Revised Whistleblowing Policy

Finance and Resources Committee 27 August 2015: item 7.13 - Review of Whistleblowing Arrangements

Andrew Kerr

Chief Executive

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Links

Coalition pledges	P27 – seek to work in full partnership with Council staff and their representatives.
Council outcomes	CO15 – the public is protected. CO25 – the Council has efficient and effective services that deliver on objectives. CO27 – the Council supports, invests in and develops our people.
Single Outcome Agreement	
Appendices	