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Notice of meeting and agenda

Governance, Risk and Best Value Committee

10.00 am Tuesday, 11th October, 2022

Dean of Guild Court Room - City Chambers

This is a public meeting and members of the public are welcome to attend or watch the live webcast on the Council's website.

The law allows the Council to consider some issues in private. Any items under "Private Reports" will not be published, although the decisions will be recorded in the minute.

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1. Order of Business

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

2. Declaration of Interests

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

3. Deputations

3.1 If any

4. Minutes

5. Outstanding Actions

6. Work Programme

7. Business Bulletin

8. Reports

Committee

9. Motions

9.1   If any

10. Resolution to Consider in Private

10.1   The Committee is requested under Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting for the following items of business on the grounds that they would involve the disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7A of the Act.

11. Private Reports

| **11.2** | Whistleblowing Major Investigation – MCEC-19-19 – further information – Report by the Service Director – Legal & Assurance and Council Monitoring Officer | 601 - 608 |

Nick Smith

Service Director – Legal and Assurance

Committee Members

Councillor Kate Campbell (Convener), Councillor Jule Bandel, Councillor Katrina Faccenda, Councillor Stephen Jenkinson, Councillor Adam McVey, Councillor Claire Miller, Councillor Joanna Mowat, Councillor Vicky Nicolson, Councillor Jason Rust, Councillor Edward Thornley and Councillor Lewis Younie

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. The meeting will be held by Microsoft Teams and will be webcast live for viewing by members of the public..

Further information

If you have any questions about the agenda or meeting arrangements, please contact Natalie Le Couteur, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4107, email natalie.le.couteur@edinburgh.gov.uk / emily.traynor@edinburgh.gov.uk.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to https://democracy.edinburgh.gov.uk/

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Minutes

Governance, Risk and Best Value Committee

10.00am, Tuesday 23 August 2022

Present

Councillors Campbell (Convener), Aston (substituting for Councillor Nicolson (item 8 onwards), Bandel, Dixon, Faccenda, Jenkinson, McVey (substituting for Councillor Nicolson (items 1-7), Miller, Mowat, Rust, Thornley and Younie.

1.   Urgent Motion by the SNP Group – Industrial Action

The following motion by Councillor Campbell was submitted in terms of Standing Order 4.5 and ruled urgent by Councillor Campbell in order that it could be considered before COSLA's scheduled talks on 23 August 2022 concerning the local government pay offer.

Motion

"Notes the ongoing strikes by Unite and GMB members of the waste and cleansing department, and the subsequent impact on the streets of Edinburgh.

Notes that COSLA met on the 12th August and agreed an offer of 3.5%, which the council leader voted for, despite there being an alternate proposal of 5% on the table.

Notes that on the 19th August COSLA met again and this time agreed a 5% offer.

Requests an urgent briefing for Governance, Risk and Best Value (GRBV) members covering:

1)   The information and advice that was provided to the council leader in advance of the COSLA meeting on the 12th of August

2)   The subsequent information and advice provided to the council leader in advance of the COSLA meeting on the 19th of August

3)   Details and minutes of any meetings the council leader had with the trade unions ahead of both COSLA meetings

4)   Details and minutes of any meetings the council leader had with COSLA officials ahead of both COSLA meetings

5)   Details and information provided to council leader by council officers on the affordability of a 5% pay offer and whether a 3.5% pay offer would have spent all of the available resources Edinburgh Council had in its budget, as well as those additional funds secured from the Scottish Government by COSLA to help meet an increased pay offer"

- moved by Councillor Campbell, seconded by Councillor McVey

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Amendment

To take no action on the motion.

- moved by Councillor Mowat, seconded by Councillor Rust

Voting

The voting was as follows:

For the motion   -   7 votes

For the amendment   -   2 votes

(For the motion: Councillors Bandel, Campbell, Dixon, Faccenda, Jenkinson, McVey and Miller.
For the amendment: Councillors Mowat and Rust.
Abstentions: Councillors Thornley and Younie.)

Decision

To approve the motion by Councillor Campbell.

Declarations of Interest

Councillors Campbell, Faccenda, Jenkinson and Miller made transparency statements in relation to the above item as members of Unite the Union.

2.   Minutes

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 14 June 2022 as a correct record.

3.   Outstanding Actions

Details were provided of the Outstanding Actions arising from decisions taken by the Committee.

Decision

1)   To agree to close the following actions:

- Action 3 (3) – Gas Service Improvement Plan – B Agenda

- Action 7 (1) – City of Edinburgh Council - 2020/21 Annual Audit Report to the Council and the Controller of Audit

- Action 9 – Review of Effectiveness of Scrutiny of Governance, Risk and Best Value (GRBV) – Self-Evaluation and Lessons Learnt Report by the Interim Executive Director of Corporate Services

- Action 11 (1&2) – Quarterly Status Update – Digital Services – Report by the Interim Executive Director of Corporate Services

- Action 12 – Council Companies - Edinburgh Leisure Annual Report 2020/21 – Report by the Executive Director of Education and Children's Services

- Action 14 – Outstanding Actions

- Action 15 – Work Programme

- Action 16 (1&3) – Business Bulletin

- Action 18 – Whistleblowing - Major Investigation Outcome Report - MCEC-19-19 (private report)

2) To note the Budget Template circulated to members via email on 14 June 2022 would be recirculated.

3) To otherwise note the remaining outstanding actions.

(Reference – Outstanding Actions August 2022, submitted.)

4. Work Programme

The Work Programme for August 2022 was presented.

Decision

To note the Work Programme.

(Reference – Work Programme August 2022, submitted.)

5. Business Bulletin

The Committee Business Bulletin for August 2022 was presented.

Decision

To note the Business Bulletin.

(Reference – Business Bulletin August 2022, submitted.)

6. Internal Audit Annual Opinion 2021/22

Details were provided on the IA's annual opinion for the year ended 31 March 2022, based on the outcomes of the audits completed as part of the Council's 2021/22 IA annual plan, and the status of open IA findings as at 31 March 2022.

Decision

1) To note the Internal Audit annual opinion provided for the year ended 31 March 2022.

2) To note that all red rated Internal Audit reports would be presented to the next Committee in October.

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

7. Annual Governance Statement

The draft Annual Governance Statement was presented to committee for scrutiny before it was finalised for the audited financial accounts. The Annual Governance Statement would be signed by the Chief Executive and Leader of the Council prior to the financial statements being signed and presented for approval.

Decision

1) To note the Annual Governance Statement prior to its signing and incorporation into the Council's audited financial statements that would be presented to Council for approval.

2) To request officers consider the role of the GRBV Committee in performance monitoring including potential dashboard reporting and the referral process between Policy and Sustainability Committee and GRBV Committee for overall scrutiny of council performance.

(Reference – report by the Chief Executive, submitted.)

8. Corporate Governance Code

The Council's self-assessment of its compliance with the Code for the financial year 1 April 2021 to 31 March 2022 was presented for scrutiny. Members were asked to note that there were a number of areas where the Council changed its governance arrangements and design of controls in order to better respond to Covid-19.

Decision

1) To note the Corporate Governance Code Self-Assessment 2021-22.

2) To note ongoing development of an effective framework for the Council, with a focus on continuous improvement.

3) To note the continued impact, in this period, of the Covid-19 pandemic on the Council's control framework.

4) To request that a section on areas for improvement and potential actions to address areas where there were issues would be considered in the next self-assessment exercise and provided in the next iteration of the report.

(Reference – report by the Interim Executive Director of Corporate Services, submitted.)

9. Annual Assurance Schedule – Edinburgh Health and Social Care Partnership

Details were presented on the annual assurance schedule, covering 2021-22 for the Edinburgh Health and Social Care Partnership.

Decision

1) To note the Partnership annual assurance schedule 2022-23 would be submitted for scrutiny to GRBV in 12 months.

2) To request information on the percentage of teams which currently had a risk register in place and that greater detail on progress be provided in future Annual Assurance Schedules.

(Reference – report by Chief Officer – Edinburgh Health and Social Care Partnership, submitted.)

10. Gas Services Improvement Plan Closure Report

Updates on the work completed as part of the Gas Service Improvement Plan (GSIP) were provided.

Decision

1) To note the progress made with the Gas Service Improvement Plan.

2) To continue the report for two cycles to allow completion of the two audits currently underway and for these to be presented to the Committee with the report.

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

11. Revenue Budget 2022/27 Framework: progress update

The Finance and Resources Committee referred a report on the Revenue Budget 2022/27 Framework: progress update to the Governance, Risk and Best Value Committee as part of its work programme. The report provided updates on the overall budget position for 2022/23, including the provisional outturn for 2021/22, and set out the main implications for the Council's medium-term financial planning framework of the publication of the Scottish Government's Resource Spending Review on 31 May 2022.

Decision

1) To note the report.

2) To note that GRBV members would be alerted when the Finance and Resources Committee meeting papers were published with the next Revenue Budget update report.

3) To note that the Interim Executive Director of Corporate Services would review how Finance and Resources Budget reports were brought to GRBV Committee, to ensure accurate information would be presented in a more efficient manner.

(References – Finance and Resources Committee of 16 June 2022 (item 5); referral from the Finance and Resources Committee, submitted.)

12. Edinburgh Living Annual Update 2020 and 2021

The Housing, Homelessness and Fair Work Committee referred a report on the Revenue Budget 2022/27 Framework: progress update to the Governance, Risk and Best Value Committee for consideration. In line with the agreed governance structure set out for the Council's housing delivery Limited Liability Partnerships (LLPs), known as Edinburgh Living, an annual update providing an overview of each financial year was required to be submitted to the Governance, Risk and Best Value Committee. The report was submitted to the Housing, Homelessness and Fair Work Committee for noting, prior to referral to the Governance, Risk and Best Value Committee, setting out the activities carried out by Edinburgh Living in 2020 and 2021, the financial position at the end of both years and key areas of work for 2022.

Decision

To note the report.

(References – Housing, Homelessness and Fair Work Committee of 24 March 2022 (item 8); referral from the Housing, Homelessness and Fair Work Committee, submitted.)

Declarations of interest

Councillor Thornley made a transparency statement in relation to the above item as a tenant of a property factored by Lowther Homes.

Councillor Campbell made a transparency statement in relation to the above item as a Board member of Edinburgh Living.

13. Whistleblowing update

A high-level overview of the operation of the Council's whistleblowing service was provided for the quarter 1 April – 30 June 2022.

Decision

To note the report.

(Reference – report by the Chief Executive, submitted.)

14. Whistleblowing Monitoring Report

The Committee in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7A of the Act.

An overview of the disclosures received and investigation outcome reports completed during the quarter 1 April – 30 June 2022 was presented.

Decision

To agree the closure of whistleblowing cases for the quarter 1 April – 30 June 2022.

(Reference – report by the Chief Executive, submitted.)

15. Whistleblowing - Major Investigation Outcome Report

The Committee in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7A of the Act.

A major investigation outcome report in relation to Housing Property Services was submitted to the Committee for consideration.

Decision

To continue the report to the next meeting for members' specific questions to be answered and issues raised in the investigation report to be cross referenced with relevant findings of a previous Internal Audit report.

(Reference – report by the Service Director – Legal & Assurance and Council Monitoring Officer, submitted.)

Minutes

Governance, Risk and Best Value Committee

10.00am, Tuesday 14 December 2021

Present

Councillors Mowat (Convener), Arthur, Cameron (from item 3 onwards), Jim Campbell, Mary Campbell, Doggart, Osler (substituting for Councillor Gloyer), Rae (substituting for Councillor Main), Frank Ross, Work and Ethan Young.

1. Minutes

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 9 November 2021 as a correct record.

2. Outstanding Actions

Details were provided of the Outstanding Actions arising from decisions taken by the Committee.

Decision

1) To agree to close the following actions:

- Action 4 – Internal Audit Overdue Findings and Key Performance Indicators as at 10 February 2021

- Action 6 – Whistleblowing Monitoring Report – B Agenda

- Action 7 (1) – Change Portfolio

- Action 9 (1) – Work Programme

- Action 10 – Workforce Insight and Controls - Annual Report – referral from the Finance and Resources Committee

- Action 12 (3) – Business Bulletin

- Action 14 – Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee - Implementation of Findings

- Action 15 (1 & 2) – Sustainable Capital Budget Strategy 2022-2032 – referral from the Finance and Resources Committee

2) To otherwise note the remaining outstanding actions.

(Reference – Outstanding Actions 14 December 2021, submitted.)

3.   Work Programme

The Work Programme for December 2021 was presented.

Decision

To note the Work Programme.

(Reference – Work Programme 14 December 2021, submitted.)

4. Business Bulletin

The Committee Business Bulletin for December 2021 was presented.

Decision

To note the Business Bulletin.

(Reference – Business Bulletin 14 December 2021, submitted.)

5.   Internal Audit: Overdue Findings and Key Performance Indicators as at 5 November 2021

The report confirmed the three-month completion date extension agreed at the September 2021 Committee had now been applied to all open and overdue agreed management actions, with revised dates reflected throughout the report.

Decision

1)   To note the status of the overdue Internal Audit (IA) findings as at 5 November 2021.

2)   To note that the three-month completion date extension agreed at the September 2021 Committee reflecting ongoing Covid-19 pressures across the Council had now been applied to all open and overdue agreed management actions.

3)   To note the status of IA Key Performance Indicators (KPIs) for audits that were either completed or in progress as at 5 November 2021.

4)   To refer the report to the relevant Council Executive committees for ongoing scrutiny of their relevant overdue management actions.

5)   To refer the report to the Edinburgh Integration Joint Board Audit and Assurance Committee for information in relation to the current Health and Social Care Partnership position.

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

6.   Internal Audit Update Report: 1 September to 15 November 2021

Details were provided on the delivery of the 2021/22 IA annual plan, which was shown to be progressing, with 33 of the 41 planned audits (80% of the plan) underway, including 25 (80%) of the 31 audits to be completed across the Council.

Decision

1)   To note the outcomes of the completed 2021/22 audits.

2)   To note the progress with delivery of the rebased 2021/22 Internal Audit (IA) plan.

3)   To note the progress with delivery of IA key priorities and ongoing areas of focus.

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

7.   Capital Monitoring 2021/22 - Month Six Position – referral from the Finance and Resources Committee

On 9 December 2021, the Finance and Resources Committee considered a report which provided the capital expenditure and funding position as at month six and full-year outturn projections for the 2021/22 financial year and provided explanations for key variances.

Decision

To note the report.

(References – Finance and Resources Committee, 9 December 2021 (item 7); referral from the Finance and Resources Committee, submitted.)

8.   Revenue Budget Monitoring 2021/22 – month six position – referral from the Finance and Resources Committee

On 9 December 2021, the Finance and Resources Committee considered a report which updated members on the projected Council-wide revenue budget position for the year based on analysis of month six expenditure and income data.

Decision

To note the report.

(References – Finance and Resources Committee, 9 December 2021 (item 6); referral from the Finance and Resources Committee, submitted.)

9.   Corporate Leadership Team Risk Report as at 26 October 2021

The purpose of the report was to present the Council's current enterprise risk profile, as at 26 October 2021, and highlight risks where further action was required (where realistic and possible) to ensure that they were brought within approved strategic risk appetite levels.

Decision

1)   To note the Council's current enterprise risk profile.

2)   To progress with the ongoing operational risk management framework pilot and enterprise risk management system procurement.

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

10. Council's Risk Appetite Statement – referral from the Policy and Sustainability Committee

On 30 November 2021, the Policy and Sustainability Committee approved a report which set out the Council's risk appetite statement and referred it for information to the Governance, Risk and Best Value Committee.

Decision

To note the report.

(References – Policy and Sustainability Committee, 30 November 2021 (item 21); referral from the Policy and Sustainability Committee, submitted.)

11. Enterprise Risk Management Policy – referral from the Policy and Sustainability Committee

On 30 November 2021, the Policy and Sustainability Committee considered a report which presented the Council's refreshed Enterprise Risk Management Policy for review and approval. It was referred to the Governance, Risk and Best Value Committee for information.

Decision

To note the report.

(References – Policy and Sustainability Committee, 2021 (item 22); referral from the Policy and Sustainability Committee, submitted.)

12. Whistleblowing update

Details were provided on a high-level overview of the operation of the Council's whistleblowing service for the quarter 1 July – 30 September 2021.

Decision

To note the report.

(Reference – report by the Chief Executive, submitted.)

13. Quarterly Status Update – Digital Services

Details were provided on the quarterly progress update upon the Council's Digital Services programme of works.

Decision

To note the progress detailed in the quarterly update.

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

14. Capital Theatres Company Performance Report 2020/21 – referral from the Culture and Communities Committee

On 16 November 2021, the Culture and Communities Committee considered the eighth annual performance report prepared as a requirement of the Services and Funding Agreement process adopted in 2013/14.

Decision

To note the report.

(References – Culture and Communities Committee, 2021 (item 7); referral from the Culture and Communities Committee, submitted.)

15. Edinburgh International Conference Centre – Annual Update for the Year Ending 31 December 2020 – referral from the Housing, Homelessness and Fair Work Committee

On 4 November 2021, the Housing, Homelessness and Fair Work Committee was provided an update on the performance of EICC in the year ending 31 December 2020. The performance reflected the difficulties that COVID-19 had created for the events and conferencing industry.

Decision

To note the report.

(References – Housing, Homelessness and Fair Work Committee, 2021 (item 6); referral from the Housing, Homelessness and Fair Work Committee, submitted.)

16. Community Centres (update)

This report responded to the motion approved at the Governance, Risk and Best Value Committee of 21 September 2021 'to request a report within two cycles on how the re-opening of Community Centres was taken forward during the pandemic up to the current date, including feedback from Community Centres themselves and a timeline of activity'.

Decision

1) To note that the majority of Council supported community centres were open.

2) To note the current Coronavirus (Covid-19) guidance as it applied to community centres.

3) To note the positive progress on the phased approach to safely extend the use of community centres in line with Scottish Government guidelines.

4) To note the commitment to ongoing consultation and engagement with Management Committees across the city.

5) To note the Executive Director of Education and Children's Services would provide a written response to councillors' questions regarding Inch Community Centre, feedback from community centre management committees and progress made to improve the responsiveness to new guidance.

(Reference – report by the Executive Director of Education and Children's Services, submitted.)

17. Internal Audit Update for the Period: 2 May to 14 September 2021 – Referral from the Edinburgh Integration Joint Board Audit and Assurance Committee

On 1 October 2021, the Edinburgh Integration Joint Board (EIJB) Audit and Assurance Committee considered a report which provided details of the progress of Internal Audit (IA) assurance activity on behalf of the EIJB performed by the EIJB's partners (the City of Edinburgh Council and NHS Lothian IA teams).

Decision

To note that the Committee considered the Internal Audit Update for the period: 2 May to 14 September 2021.

(References – Edinburgh Integration Joint Board Audit and Assurance Committee, 2021 (item 10); referral from the Edinburgh Integration Joint Board Audit and Assurance Committee, submitted.)

18. Integration Joint Board – Principles to Underpin Working Relationships between Lothian NHS and IJB Final – Referral from the Edinburgh Integration Joint Board Audit and Assurance Committee

On 12 November 2021, the Edinburgh Integration Joint Board Audit and Assurance Committee considered a report which provided details of the refreshed Principles Underpin Working Relationships between NHS Lothian and the four Lothian Integration Joint Boards.

Decision

To note that the Committee considered the Integration Joint Board – Principles to Underpin Working Relationships between Lothian NHS and IJB.

(References – Edinburgh Integration Joint Board Audit and Assurance Committee, 2021 (item 4); referral from the Edinburgh Integration Joint Board Audit and Assurance Committee, submitted.)

19. Whistleblowing Monitoring Report

The Committee in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7A of the Act.

An update provided an overview of the whistleblowing disclosures received and investigation outcome reports completed during the quarter 1 July – 30 September 2021.

Decision

To note the detail of whistleblowing activity for the quarter 1 July – 30 September 2021.

(Reference – report by the Chief Executive, submitted.)

20. North Bridge Refurbishment Update

The Committee in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 8 and 9 of Part 1 of Schedule 7A of the Act.

At its meeting of 4 May 2021, the Committee considered a report on the Council's Change Portfolio which included an update on the North Bridge Project. The Committee requested a briefing note on the project and subsequently the detailed project update contained in the report.

Decision

To note the update on the North Bridge refurbishment as outlined in Appendix 1 to the report.

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

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Outstanding Actions

Governance, Risk and Best Value Committee

11 October 2022

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	17.09.19	Work Programme – Member/Officer Protocol	To add the review of the Member/Officer Protocol to the workplan with timescales for submission and to agree that a workshop for members would be held prior to submission to the Committee.	Interim Executive Director of Corporate Services	August 2022 ~~August 2021~~ ~~June 2021~~ ~~May 2021~~ ~~March 2021~~ ~~February 2021~~ ~~November 2020~~ ~~September 2020~~ ~~January 2020~~		**Recommended for Closure** Report was considered at Full Council in August 2022. **August 2021** This will now form part of the wider review of political management arrangements following the Local Government Election. **June 2021** Timescale extended to allow

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							further engagement with political groups. **March 2021** Sessions with political groups are currently being arranged. **February 2021** The timescales have been extended to allow for further engagement with elected members. **December 2020** The Code of Conduct Consultation is now live. The draft response to this is being developed to be presented to Council on 4

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							February 2021 (Consultation closes 6 February). Officers are working to ensure these two documents align. The Member/Officer Protocol will be brought to GRBV following this exercise in February 2021. **July 2020** Scottish Government are consulting on changes to the Code of Conduct and it is suggested that changes to the protocol await this piece of work.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							June 2020 Consideration of the member/officer protocol is awaiting the finalisation of the revised Code of Conduct from the Scottish Government that will impact on the content of the Protocol. Timescales to be confirmed. **December 2019** Workshop with members held on 29 October 2019. A joint workshop will be arranged with officers and members early 2020 (following the

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							General Election).
2	07.07.20	Motion by Councillor Doggart – Pandemic Planning	1) Agrees that the Interim Executive Director of Corporate Services reviews the council's response and preparedness to COVID-19 but acknowledges that as the council is still responding to the pandemic, any review would be premature at this time. 2) Asks that the Interim Executive Director of Corporate Services updates the Policy and Sustainability committee on when he believes it would be appropriate both in terms of Corporate Services and timing for such a review to take	Interim Executive Director of Corporate Services	April 2022		**Recommended for closure** An update on the approach was provided in the Policy and Sustainability Committee Business Bulletin in August 2022. **September 2021** A close report and lessons learned is underway for the Adaptation and Renewal programme after which advice will be provided on a lessons learned exercise for Covid-19 as references in the accounts commission

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			place.				Report to P&S on 5 March. **August 2021** An interim debrief of the Council's response to Covid-19 has been undertaken with key findings shared with the Adaptation and Renewal All Party Oversight Group on the 13th August. Lessons identified have been incorporated into the council's documentation for further waves / local outbreaks. A summary will be provided to the next P&S Committee. As the incident

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							remains ongoing, it is too early to undertake a full lessons learned exercise at this time, but this will be kept under review and undertaken at the earliest appropriate opportunity.
3	04.05.21	Change Portfolio	1) To agree to provide a briefing note to update Committee on the North Bridge Refurbishment.	Executive Director of Place	December 2021	December 2021	**Closed December 2021** Briefing note circulated on 8 November and Report on agenda
			2) To agree that the Head of Place Management would provide reassurance why the Housing Service Improvement was amber status and	Executive Director of Place	June 2021		**Closed August 2021** An update on project status and plans moving forward was Reported to

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			details of what plans were in place to move it forward.				Housing, Homelessness and Fair Work Committee in June 2021.
			3) To note that the foundations and MI were in place and information could be pulled off for particular areas and to agree that the Head of Customer and Digital Services would assess what information could be provided.	Interim Executive Director of Corporate Services	March 2023		**Update June 2022** All of the dashboards within the original scope of the BI programme have now been implemented. Work is underway as part of the Organisational Data Strategy to review other areas that would benefit from dashboard reporting. **August 2021** The Business Intelligence

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							Programme is well underway, and the remit of the programme is to build MI dashboards which Report on key areas across Service Areas. The immediate focus is on dashboards for Place, HR and Customer. **<u>June 2021</u>** The Head of Customer and Digital Services has this work underway.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
4	10.08.21	First Line Governance and Assurance Model	To agree that progress updates should be provided in each GRBV Committee Business Bulletin from November onwards, including an update on the finalised structure and recruitment.	Service Director - Legal & Assurance	31 March 2023		**Update October 2022** Updates will be provided monthly in the Business Bulletin. **August 2022** Update included in August Business Bulletin. Updates will be provided on an ongoing basis.
5	21.09.21	Corporate Leadership Team Risk Report as at 23 August 2021 – Report by the Chief Executive	1) To agree that the Service Director – Legal and Assurance would send an email to Directors and senior managers to request that risk is properly considered in Council and committee Reports.	Interim Executive Director of Corporate Services (Service Director – Legal and Assurance)			**Closed** Email sent to relevant officers 22 September 2021

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) To request that the next review of the Report template for Council and committees includes a 'risk' section to ensure this is considered.	Interim Executive Director of Corporate Services	November 2022		**Update October 2022** To be discussed as part of the Political Management Arrangement report which will be considered at Council in December. Further information in Business Bulletin. **June 2022** Report template will be submitted to Council for consideration in September alongside the Council's other governance documents.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) Agree that Item 6 (Implementation of BVAR recommendations) will be reported to each meeting of GRBV under the Business Bulletin to monitor progress (tabular form acceptable) towards completion dates.	Interim Executive Director of Corporate Services	Ongoing		
			That reports are prepared in the following terms on the following areas: 3.1) Common Good – a Report reviewing progress towards completion of 2017/18 recommendations on the Common Good Asset Register and what outstanding work there is to complete this and what resource is required (in officer	Interim Executive Director of Corporate Services	March 2022		**Closed March 2022**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			hours) in two cycles and copied to the relevant Executive Committee.				
			3.2) Framework for collaboration with community councils – a Report detailing current arrangements, funding and how this links into wider community planning responsibilities with any actions for improvement identified and Reporting framework detailed in two cycles and copied to the relevant Executive Committee.	Interim Executive Director of Corporate Services	March 2022		**Closed March 2022**
			3.3) Community Asset Transfer – short Report in two cycles on current process and timescales to	Executive Director of Place	March 2022		**Closed March 2022**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			include a table on number of requests received and stage in process with time taken to get to that point.				
6	14.12.21	Community Centres (update) – Report by the Executive Director of Education and Children's Services	The Executive Director of Education and Children's Services will provide a written response to councillors' questions regarding Inch Community Centre, feedback from community centre management committees and progress made to improve the responsiveness to new guidance, which will be circulated to all committee members.	Executive Director of Place	November 2022		**Update June 2022** It is proposed that a paper on the future management of the relationships with community centres is considered by Culture and Communities Committee in August.
7	18.01.22	Committee Decision Process and the Policy Register – Report	1) To request that a review or internal audit (to be decided in March when the 2022/23	Interim Executive Director of Corporate	December 2022		**Update October 2022** To be discussed as part of the

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		by the Interim Executive Director of Corporate Services	Internal Audit Annual Plan is considered to ensure capacity) is undertaken to ensure the recommendations at paragraph 4.18 of the report have been implemented and that the processes are working effectively.	Services			Political Management Arrangement report which will be considered at Full Council in November.
			2) To agree to produce a simple guide to the Council's governance arrangements, decision making and committee process, including IIAs, implementation of decisions, the policy register and the use of the webcast for reviewing committee discussion. The guide to be included in members' training and made available to members and officers	Interim Executive Director of Corporate Services	February 2023		**Update October 2022** A guide is being prepared and will be circulated to members when available.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			on the Orb, with a link to it to be included in committee action sheets for information.				
8	08.03.22	Whistleblowing Monitoring Report (private report)	To undertake a sampling exercise of cases to attain an average time taken to resolve whistleblowing reports to enable a comparison of current costs compared to future costs.	Chief Executive / Service Director – Legal and Assurance	To be confirmed when independent investigations unit go-live date is advised.		**Recommended for Closure** There is a practice underway by Investigating Officers which captures this information. <u>**Update August 2022**</u> Investigating officers will record time spent on whistleblowing investigations from 1 July 2022 under existing arrangements until new arrangements (the independent investigations unit)

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							commence and data will be retained for future comparative purposes if required.
9	14.06.22	Business Bulletin	1) To note members would discuss with the Corporate Governance Manager the presentation format of the Best Value Assurance Audit Status Update in the Business Bulletin and in the GRBV Teams Channel.	Interim Executive Director of Corporate Services / Corporate Governance Manager	August 2022		**Closed** Corporate Governance Manager contacted members for further feedback on 3 August 2022.
			2) To note the Interim Executive Director of Corporate Services would circulate the Budget template to all members and that discussion with political groups would follow on submitting	Interim Executive Director of Corporate Services	December 2023		**Update October 2022** Initial contact made by Finance Leads with political groups on the 2023/24 budget. **August 2022**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			budget proposals.				Discussions planned with Group Leaders during August. **June 2022** Budget Template was circulated to members via email on 14 June 2022.
			3) To request that a note be circulated summarising the closure of outstanding Internal Audit actions.	Chief Internal Auditor		\August 2022	**Closed** Two Outstanding Internal Audit reports due to be submitted to Committee in June were circulated via Teams on 14 June 2022.
10	14.06.22	Whistleblowing Monitoring Report (private report)	To agree that a Whistleblowing workshop would be arranged for members.	Chief Executive	Late August 2022		**Recommended for Closure** A date of 15 November 2022 has been set for the workshop to

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							take place. **<u>August 2022</u>** Nick Smith/Laura Callender met with Convener on 26 July 2022 to discuss and a Workshop date is being set up for 20 September 2022.
11	14.06.22	Whistleblowing - Major Investigation Outcome Report - MCEC-19-19 (private report)	To agree to continue the report to allow members to submit questions via the Teams Channel.	Chief Executive	August 2022		**Recommended for Closure** Report was continued to Committee in August and continued again to October Committee (action 19). **<u>August 2022</u>** Report was on August agenda but was not closed.

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
12	23.08.22	Outstanding Actions	To note the Budget Template circulated to members via email on 14 June 2022 would be recirculated.	Interim Executive Director of Corporate Services			**Recommended for Closure** Budget Template was circulated to members via email on 23.08.22.
13	23.08.22	Internal Audit Annual Opinion 2021/22	To note that all red rated Internal Audit reports will be brought to the next Committee in October.	Chief Internal Auditor			**Recommended for Closure** Report is on Agenda for October Committee.
14	23.08.22	Annual Governance Statement	To request officers consider the role of the GRBV Committee in performance monitoring including potential dashboard reporting and the referral process between Policy and Sustainability Committee and GRBV Committee for overall scrutiny of council performance.	Interim Executive Director of Corporate Services	November 2022		

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
15	23.08.22	Corporate Governance Code	To request that a section on areas for improvement and potential actions to address areas where there were issues would be considered in the next self-assessment exercise and provided in the next iteration of the report.	Interim Executive Director of Corporate Services	August 2023		
16	23.08.22	Annual Assurance Schedule – Edinburgh Health and Social Care Partnership	To request information on the percentage of teams which currently have a risk register in place and that greater detail on progress be provided in future Annual Assurance Schedules.	Chief Officer – Edinburgh Health and Social Care Partnership			
17	23.08.22	Gas Services Improvement Plan Closure Report	To agree to continue the report for two cycles to allow completion of the two audits currently underway and for these to be presented to the Committee with the report.	Executive Director of Place	November 2022		
18	23.08.22	Revenue Budget 2022/27	To note that GRBV members will be alerted when the Finance and	Interim Executive	November 2022		**Update October 2022**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		Framework: progress update	Resources Committee meeting papers are published with the next Revenue Budget update report.	Director of Corporate Services			Note that F&R meeting papers are due to be published on 4 November.
			To note that the Interim Executive Director of Corporate Services will review how Finance and Resources Budget reports are brought to GRBV Committee, to ensure accurate information is being presented in a more efficient manner.	Interim Executive Director of Corporate Services	Spring 2023		
19	23.08.22	Whistleblowing - Major Investigation Outcome Report - MCEC- 19-19 (Private)	To continue the report to the next meeting for members' specific questions to be answered and issues raised in the investigation report to be cross referenced with relevant findings of a previous Internal Audit report.	Service Director – Legal & Assurance and Council Monitoring Officer			**Recommended for Closure** Report is on Agenda for October Committee.

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Work Programme

Governance, Risk and Best Value Committee – 11 October 2022

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
1	Internal Audit: Overdue Findings and Key Performance Indicators	Quarterly report	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	Quarterly	January 2023 May 2023

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Agenda Item 6.1

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
2	Internal Audit Quarterly Activity Report	Quarterly 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	Quarterly	January 2023 May 2023
3	IA Annual Report for the Year	Annual report	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	August 2023
4	IA Audit Plan for the year	Annual report	Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2023

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Corporate Services	Council Wide	Annually	March 2023
6	Accounts Commission	Annual report	Accounts Commission: Local Government in Scotland Overview 2021	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2023
7	Annual Audit Plan	Azets	Annual audit plan	External Audit	Executive Director of Corporate Services	Council Wide	Annually	March 2023
8	City of Edinburgh Council – 2021/22 Annual Audit Report to the Council and the Controller of Audit	Azets	Annual Audit Report	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2023
9	External Audit Review of Internal Financial Controls	Azets	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2023 ==(as part of 2021/22 Annual Audit report)==
10	Internal Audit Charter	Annual Report	Annual Audit Charter	Internal Audit	Executive Director of Corporate Services	Council Wide	Annually	March 2023

Section B – Scrutiny Items

11	Change Portfolio		To ensure major projects undertaken by the Council were being adequately project managed	Major Project	Executive Director of Corporate Services	All	Six- monthly	March 2023 October 2023
12	CLT Risk Report	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Executive Director of Corporate Services	Council Wide	Quarterly	January 2023 May 2023
13	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Executive Director of Corporate Services	Internal	Quarterly	December 2022 March 2023
14	Whistleblowing Annual Report		Annual report	Scrutiny	Executive Director of Corporate Services	Internal	Annual	March 2023
15	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Quarterly	November 2022 March 2023
16	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Quarterly	November 2022 March 2023

17	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	October 2023
18	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	October 2023
19	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	March 2023
20	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	October 2023
21	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	January 2023
22	Annual Assurance Schedules	Review	Progress Report	Scrutiny	All Directorates	Council	Annual	January 2023 (Place) January 2023 (Education and Children's Services) March 2023 (Corporate Services) August 2023 (EIJB)

| 23 | Review of the Member/Officer Protocol | Review | Including timescales for submission | Scrutiny | Executive Director of Corporate Services | Council Wide | Flexible | August 2023 |

Section C – Council Companies

24	Capital Theatres	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	January 2023 Note: report due at Culture & Communities
25	Edinburgh Leisure	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	March 2023
26	Capital City Partnership	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	November 2022
27	Transport for Edinburgh	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	October 2023
28	Lothian Buses	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	October 2023
29	Edinburgh Trams	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	October 2023

30	Edinburgh International Conference Centre	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	December 2022

GRBV Committee Upcoming Reports   Appendix 1

Report Title	Type	Flexible/Not Flexible
November 2022		
Gas Services Improvement Plan Closure Report	Scrutiny	Not Flexible
Capital Monitoring 2022-2023 – Month 6 position – referral from F&R	Scrutiny	Not Flexible
Revenue Monitoring 2022/23 – Month 5 report – referral from F&R	Scrutiny	Not Flexible
Revenue Budget 2023/27 – progress update – referral from F&R	Scrutiny	Not Flexible
Capital City Partnership – referral from HHFW	Scrutiny	Flexible

Business Bulletin

Governance, Risk and Best Value Committee

10.00am, Tuesday, 11 October 2022

Teams Meeting

Governance, Risk and Best Value Committee

Convener:	Members:	Contact:
Councillor Kate Campbell	Councillor Jule Bandel	[Rachel Gentleman](#) Committee Officer 0131 529 4107
	Councillor Katrina Faccenda	
	Councillor Stephen Jenkinson	
	Councillor Adam McVey	
	Councillor Claire Miller	
	Councillor Joanna Mowat	
	Councillor Vicky Nicolson	
	Councillor Jason Rust	
	Councillor Edward Thornley	
	Councillor Lewis Younie	

Recent news	Background/Contact
[First Line Governance and Assurance Model](#)	[Nick Smith](#), Service Director: Legal and Assurance Division, Corporate Services Directorate
Rolling Action Log	
Education and Children's Services – The Operations Manager started on 7 February 2022, since then we have commenced with monthly Internal Audit update meetings with the relevant colleagues involved across the Directorate. Ensuring audits are prioritised implemented. Risk and Assurance updates are communicated to SMT regularly to ensure awareness and understanding.	Tel: 0131 529 4377
Corporate Services - The Directorate Assurance Officer is currently focussing on Internal Audit activity and the prioritisation of assurance activities for the Directorate. The governance officers are progressing with developing the framework.	
Place – The Operations Manager continues to work on the prioritisation and implementation of assurance activities, with a continued focus on Internal Audit management actions and the Risk Framework.	
Health and Social Care Partnership – The Directorate Assurance Officer is working on the implementation of assurance activities with an ongoing focus on Internal Audit management actions.	
Framework development	

As noted previously, development of the assurance reporting framework has been delayed due to other activities taking priority, principally whistleblowing. However, design continues and Committee should note that assurance activity is already taking place within directorates.

Update for the following action:

To request that the next review of the Report template for Council and committees includes a 'risk' section to ensure.

Due to resource pressures and the need to prioritise the review of political management arrangements and Standing Orders there are a number of governance workstreams that required to be pushed back into early 2023, namely the guide to the Council's governance and committee system, the further development of the governance and assurance framework and the ALEO management framework. Work is still progressing in these areas but at a slower rate until vacant posts are filled and other priority areas are concluded.

[Gavin King](#)

Head of Democracy, Governance and Resilience, Legal and Assurance Division, Corporate Services Directorate

Tel: 0131 529 4239

[City of Edinburgh Council - 2020/21 Annual Audit Report to the Council and the Controller of Audit](#)

Rolling Action Log

It was requested at GRBV on 9 November 2021 that the Implementation of Best Value Assurance Review recommendations be reported to each meeting of GRBV to monitor progress towards completion dates. Please see the details provided below.

GRBV Business Bulletin Best Value Assurance Audit Response Summary Update –

Members should note that the October progress table containing detailed updates under each key recommendation is available on the GRBV MS Teams Channel. The summary below only covers key updates from the period August-October.

Key update:

- An update on the Council's revenue budget planning assumptions was considered by the Finance and Resources Committee on 8 September 2022, indicating an increase in the estimated savings requirement for 2023/24 to £70.4m and £152.9m over the period to 2026/27 whilst noting a number of other inflation-related risks and pressures. Members also noted progress in the

[Gavin King](#)

Head of Democracy, Governance and Resilience, Legal and Assurance Division, Corporate Services Directorate

Tel: 0131 529 4239

development of the Council's Medium-Term Financial Plan and the intention to present draft budget proposals for 2023/24 and broad programmes of activity to contribute towards future years' savings requirements at the Committee's meeting on 10 November 2022.

- The Council's full Annual Performance Report (APR) 2021/2022 and LGBF 2020/2021 report was approved by the Policy and Sustainability Committee 30 August 2022 and the APR by Council on 22 September 2022.

- The revised Local Outcome Improvement Plan (LOIP) will be considered by the Culture and Communities Committee at its meeting on 4 October 2022.

- A further two community asset transfers have been concluded, bringing the total number of completed transfers to six since the introduction of the Community Empowerment (Scotland) Act 2015.

- In addition, a further two transfers have been agreed to by the Council and legal work is ongoing to bring them to a successful conclusion.

- After a hiatus during lockdown, community groups have resumed CAT activity and are preparing requests. Two stage 2 applications are being processed, six groups are preparing detailed business plans for consideration and a further seven further live cases are being discussed with applicants. We continue to receive initial enquiries on a regular basis, with 24 considered over the last reporting year.

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Governance, Risk and Best Value Committee

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10:00am, Tuesday, 11 October 2022

Internal Audit: The Chartered Institute of Internal Auditors - External Quality Assessment

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1.   Recommendations

1.1   It is recommended that the Governance Risk and Best Value Committee:

1.1.1   notes the outcomes of the External Quality Assessment (EQA) of the Council's Internal Audit function (IA) completed by the Chartered Institute of Internal Auditors (IIA) in March 2022;

1.1.2   notes the IIA recommendations to address the issues identified, together with IA's management response and action dates;

1.1.3   notes the continuous improvement opportunities identified in the EQA and improvement actions taken by IA to realise these opportunities; and

1.1.4   notes that updates on IA's EQA improvement activities will be provided to Committee on a quarterly basis through the IA quarterly update report.

Laura Calder
Senior Audit Manager

Legal and Assurance, Corporate Services Directorate

E-mail: laura.calder@edinburgh.gov.uk | Tel: 0131 469 3077

Report

Internal Audit: The Chartered Institute of Internal Auditors External Quality Assessment

2. Executive Summary

2.1 During 2021/22, the Chartered Institute of Internal Auditors (IIA) undertook an External Quality Assessment (EQA) of the Council's Internal Audit (IA) function in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).

2.2 The EQA concluded that the Council's IA function generally conforms with the PSIAS, which set out the expected standards for internal auditing, including a code of ethics, core principles and international standards.

2.3 Two recommendations were made by the IIA to address partial conformance with standards. Management responses and action dates have been agreed.

2.4 The EQA report also identifies a series of continuous improvement opportunities and suggestions which IA should use as a basis for future development. IA has implemented a range of improvement actions to take forward these opportunities.

3. Background

External Quality Assessment (EQA)

3.1 PSIAS require IA to have an external quality effectiveness review completed on a five-yearly basis. The objective of the review is to promote further improvement in the professionalism, quality, consistency, and effectiveness of IA across the public sector.

3.2 An EQA of the City of Edinburgh Council's IA function was undertaken by the Chartered Institute of Internal Auditors (IIA) during 2021/22. The timescales for completion of the review were as follows:

- planning for the review was completed in November / December 2021; and

- fieldwork including review of processes and stakeholder engagement was completed between January and March 2022.

4.   Main report

4.1   This report provides the Committee with a summary of the outcomes of the EQA of the Council's IA function completed by the IIA in 2021/22.

4.2   The IIA assessed the Council's IA function, through review of:

- IA processes including methodology, policies, procedures, and reporting;

- the IA charter, audit plan and internal quality assurance processes;

- a sample of completed files and working papers from recent audits; and

- IA follow-up and risk acceptance protocols.

4.3   In addition, the IIA:

- conducted interviews with members of the IA function management team and a range of key stakeholders including elected members and directors; and

- issued a survey to a wider range of stakeholders and the full internal audit team.

4.4   A copy of the final IIA report in full is provided at Appendix 1.

External Quality Assessment Outcomes

4.5   The IIA concluded that the Council's IA function is generally conforming with the PSIAS.

4.6   Two recommendations to address partial conformance with the standards were made by the IIA. Details of these together with IA's management response and actions dates are provided in the table below:

Recommendation 1 - Audit Planning (to address partial conformance with standard 2010)
We recommend that the methodology for the design of the audit plan is updated to ensure a risk-based approach focused more on the Council's strategic risks, core governance and control areas. We recommend the approach includes: - Presentation of the plan starting from the Council's critical risks with demonstration of alignment and explanations of any different views held by internal audit on the risk areas. - A mix of engagement styles from more light touch to more in-depth reviews and upfront advisory work.

- Highlighting the engagements on which the annual opinion has a key dependency at the outset to ensure these can be prioritised for delivery.

Management Response and Action Date
Agreed, the methodology applied to the risk and control effectiveness assessments supporting the IA annual plan was revised in March 2021 to align with the Council's refreshed operational risk management framework and therefore the Council's key risks. This included extending the rolling coverage of all areas from 3 to 5 years and introducing a range of engagement styles (including light-touch Covid-19 reviews and consultancy work).
It is acknowledged that further refinement of the annual planning process would be beneficial to enable a dynamic and flexible approach aligned to priorities and available resources. This will be taken into consideration for the mid-year review of the 2022/23 plan and the 2023/24 plan year onwards.
Action date: 31 March 2023

Recommendation 2 - Audit Co-ordination (to address partial conformance with standard 2050)
As the maturity of the risk management framework improves and further second line activity is embedded (e.g. in the role of the Operations Managers), the approach to internal audit planning should be re-considered to take account of other sources of assurance even if they are not yet fully mature.

Management Response and Action Date
Agreed, work is ongoing to design and roll-out the Council's Governance and Assurance framework which will help coordinate and / or complete first line governance; risk management; and assurance activities which IA can then take account of and place reliance on. The framework is expected to be operational by 31 March 2023.
In the interim, and in addition to the above, IA will take into account other first line assurance processes and sources in operation when planning engagements to establish the extent to which reliance can be placed and to avoid duplication where possible.
Action date: 30 June 2023

4.7   Further detail on the IIA feedback and recommendations is provided in section 2 (pages 8 - 9) of the full EQA report at Appendix 1.

Continuous Improvement Opportunities

4.8   The EQA also provides suggestions for further development based upon the wide range of guidance published by the IIA, with an aim to offer advice and a degree of challenge to help IA functions continue their journey towards best practice and excellence.

4.9   The IIA identified a series of continuous improvement opportunities and suggestions which the Council's IA function should use as a basis for future development.

4.10   Once addressed, these should strengthen and enhance the engagement with and the impact of IA in the Council. These observations are not conformance points but support IA's ongoing development.

Internal Audit EQA improvement actions

4.11   The Council's IA function is committed to continuous improvement and have implemented a range of improvement actions to realise the continuous improvement opportunities identified by IIA the during the EQA.

4.12   Following receipt of the report, IA identified 'quick wins' and introduced, with immediate effect, a number of changes to IA processes and procedures.

4.13   Details of the improvement opportunities identified during the EQA and IA improvement actions to address these are set out in the table below:

1. Engagement Audit Methodology
a) The approach to the audit plan should be revised to focus on business-critical risks and core controls at organisational level. Re-based audit plans should provide an option for delivering an internal audit opinion only in relation to the work completed, (i.e. limited in scope).
b) A clearer focus is required on the link between the Council's critical risks, the internal audit programme, and core controls with consideration of completing quarterly or six-monthly planning reviews.
c) The audit engagement process should be redesigned, and the scope of the audits undertaken should clearly focus on the key risks and key controls under review.
IA Improvement actions
a) IA has engaged with services to develop a proposal for a re-based 2022/23 IA annual plan with the aim of ensuring a focus on the current business-critical risks and core controls aligned to available resources. Details of the proposed re-based plan is provided to Committee in the October 2022 IA quarterly update.
b) It is proposed that the annual plan is reviewed quarterly from 2023/24 onwards.
c) A review of our electronic working papers and audit methodology has been completed and the audit process has now been simplified and streamlined. Scoping of audits has also been streamlined to ensure a focus on key risks and controls, with shorter focused terms of reference.
2. Closure of Audit Actions
a) The follow-up process should be revised to review supporting evidence on a risk-based approach.

IA Improvement actions

a) The IA follow-up process has been revised, with a move from the current full review and validation of 100% of management actions to a risk-based approach based on the rating of recommendations made.

The revised approach was approved by Corporate Leadership Team in September 2022, and details of the revised approach is provided to Committee in the October 2022 Open and Overdue findings report.

3. Risk Resolution Processes and Responsibility for Acceptance of Risk

a) If the audit plan and audit engagements undertaken focused on key controls the need for risk acceptance would be far less as the audit recommendations would be more likely to align to significant matters.

b) The boundaries of responsibility require to be clearly re-drawn, internal audit are responsible for exposing the risk, management are responsible for considering and responding to this. A clear understanding must be in place that the level of risk tolerance and risk appetite is a matter for management, as are the potential consequences of deciding to accept a risk.

IA Improvement actions

a) Scoping of audits and terms of reference have been streamlined to focus on key controls. In addition, recommendations made will consider management's risk appetite in the relevant areas.

b) IA are clear on responsibilities for risk acceptance – with recognition that management is responsible for considering and responding to this. The IA risk acceptance proforma captures the service's understanding of mitigating actions and residual risk. This is processed by IA following approval from the relevant Executive Director/Chief Officer.

Details of risk acceptances are provided to the Committee on a quarterly basis.

4. Audit Reporting

a) The internal audit reporting we reviewed including the annual plan, engagement reports and annual opinion were lengthy, largely word-based documents. This makes it more difficult to ascertain key messages and hinders stakeholders who have limited time available to review and comment on the content of the reporting.

We suggest the style of reporting requires an overhaul to introduce more concise reporting with headlines key messages and use of graphics, to convey messages

IA Improvement actions

a) The style of the internal audit report has been revised to ensure that our reporting is more concise and clear, with key messages highlighted and easy to understand.

A dashboard has been introduced for monitoring and reporting IA activity including progress with implementing agreed actions; audit plan delivery and key performance indicators for both services and IA.

Reports for Committee and CLT have been streamlined to ensure a focus on key messages and scrutiny of performance.

5. Monitoring of Internal Audit Performance

a) The audit engagements reviewed were significantly over their day's budget which appears to be a frequent issue. A revision of the engagement methodology will help in this regard.

Internal Audit have a timesheet system to enable greater insight as to the usage of internal audit resources. This is a positive step and should be used to provide insight on the usage of internal audit time and comparison to budget allocations.

We also note there is an intention to introduce metrics reporting (e.g. against the audit reporting milestones) and undertake an annual stakeholder survey. We welcome both of these initiatives which will provide information on the effective delivery of the internal audit programme.

IA Improvement actions

a) The proposals for the re-based 2022/23 IA annual plan will enable delivery of the IA plan within the capacity and resource available with limited need for external co-source (PwC) resources, with the exception of audits in specialist areas such as Information Technology and Pensions.

Revisions to the IA methodology and scoping have been implemented to ensure a focus on key risks and controls only, and alignment to the time budgeted for the audit.

Timesheets are currently completed for each audit and audit stage; this data will be used to inform a realistic and achievable 2023/24 IA annual plan.

Audit surveys are issued following completion of every audit, with generally positive feedback received from service areas. Key themes are reviewed, and improvements identified where required. It is proposed that a summary of audit survey outcomes are provided to the Committee and CLT on a six-monthly basis.

6. Role of Head of Audit and Risk

a) The need for more deputising of the Head of Audit & Risk role was commented on by internal audit team members and stakeholders. Whilst it is understood deputising takes place to some degree, this is not transparent to many stakeholders who would value more 1:1 engagement with other senior internal audit team members.

b) We note that the Head of Audit took on the additional role of Head of Risk in 2020. There are adequate safeguards in place to ensure this does not impact on the independence of internal audit. However, we note that, considering the challenging environment especially in relation to debates around risk appetite, having the same individual responsible for both audit and risk, may not be the best option in this

> case. A range of voices in regard to risk management arrangements would be preferable in the longer term.

IA Improvement actions
a) The structure of the IA function is currently being reviewed to ensure less key person dependency at Head of Audit level, and to enhance opportunities for stakeholder engagement and development across the IA team.
b) The structure of the Risk Management function is also being reviewed, with the Head of Health and Safety (who has considerable local government risk management experience) currently managing the function on an interim basis.

4.14 Full details of the improvement opportunities are provided at section 3.2 (pages 12 -13) within the EQA report at Appendix 1.

5. Next Steps

5.1 Outcomes of the EQA and improvement actions will be included in IA's ongoing 'Quality Assurance and Improvement Programme' which will be monitored quarterly.

5.2 Progress updates on IIA recommendations and improvement opportunities will be provided on a quarterly basis through the IA quarterly update report.

5.3 IA will complete an ongoing annual self-assessment of compliance with the PSIAS, the outcomes of which will be reported in the IA annual opinion.

6. Financial impact

6.1 There are no direct financial impacts arising from this report, although continued failure to effectively plan audit engagements in line with available internal resources would have a financial impact.

7. Stakeholder/Community Impact

7.1 Stakeholder impacts are detailed within this report and will continue to be captured through audit surveys and summary of key themes.
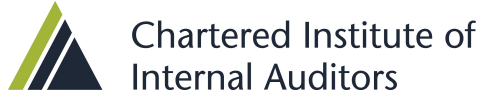
8. Background reading/external references

8.1 Public Sector Internal Audit Standards (PSIAS)

9. Appendices

9.1 Appendix 1: External Quality Assessment of Internal Audit – report by the Chartered Institute of Internal Auditors

Chartered Institute of
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16 September 2022

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REPORT

EQA

Setting the standards together

External Quality Assessment of Internal
Audit

A report for the City of Edinburgh Council

·EDINBVRGH·
THE CITY OF EDINBURGH COUNCIL

Prepared by Claire Ashby and Bethan Jones approved EQA
Reviewers for: The Chartered Institute of Internal Auditors
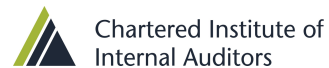
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1.1 Background and scope

The Chartered Institute of Internal Auditors (Chartered IIA) has undertaken an external quality assessment (EQA) of the City of Edinburgh Council's Internal Audit function.

The review has assessed internal audit against the Public Sector Internal Audit Standards (the PSIAS). These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) (the global framework for internal audit), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The EQA approach recognises that effective internal audit goes further than purely conformance with internal auditing standards. A quality effectiveness review is required on a 5-yearly basis under the PSIAS.

The Internal Audit team in the City of Edinburgh Council is comprised of the Head of Audit & Risk, two principal audit managers, three senior auditors and six auditors. PwC are appointed to provide co-source internal audit services. At the time of our review, one team member was on long term absence and two auditors were on secondment to City of Edinburgh Council departments to assist with the implementation of agreed management actions following internal audit engagements.

Our review included interviews with members of the internal audit team and a range of key stakeholders (see Section 5 for a full list). These interviews were supplemented by the results of a wider stakeholder survey and a survey of the internal audit team. We have also reviewed internal audit policies, procedures and reporting, the internal audit plan, follow-up protocols and a sample of working papers from recent audits.

1.2 Key Findings

Internal audit is a hard-working, meticulous and dedicated team. The team are meeting the Standards (PSIAS) required to generally conform at an overall level. They are achieving a high level of conformance with the individual standards (generally conforming on all except for two which are partial conformances). In our experience, internal audit teams in the public sector, whilst generally conforming overall, often have a far higher number of partial conformances with individual standards. We suggest the performance of City of Edinburgh Council's internal audit team in this regard is reflective of the very detailed working style of the team.

Our review has found that internal audit rely on PSIAS to justify some of the very detailed working practices they have adopted. However, on investigation we have found that some of these working practices go well beyond what is required to generally conform with PSIAS. The most obvious examples are the follow up and risk resolution processes. A lack of trust by internal audit of City of Edinburgh Council Officers is a driver for many of the working practices. Rather than the processes being designed to conform to PSIAS, the processes appear to have been developed to enable internal audit to gather, track and record information at a very detailed level throughout the audit cycle. Internal audit utilise the information gathered, as justification, when challenged by management on audit findings or other audit related matters. This approach is not conducive to building a collaborative partnership between internal audit and management.

Whilst there is evidence of some positive delivery, internal audit is facing an uphill battle in terms of being fully effective i.e. having an overall positive impact on the risk, control and governance arrangements. The overall tone of delivery is not landing in a manner which encourages engagement from the City of Edinburgh Council directorates. Internal audit are seen very much as a policing function rather than a modern, collaborative team. The latter is current best practice within the internal audit profession as the style of working which is most likely to lead to improvements in the risk, governance and control environment.

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Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit service is provided the Head of Internal Audit must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance [CIPFA Statement on the Role of the Head of Internal Audit in the Public Sector (Principle 3)]. In this context, a significant amount of adverse feedback on internal audit has been received.

In our extensive experience of undertaking EQAs, we have not previously received such a level of adverse feedback from management. The key themes in the feedback are:

- The level of detail required by the internal audit process directs limited resource away from operational priorities. This means that the City of Edinburgh Council officers are less willing to engage with internal audit.
- There is a widely held perception that internal audit work to standards beyond which the City of Edinburgh Council has the resources to achieve. In effect, the City of Edinburgh Council Officers are providing feedback that often the risk appetite of internal audit is not in line with that of officers of the Council.

We received feedback from a small number of Governance, Risk and Best Value (GRBV) Committee members and this feedback was generally of a positive nature. There is however a concern that internal audit outputs are perceived by management as being used as part of the political debates of the City of Edinburgh Council. This perception further diminishes the value placed on the function by management.

We understand the City of Edinburgh Council is a complex and resource constrained organisation. This makes it a challenging environment in which to deliver internal audit. City of Edinburgh Council officers are struggling with a large work programme and the resultant impact of the pandemic. Considering the multiple pressures on Services, internal audit delivery needs to be more proportionate and give greater consideration of the context of the environment.

We have noted the need to update the approach to designing the internal audit plan. Whilst it incorporates consideration of the key City of Edinburgh Council risks, it is presented as an audit universe comprised of City of Edinburgh Council directorates with an intention to cover all the organisation over a five-year period on a risk assessed basis (changed from a three-year cycle). We recommend that this approach is revised to focus on business-critical risks at the organisational level and core controls. A clearer focus is required on the link between the City of Edinburgh Council's critical risks, the internal audit programme, and the core controls, with quarterly or six-monthly planning reviews. Such an approach would be more proportionate and appropriate in the resource constrained City of Edinburgh Council environment.

We noted the audits we reviewed went over the allocated days budget (significantly in some cases). This has been explained as due to issues with City of Edinburgh Council engagement and internal audit team efficiency. The audit engagements often have a wide scope and cover processes at a very detailed level. We suggest that audits with tighter scopes focused clearly on key controls would assist in building an assurance picture for the annual opinion and provide more proportionate feedback for management together with being less onerous for those being audited.

Internal audit are able to provide many examples of lack of engagement from colleagues e.g. push back on audit priorities, delays in receiving responses to audit scope documents and reports. We understand this reflects both the environment (with many priorities) but is also a result of management not wanting to engage with internal audit due to the time that is required to fulfil audit requirements.

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In the last 4 years, internal audit has struggled to deliver the annual plan. In 2021/22, £350k was requested from the internal audit budget to provide additional resource from PwC to deliver a re-based plan (we have been advised that the actual amount spent was less). The fact that the delivery of the plan has not been achievable year-on-year, suggests a significant change is needed in the way the plan is designed and delivered to avoid annual re-occurrence of the same challenge. We also note that the re-based plan did not provide an option for delivering an internal audit opinion only in relation to the work completed (i.e. limited in scope). This is an approach which can be adopted by internal audit when there are challenges delivering the approved audit programme and could be considered in future.

We have received some examples of positive feedback on internal audit activities in relation to agile/advisory reviews (where the pandemic has required fast design or re-design of process and controls). This work is more collaborative in nature and has been welcomed by stakeholders as providing a valuable contribution to the control environment.

We have made a number of recommendations to revise internal audit working practices with a view to the team adopting an approach which focuses on key risks and core controls whilst considering the context and challenges of the public sector environment of the City of Edinburgh Council.
We feel there is an onus on internal audit to revisit its approach and build an approach which recognises the maturity of the risk framework and has stakeholder buy-in to ensure an annual opinion can be delivered without the need for additional resource or significant plan revisions.

This EQA was undertaken in February 2022 and the draft report issued in March 2022. Following discussions with management, the final report is being issued in August 2022. We note that since we issued the draft report, the Head of Internal Audit has left the City of Edinburgh Council.

We would like to thank the internal audit team and stakeholders for their input and assistance to the review process.

1.3 Assessment conclusion

We have concluded that City of Edinburgh Council's internal audit team is generally conforming with the PSIAS which includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

On the following pages we provide:

- A SWOT analysis highlighting the key themes from our review. (section 1.4)
- Further details on our conformance opinion. (section 1.5)

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1.4 SWOT Analysis

Strengths What works well	Weaknesses What could be done better
• Hardworking internal audit team with professional qualifications at a senior level. • Detailed internal audit policy and procedure documents. • Internal Audit Charter setting out remit, authority and scope. • Independent internal audit reporting line to the GRBV Convenor. • Co-source partner arrangement providing specialist skills where required. • Tracking system for management actions with access for stakeholders.	• Completion of the annual audit programme within the financial year (without use of additional co-source resource over and above the planned co-source requirement). • Tone of engagement with City of Edinburgh Council officers which aligns to a traditional "policing style" of internal audit. • Building constructive relationships with management stakeholders. • More concise reporting with clarity of headline messages. • Overly detailed requirements for closure of audit actions. • Efficiency in internal audit working practices (with a heavy focus on capturing and tracking detailed information for all audits).
Opportunities What could deliver further value	**Threats** What could stand in your way
• Adopting a more collaborative, business partnering engagement style. • Changing the approach of the internal audit plan to concentrate on the top critical City of Edinburgh Council risks. • Undertaking a greater range of types of engagements from lighter-touch health checks to in-depth and in progress reviews. • Simplification of the audit methodology including removing some of the administrative burden of capturing and tracking detailed information. • More advisory and upfront reviews to promote good practice controls and governance frameworks as arrangements are designed. • Clear linkage between the output of engagements and top-level risks. • Shorter, less wordy reporting with greater use of dashboards and summary information. • Enhancing metrics reporting and reporting on the use of internal audit team time.	• Excessive application of and reference to the PSIAS at the expensive of effective working practices. • Internal audit outcomes are perceived as being used as part of the political workings of the City of Edinburgh Council. • Willingness and ability of the internal audit team to adopt proportionate working practices throughout the audit cycle. • Stakeholder engagement with internal audit processes and ability to accommodate audit requirements. • Over-reliance on the Head of Audit & Risk without sufficient delegation and deputising to other internal audit team members. • A lack of trust in the relationship between internal audit, the directors and senior management.

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1.5 Conformance opinion

The Public Sector Internal Audit Standards (PSIAS) includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the City of Edinburgh Council's internal audit function generally conforms to 59 of these principles with 3 not currently applicable, and 2 partial conformances. This is summarised in the table below.

Overall, the department **Generally Conforms** to the PSIAS.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not applicable	Total
Definition of IA and Code of Ethics	**Rules of conduct**	12	-	-	-	**12**
Purpose	**1000 - 1130**	8	-	-	-	**8**
Proficiency and Due Professional Care (People)	**1200 - 1230**	4	-	-	-	**4**
Quality Assurance and Improvement Programme	**1300 - 1322**	6	-	-	1	**7**
Managing the Internal Audit Activity	**2000 - 2130**	9	2	-	1	**12**
Performance and Delivery	**2200 - 2600**	20	-	-	1	**21**
Total		**59**	**2**	**-**	**3**	**64**

*Not applicable standards relate to: disclosure of non-conformance with the PSIAS and use of an outsourced internal audit provider.

2.1 Audit Planning (to address partial conformance with standard 2010)

The audit planning approach has been in place for a number of years. It is based on a risk assessment of the activities of the City of Edinburgh Council with an aim to cover all areas over a five-year cycle. Whilst we have been advised there is a good alignment between the critical Council risks and the plan, the presentation of the plan does not set out the critical risks as the basis of the plan (they are incorporated into the detailed commentary). The objective of covering all areas over a 5-year cycle does not align to focusing the audit plan on business-critical risk areas.

Utilising the City of Edinburgh Council's strategic risks as the basis of the risk register is the good practice approach. Where internal audit has a differing view on the strategic risks, this should be explored with management and explained in the audit plan. Fundamental aspects of the control environment such as financial controls, governance and risk management may also be identified as core audit areas. Within the internal audit profession, there has been a move to shorter term plans (e.g. re-assessing audit priorities each quarter) to ensure the plan aligns to the changing risk environment.

We note the internal audit plan is largely comprised of detailed reviews of areas generally ranging from 20 to 30 budget days (although in practice the audits often take many more days to execute – see section 3.2). A range of engagement types, from more detailed reviews to lighter touch health-checks, broad scope reviews to those with a very narrow scope, would provide a more nuanced approach to coverage of critical risks and core controls. For example, if the key processes mitigating a risk area are not yet fully designed and implemented, internal audit may undertake a short, sharp review to flag the key improvement areas. A more detailed review may then be appropriate once the key processes have been designed and embedded.

We note that internal audit has undertaken some "in progress" reviews on major projects and upfront reviews of process changes in response to Covid. We would encourage greater focus on this type of activity, which helps ensure adequate controls are adopted from the start of activities.

Considering the challenges in delivering the annual opinion, highlighting the top priority engagements which directly feed the internal audit opinion, is a good practice way of building a plan. This approach ensures it is clear from the outset which engagements must be undertaken.

Recommendation	Response and Action Date
We recommend that the methodology for the design of the audit plan is updated to ensure a risk-based approach focused more on the City of Edinburgh Council's strategic risks, core governance and control areas. We recommend the approach includes: • Presentation of the plan starting from the City of Edinburgh Council's critical risks with demonstration of alignment and explanations of any different views held by internal audit on the risk areas. • A mix of engagement styles from more light-touch to more in-depth reviews and upfront advisory work. • Highlighting the engagements on which the annual opinion has a key dependency at the outset to ensure these can be prioritised for delivery.	Agreed, the methodology applied to the risk and control effectiveness assessments supporting the IA annual plan was revised in March 2021 to align with the Council's refreshed operational risk management framework and therefore the City of Edinburgh Council's key risks. This included extending the rolling coverage of all areas from 3 to 5 years and introducing a range of engagement styles (including light-touch Covid-19 reviews and consultancy work). It is acknowledged that further refinement of the annual planning process would be beneficial to enable a dynamic and flexible approach aligned to priorities and available resources. This will be taken into consideration for the mid-year review of the 2022/23 plan and the 2023/24 plan year onwards. **Action date: 31 March 2023**

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2.2 Audit Co-ordination (to address partial conformance with standard 2050)

Internal audit should co-ordinate with other assurance providers, placing reliance where possible on their work, and avoiding duplication. Internal audit has explained that there is very limited second line assurance activity which can inform the internal audit work programme. The City of Edinburgh Council does not have an integrated model of assurance. Internal audit does take account of the work of the health & safety team, regulators and other assurance providers such as the external auditors.

Recommendation	Response and Action Date
As the maturity of the risk management framework improves and further second line activity is embedded (e.g. in the role of the Operations Managers), the approach to internal audit planning should be re-considered to take account of other sources of assurance even if they are not yet fully mature.	Agreed, work is ongoing to design and roll-out the City of Edinburgh Council's Governance and Assurance framework which will help coordinate and / or complete first line governance; risk management; and assurance activities which IA can then take account of and place reliance on. The framework is expected to be operational by 31 March 2023. In the interim, and in addition to the above, IA will take into account other first line assurance processes and sources in operation when planning engagements to establish the extent to which reliance can be placed and to avoid duplication where possible. **Action date: 30 June 2023**

3

Supporting continuous improvement

The Chartered IIA regards conforming with the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against a range of professional practice seen during our EQA reviews and through other interviews with heads of internal audit. This is summarised in the internal audit maturity matrix – see below.

We then make suggestions for further development based upon the wide range of guidance published by the Chartered IIA.

It is our aim to offer advice and a degree of challenge to help internal audit functions continue their journey towards best practice and excellence.

In the following pages we present this advice in two formats:

- A matrix describing the key criteria of effective internal audit, highlighting the level that the team has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. (See 3.1)
- A series of continuous improvement opportunities and suggestions which the internal audit team should use as a basis for future development. (See 3.2)

3

Supporting continuous improvement

3.1 Maturity matrix (yellow highlight indicates current position of the Internal Audit team)

		IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
assessment levels	Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally, Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3rd line function. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget, using tools / techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
	Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
	Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising
	Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
	Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

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3.2 Improvement opportunities

This section of the report details additional feedback and observations which, if addressed, could strengthen the impact of internal audit. These observations are not conformance points but support the department's ongoing development.

These suggestions do not require a response and will not form part of any subsequent follow up, if undertaken.

3.2.1 Engagement Audit Methodology

The methodology for audit engagements is very detailed in nature. Whilst there are some higher-level pieces of work, we note that the majority of audit engagements have a wide scope and cover the related policies and procedures in depth. We received feedback from both stakeholders and internal audit team members that this makes the audit process very challenging and time-consuming. We also noted that the internal audit team record information in great detail on the working papers (for example, every email relating to an audit is uploaded to the file). We suggest that the audit engagement process is redesigned with a view to:

- Focusing the scope of the audits on the key risks under review versus the breadth of activities of the department/topic in question.
- Setting the testing strategy to ascertain the effectiveness of key controls at a reasonable level.
- Removing the administrative burden on internal audit to track and record information at a comprehensive level. We suggest a more proportionate approach to collecting and recording information is adopted.

3.2.2 Closure of Audit Actions

The internal audit team verify evidence before the closure of any agreed management actions arising from audits. We note that the evidence requirements are very thorough in nature and in some cases, management are required to provide evidence an action has been in place for a quarter before closure is agreed. This approach was adopted after an exercise to review closed management actions which resulted in a large number being re-opened. As a result of the approach taken, 625 days (out of a total budget of 1870 days / 33% of the budget) was allocated from the internal audit budget to follow up activity.

It is unusual to see an approach whereby 100% of agreed management actions are fully verified to detailed evidence (even in cases where a review has re-opened previously closed actions). The approach adopted appears to stem from a lack of trust in the information provided by management. We would expect an approach whereby actions are verified on a risk-prioritised basis. In many cases, confirmation from Directors with minimal supporting evidence that actions have been addressed should be sufficient to close actions. In our view, the current approach utilises a disproportionate amount of internal audit and management resource to the benefits achieved by verification of every agreed action.

We suggest that the follow up process is revised to review supporting evidence on a risk basis approach.

3.2.3 Risk Resolution Processes and Responsibility for Acceptance of Risk

There is a risk resolution process in place (completion of a form by management explaining the risk acceptance rationale) and management are advised that they can risk accept any audit findings. In theory, this process does appear to ensure that risks within the risk appetite of management are risk accepted. Management have provided feedback that internal audit has a higher threshold of risk appetite than is practical considering the resource constraints of the City of Edinburgh Council.

We suggest that if the audit plan and audit engagements undertaken focused on key controls the need for risk acceptance would be far less as the audit recommendations would be more likely to align to significant matters.

In addition, it appears that the boundaries of responsibilities need to be clearly re-drawn – internal audit are responsible for exposing the risk, management are responsible for considering and responding to this. A clear understanding must be in place that the level of risk tolerance and risk appetite is a matter for management, as are the potential consequences of deciding to accept a risk.

3.2.4 Audit Reporting

The internal audit reporting we reviewed including the annual plan, engagement reports and annual opinion were lengthy, largely word-based documents. This makes it more difficult to ascertain key messages and hinders stakeholders who have limited time available to review and comment on the content of the reporting. We suggest the style of reporting requires an overhaul to introduce more concise reporting with headlines key messages and use of graphics, to convey messages.

3.2.5 Monitoring of Internal Audit Performance

The audit engagements we reviewed were significantly over their day's budget. We have been advised, by members of the internal audit team, that this is a frequent issue. A revision of the engagement methodology will help in this regard. We have been advised that internal audit have a timesheet system to enable greater insight as to the usage of internal audit resources. This is a positive step and should be used to provide insight on the usage of internal audit time and comparison to budget allocations.

We also note there is an intention to introduce metrics reporting (e.g. against the audit reporting milestones) and undertake an annual stakeholder survey. We welcome both of these initiatives which will provide information on the effective delivery of the internal audit programme.

3.2.6 Role of Head of Audit & Risk

We have the following observations on the Head of Audit & Risk role:

- The need for more deputising of the Head of Audit & Risk role was commented on by internal audit team members and stakeholders. Whilst it is understood deputising takes place to some degree, this is not transparent to many stakeholders who would value more 1:1 engagement with other senior internal audit team members.

- We note that the Head of Audit took on the additional role of Head of Risk in 2020. There are adequate safeguards in place to ensure this does not impact on the independence of internal audit. However, we note that, considering the challenging environment especially in relation to debates around risk appetite, having the same individual responsible for both audit and risk, may not be the best option in this case. A range of voices in regard to risk management arrangements would be preferable in the longer term.

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Global grading definitions

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4.1 Definitions

The following rating scale has been used in this report:

Generally, Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating.

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5.1 Stakeholder interviews and surveys

The following individuals were interviewed by video conference as part of the review. Stakeholder surveys were also sent to City of Edinburgh Council Directors, Service Heads and GRBV Committee members. We received 11 responses. 11 internal audit team members also received and responded to a staff survey. The comments received are reflected in the body of this report.

Stakeholder / Internal Audit Team	Title/position
City of Edinburgh Council Officers	
Hugh Dunn	Service Director, Finance and Procurement
Amanda Hattan	Executive Director, of Education and Children's Services
Andrew Kerr	Chief Executive
Paul Lawrence	Executive Director of Place
Stephen Moir	Executive Director, Corporate Services
Nick Smith	Service Director, Legal and Assurance
Judith Proctor	Chief Officer of the Edinburgh Health and Social Care Partnership
GRBV Members	
Phil Doggart	Elected Member and Chair of EIJB Audit and Assurance Committee
Joanne Mowat	Convenor of GRBV
Other	
Nick Bennett (Partner) and Karen Jones (Director)	Azets (External Auditors)
Fraser Wilson (Partner) and Eye Ayeni (Senior Associate)	PwC (Co-source Partners)

0

Stakeholder / Internal Audit Team	Title/position
Internal Audit Team Members	
Lesley Newall (no longer an employee of City of Edinburgh Council)	Head of Internal Audit & Risk
Laura Calder	Principal Audit Manager
Colin McCurley	Principal Audit Manager

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External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
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6.1 Disclaimer

Disclaimer: This review was undertaken in January and February 2022 by Claire Ashby and Bethan Jones on behalf of the Chartered Institute of Internal Auditors UK and Ireland. The review was carried out remotely due to the restrictions resulting from the COVID-19 pandemic. This report provides management and the GRBV Committee of City of Edinburgh Council with information about the internal audit function as at that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of internal audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit nor aimed to verify their conclusions.

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Governance, Risk and Best Value Committee

10:00am, Tuesday, 11 October 2022

Internal Audit: Open and Overdue IA Findings – Performance Dashboard as at 31 August 2022

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1. Recommendations

1.1   It is recommended that the Governance Risk and Best Value Committee:

1.1.1   notes the improved status of the overdue Internal Audit (IA) findings as at 31 August 2022;

1.1.2   notes that IA has implemented a revised risk-based approach to validating follow-up of agreed management actions;

1.1.3   refers this paper to the relevant Council Executive committees for ongoing scrutiny of their relevant overdue management actions; and

1.1.4   refers this paper to the Edinburgh Integration Joint Board Audit and Assurance Committee for information in relation to the current Health and Social Care Partnership position.

Laura Calder
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Legal and Assurance, Corporate Services Directorate

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Internal Audit: Open and Overdue IA Findings – Performance Dashboard as at 31 August 2022

2. Executive Summary

Progress with closure of open and overdue Internal Audit findings

2.1 The overall progress status for closure of overdue IA findings as at 31 August 2022 remains positive with improvement evident, based on progress compared to the position reported in March 2022.

2.2 The proportion of overdue findings and associated management actions continues to decrease, a continued improvement from the position as at March 2022 and a significant improvement when compared to August 2021.

2.3 There has also been a continued decrease in the number of findings that are more than one year overdue when compared with August 2021.

2.4 Whilst the number of findings that are between 90-365 days overdue also continues to decrease, there has been an increase in the number of new overdue findings (less than 90 days overdue) since March 2022.

Progress with closure of open and overdue management actions

2.5 As at 31 August 2022, there were a total of 141 management actions supporting closure of 71 internal audit findings. 20 of the 141 actions were overdue (14%), a decrease of 30 when compared to March 2022, and a decrease of 110 when compared to the same period last year.

2.6 Further detail on the status of open and overdue findings and actions as at 31 August 2022 is provided in the open and overdue IA dashboard at Appendix 1. This includes a comparison with March 2022 and August 2021.

2.7 Seven management actions were closed based on management's acceptance of risk during the period 1 April to 31 August 2022.

Risk based approach to validation and closure of management actions

2.8 Following the Institute of Internal Auditors (IIA) External Quality Assessment (EQA) of IA, and in recognition of both the improved open and overdue position as at 31 August 2022, and the Amber IA 2021/22 annual opinion, IA has introduced a more

risk-based and proportionate approach to validating follow-up of agreed management actions.

3.   Background

Open and overdue IA findings and agreed management actions

3.1   Progress in implementing open and overdue findings raised in IA reports are reported monthly to the Corporate Leadership Team (CLT) and quarterly to the GRBV Committee.

3.2   This report specifically excludes open and overdue findings that relate to the Edinburgh Integration Joint Board (EIJB) and the Lothian Pension Fund (LPF). These are reported separately to the EIJB Audit and Assurance Committee and the Pensions Audit Sub-Committee respectively.

4.   Main report

4.1   Figure 1 of the IA activity dashboard at Appendix 1 illustrates that as at 31 August 2022 there were 71 open IA findings across the Council, with 16 findings (23%) overdue.

4.2   The movement in open and overdue IA findings during the period 31 March to 31 August 2022 is shown at figure 2 highlighting the number of overdue findings decreased from 23 to 16.

4.3   The 16 overdue findings comprise 7 High; 8 Medium; and 1 Low rated findings. This is a continued reduction from the position as at March 2022, and a significant reduction compared to the position as at August 2022 (see figure 3).

Overdue findings ageing analysis

4.4   Figure 4 illustrates the ageing profile of all 16 overdue findings by rating as at 31 August 2022 and shows a continued decrease in the number of findings overdue for more than 1 year (down 1; from 9 to 8) when compared to the March 2022 and August 2021 position.

4.5   Figure 5 also demonstrates a significant reduction in the number of findings overdue for more than 1 year when compared to August 2021 (from 27 to 8).

4.6   The analysis of the ageing of the 16 overdue findings across directorates shown at figure 5 highlights that improvements are needed to ensure open findings are addressed in line with originally agreed implementation dates, with an increase in the number of new overdue findings less than 90 days old since March 2022 (up 3; from 1 to 4).

4.7   Figure 5 illustrates an improvement in the number of findings between 90-365 days old when compared to the March 2022 position.

Agreed management actions analysis

4.8   The 71 open IA findings are supported by a total of 141 agreed management actions. Figure 6 illustrates that 121 actions are not yet due (86%), while 20 (14%) are overdue. This reflects an 23% decrease from the March 2022 overdue position (37%).

4.9   Figure 7 illustrates the allocation of the 20 overdue management actions across directorates. The Place directorate has the highest number of overdue actions (13) however, improvement is evident when compared to the position in March 2022 and August 2021. The number of overdue actions for Corporate Services, the Education and Children's Services directorate and the Health and Social Care Partnership has also reduced since last quarter and with a continued reduction compared with August 2021.

4.10   Four actions are currently being reviewed by IA. IA has continued to achieve the established KPI for reviewing all implemented management actions within four weeks of the date they are proposed for closure by management.

4.11   Appendix 2 provides an analysis of the 20 overdue management actions highlighting their status as at 31 August 2022 with:

- 11 actions where the latest implementation date has been missed and not revised; and,
- 6 actions where the implementation date has been revised more than once.

Revised implementation dates

4.12   Figure 8 illustrates that there are currently 6 overdue management actions across directorates where completion dates have been revised between two and six times. This reflects a reduction of 12 in comparison to the position at March 2022 (18).

4.13   It should be noted this is a significant improvement compared to the position of the same period last year (48 actions had revised dates).

Management actions closed based on management's acceptance of risk

4.14   Management periodically review audit actions to consider whether they remain appropriate and whether there has been any movement on risks originally identified at the time of the audit. In line with agreed audit processes management can request that a risk is closed based on management's risk acceptance aligned to risk appetite.

4.15   Management are required to complete a risk acceptance proforma which provides rationale for the risk acceptance including details of mitigating controls in place, the residual risk following application of controls and any further action planned. The risk acceptance must be approved by the appropriate Executive Director/Chief Officer.

4.16   Seven management actions were closed based on management's acceptance of risk during the period 1 April to 31 August 2022. Details of the seven risk accepted actions are provided below:

Directorate	Audit	Date raised	Rating	Management rationale
Place	Life Safety	October 2020	Low	1 action partially risk accepted by management which is related to water risk assessments for low rise properties.
	HMO Licensing	August 2019	Low	1 action risk accepted by management related to HMO performance monitoring and reporting.
Health and Social Care	Care Homes	June 2018	Medium	2 actions partially risk accepted by management related to training and agency staffing.
	Localities	June 2020	High	3 actions partially risk accepted by management in relation to locality operational plans; workforce plans and performance monitoring.

Risk based follow-up approach

4.17   The Institute of Internal Auditors (IIA) External Quality Assessment (EQA) of the Council's IA function, highlighted that the previous IA approach of fully verifying 100% of management actions to detailed evidence is unusual practice.

4.18   In addition, the IIA noted that the previous approach utilised a disproportionate amount of IA and management resource to the benefits achieved by verification of every agreed action.

4.19   In response to the IIA advice, and in recognition of both the improved open and overdue position as at 31 August 2022 as detailed in this report, and the Amber IA 2021/22 annual opinion reported to Committee in August 2022, IA has introduced a more risk-based and proportionate approach to validating follow-up of agreed management actions.

4.20   Management are still required to complete management actions in line with agreed implementation dates and provide IA with supporting evidence to confirm completion of all actions via the IA Team Central System.

4.21   All High priority actions will continue to be reviewed and validated by IA. A sample of Medium priority actions will be reviewed, and while IA will no longer validate completion of Low priority actions, management will continue to provide confirmation and evidence that these are complete within agreed timescales via a self-attestation.

4.22   The evidence requirements and the depth of IA review and validation will now be proportionate to the risk identified within the original audit report.

4.23   A sample of previously completed High, Medium and Low actions will continue to be reviewed as part of the annual Validation Audit to confirm whether management actions implemented to address audit findings raised in previous years have been sustained and remain effective.

5.   Next Steps

5.1   IA will continue to monitor the open and overdue findings position providing monthly updates to the CLT and quarterly updates to the GRBV Committee.

5.2   IA will review implementation of the revised follow-up approach to ensure it remains effective and that risks identified in audit reports are being effectively managed by adequate governance and control frameworks.

6.   Financial impact

6.1   There are no direct financial impacts arising from this report, although failure to close findings and address the associated risks in a timely manner may have some inherent financial impact.

7.   Stakeholder/Community Impact

7.1   If agreed actions supporting closure of IA findings are not implemented by management, the Council will be exposed to the risks set out in the relevant audit reports. IA findings are raised due to control gaps or deficiencies identified during reviews; therefore, overdue items inherently impact upon effective risk management, compliance and governance.

8.   Background reading/external references
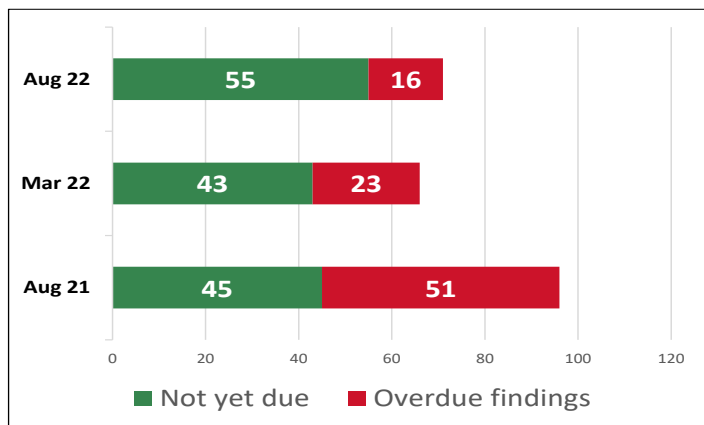
8.1   Internal Audit Open and Overdue Findings as at 31 March 2022 – shared via MS Teams 14 June 2022

9.   Appendices

9.1   Appendix 1: IA open and overdue findings and actions dashboard as at 31 August 2022

9.2   Appendix 2: IA Overdue Management Actions as at 31 August 2022

Appendix 1: IA open and overdue findings and actions dashboard as at 31 August 2022 (1)
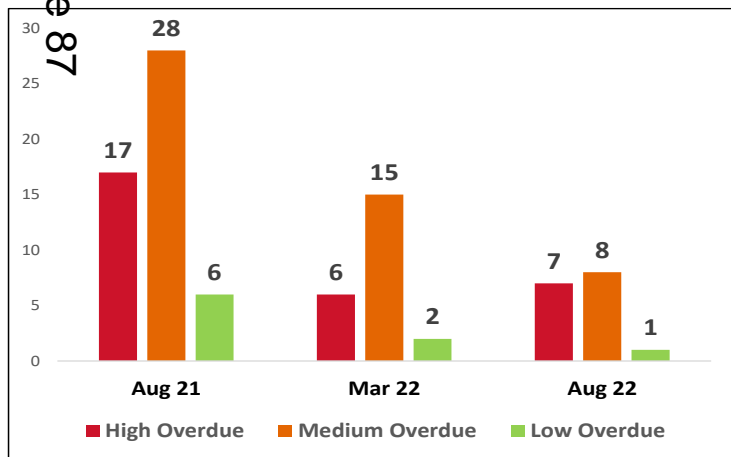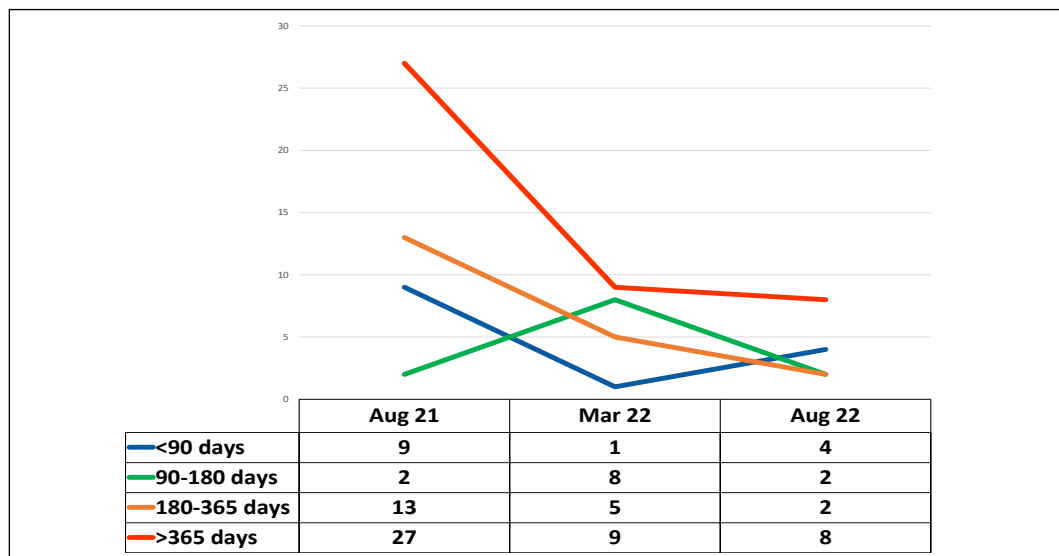
1. Open and overdue findings trends

Aug 22: Not yet due 55, Overdue findings 16
Mar 22: Not yet due 43, Overdue findings 23
Aug 21: Not yet due 45, Overdue findings 51

Legend: Not yet due, Overdue findings

2. Analysis of changes between March 2022 to August 2022

	Total 31/03/22	New	Closed	Total 31/08/22	Trend
Open findings	66	29	24	71	↑
Overdue findings	23	8	15	16	↓

3. Overdue findings by rating

Aug 21: High Overdue 17, Medium Overdue 28, Low Overdue 6
Mar 22: High Overdue 6, Medium Overdue 15, Low Overdue 2
Aug 22: High Overdue 7, Medium Overdue 8, Low Overdue 1

Legend: High Overdue, Medium Overdue, Low Overdue

4. Overdue findings by age - trends

	Aug 21	Mar 22	Aug 22
<90 days	9	1	4
90-180 days	2	8	2
180-365 days	13	5	2
>365 days	27	9	8

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5. Aged findings by rating and directorate

	60-90 days				90-180 days				365+ days		
	Place	Corporate Services	Education and Children's Services	Health & Social Care	Place	Corporate Services	Education and Children's Services	Health & Social Care	Place	Corporate Services	Education and Children's Services
Low	0	0	0	0	0	0	0	0	0	1	0
Medium	1	0	0	0	1	0	1	0	4	1	0
High	0	1	1	1	0	1	0	1	1	0	1
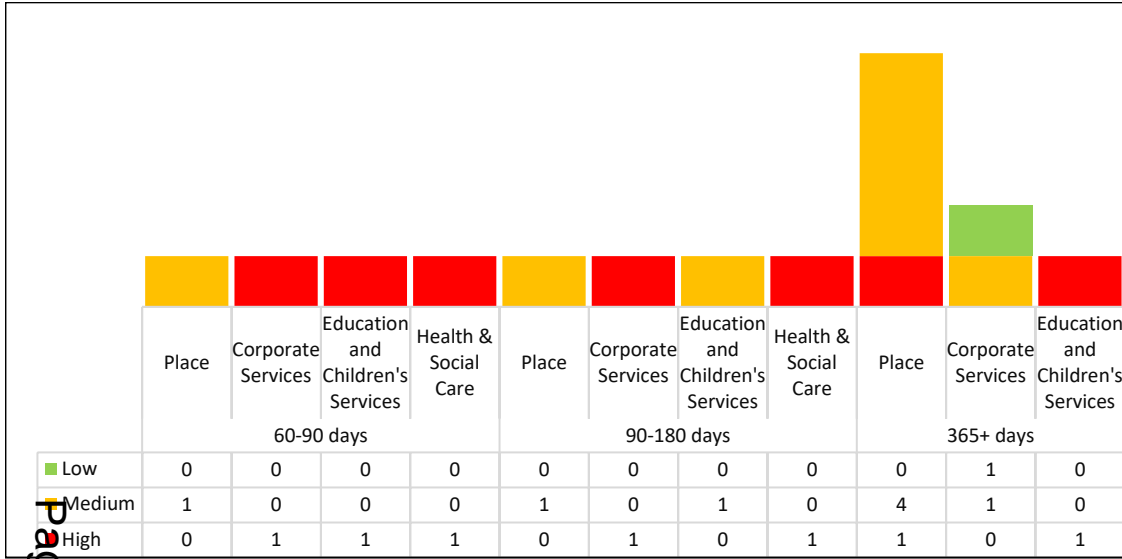
6. Management actions by status – trends

Overdue actions: 130, 50, 20
Not yet due: 103, 85, 121

Aug 21   Mar 22   Aug 22
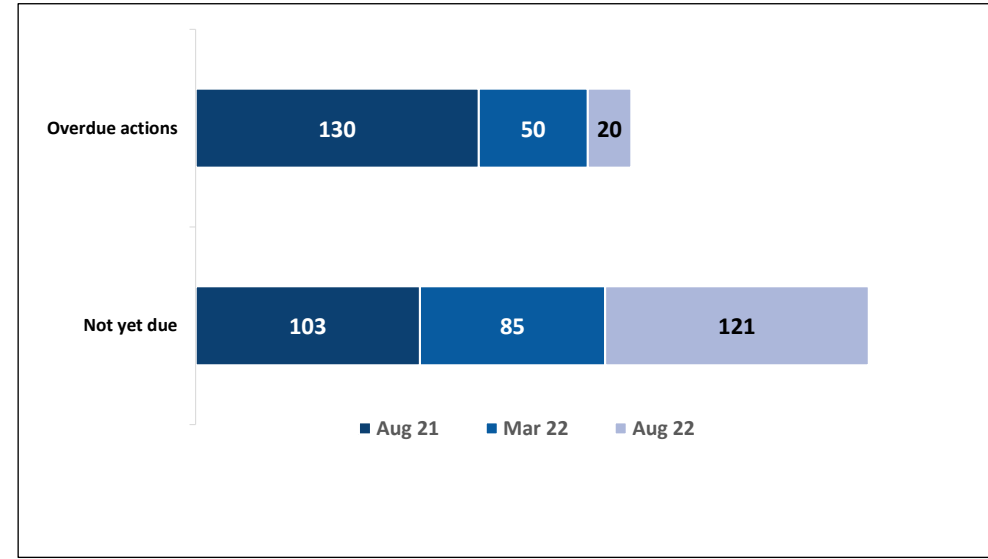
7. Overdue management actions by directorate

Place: 41, 20, 13
Corporate Svs: 38, 13, 4
ECS: 25, 7, 2
EHSCP: 26, 10, 1

Aug-21   Mar-22   Aug-22
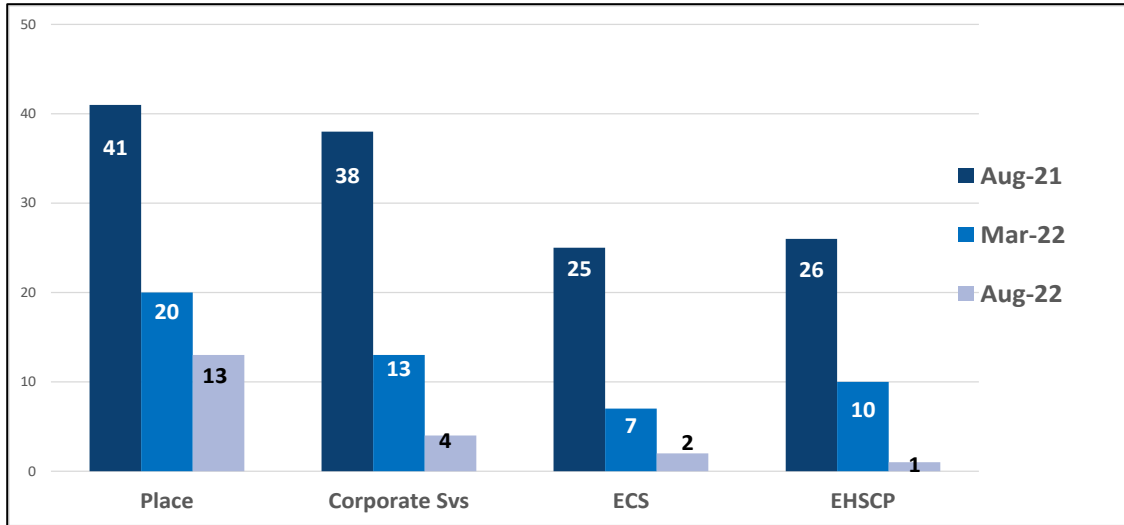
8. Management actions – missed and revised dates

Latest date missed: Aug 21 70, Mar 22 6, Aug 22 11
Date revised > once: Aug 21 48, Mar 22 18, Aug 22 6

Aug 22   Mar 22   Aug 21

Governance, Risk and Best Value Committee – 11 October 2022

Back to main report
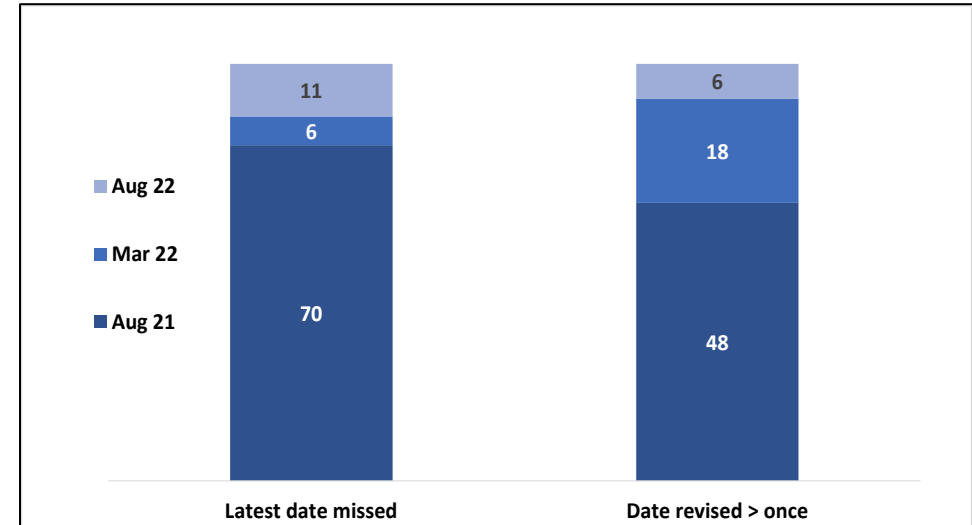
Appendix 2 - Internal Audt Overdue Management Actions as at 31 August 2022

Ref	Executive Committee	Audit Code	Directorate	Audit Name	Rating	Recommendation Title	Agreed Management Action	Status	Est.Date	No of Revisions	Revised Date	Management update 31 August 22
1	Education, Children and Families	CW1914	Education and Children's Services	Unsupported Technology (Shadow IT) and End User Computing	High	CW1914 Rec 2.1c - Second line assurance and oversight	The following actions were discussed and agreed by the Council's Corporate Leadership Team and will be applied by all first line divisions and directorates. 1. Services will confirm whether they are consistently applying shadow IT framework and meet the requirements of the Council's externally hosted ICT services protocol in their annual assurance statements, and with any gaps or instances of non-compliance disclosed; 2. Reliance will be placed on third line oversight by Internal Audit (IA), acknowledging that the assurance provided in relation to the ongoing management of shadow IT technology applications across the Council will be considered as part of IA's ongoing risk based assurance proposals, with assurance unlikely to be provided on an ongoing basis.	Implemented	30/07/2021	1	31/08/2022	N/A IA review of evidence currently in progress.
2	Finance and Resources	RES1813	Place	Asset Management Strategy and CAFM system 18/19	Medium	3.2 Resolution of known data quality issues	• A reconciliation of the two lists has been performed and there are no obvious discrepancies other than properties which are out with the scope of the survey team. • The viability of establishing a referencing system for concessionary lets in the CAFM system will be explored. • The volume and value of known concessionary lets across the Council Estate will form part of the Annual Investment Portfolio update which is reported to the Finance and Resources committee. • There is an ongoing work stream looking at vacant and disposed properties and the systems updates required.	Started	31/03/2016	4	01/11/2022	Evidence has been provided to Internal Audit on reconciliation and vacant/disposed properties work. Additional work was required to be carried out on defining and understanding the scale of concessionary lets before this could be incorporated into CAFM. Revised date of 01/11/22 expected to be achieved.
3	Finance and Resources	RES1712	Place	Asset Management Strategy	Medium	Review of existing shared property	A review of the office estate is underway by the Operational Estates team to identify third party users and approach them to seek appropriate leases or licences to allow them to occupy the premises and ensure the Council is appropriately reimbursed.	Started	31/10/2018	3	01/06/2026	Work ongoing. Target date of 01/06/2026 expected to be achieved.
4	Finance and Resources	CW1702	Place	Resilience	High	Rec 6.2a Place - Annual assurance from Third Party Providers	Following receipt of initial assurance from all third party providers for statutory and critical services (as per rec 6.1), annual assurance that provider resilience plans remain adequate and effective should be obtained. This should include confirmation from the provider that they have tested these plans and recovery time objectives for systems and recovery time and point objectives for technology systems agreed with the Council were achieved. It is recommended that contract managers include this requirement as part on ongoing contract management arrangements.Where this assurance cannot be provided, this should be recorded in Service Area and Directorate risk registers. Date revised to reflect that following receipt of initial assurance by 31 March 2021, annual assurance should be obtained by 31 March 2022.	Started	28/06/2019	3	30/06/2022 Revised to 31/12/2022	Review of third party contracts ongoing with contract managers/owners. Date has been revised to 31 December 2022
5	Finance and Resources	CW1702	Place	Resilience	High	Rec 6.1a Place - Review of third party contracts to confirm appropriate resilience arrangements	Existing third party contracts supporting critical services should be reviewed by Directorates in consultation with contract managers / owners to confirm that they include appropriate resilience arrangements. Where gaps are identified, Procurement Services should be engaged to support discussions with suppliers regarding inclusion of appropriate resilience clauses requiring third parties to establish adequate resilience arrangements for both services and systems that are tested (at least annually) with the outcomes shared with / provided to the Council. Where these changes cannot be incorporated into existing contracts, they should be included when the contracts are re tendered.	Started	20/12/2019	5	30/06/2022 Revised to 31/12/2022	Review of third party contracts ongoing with contract managers/owners. Date has been revised to 31 December 2022.
6	Finance and Resources	CW1913	Place	Drivers - findings only report	Medium	1.3 - Driver permit revocation	1. A standard reminder e mail will be prepared by the Head of Place Development and issued to employees and their line managers where permission forms have not been received 10 days prior to their expiry. 2. The e mail will highlight that driver permits will be revoked if they are not received by the required date, and employees and line managers will be made aware that they are no longer eligible to drive for the Council and 9for vocational and agency drivers) that they are no longer covered by Council insurance. 3. and 4 Permits will be revoked where permission forms are not received on time and e mail confirmation provided to employees and line managers reminding them that they can no longer drive on behalf of the Council.	Started	04/05/2020	2	30/11/2022	An alternative process for permit revocation was trialled but found to require tweaking. This was recently re-based and a further trial is being conducted. This will be reviewed in early October 2022 and if successful then IA will be invited to conduct sampling.
7	Finance and Resources	RES1903	Corporate Services	Budget Setting and Management	Low	RES 1903 Issue 3.2: Finance customer and staff feedback surveys	Finance will conduct customer and staff feedback exercises every two years. A feedback process will be developed and implemented that is aligned with the lessons learned methodology as described in recommendation 3.1. In addition, feedback from each exercise will be consolidated and used to generate improvement actions. The survey results and improvement actions will be reported to service managers and staff.	Started	31/12/2020	4	31/12/2022	First draft of of survey completed. Will be finalised during September.

Ref	Executive Committee	Audit Code	Directorate	Audit Name	Rating	Recommendation Title	Agreed Management Action	Status	Est.Date	No of Revisions	Revised Date	Management update 31 August 22
8	Finance and Resources	RES1809	EHSCP	Supplier Management Framework and CIS Payments	High	RES1809 Issue 1.2(1): Supplier management quality assurance - H&SCP	Health and Social Care Partnership Quality assurance monitoring is performed over the two Partnership contracts included in the Internal Audit sample, through the Multi Agency Quality Assurance meetings held every two months – one for care at home/care and support, and another one for care homes and adult residential. The terms of reference of this enhanced monitoring arrangement include care inspectorate grades and care service feedback complaints. There are also areas of excellent practice with some weekly supplier meetings and ongoing monitoring, and some suppliers have payment terms that are linked to quarterly performance (for example the Sustainable Community Support Programme). These recommendations are accepted and will be implemented following implementation of the refreshed Contracts management framework (that includes an enhanced contract risk assessment matrix for the Partnership) and refresh of the Partnership contracts register.	Pending	29/06/2021	1	30/09/2022	We are working to implement our risk management approach and this is tied to the rollout of the Council's risk management approach which has been delayed. The Partnership risk management framework will be rolled out and in place by the deadline specified.
9	Finance and Resources	CW1914	Education and Children's Services	Unsupported Technology (Shadow IT) and End User Computing	Medium	CW1914 Rec 1.4d - Review of existing shadow IT contracts	The following actions were discussed and agreed by the Council's Corporate Leadership Team and will be applied by all Directorates following receipt of guidance from Commercial and Procurement Services as per recommendation 1.4a above. 1. The Directorate will complete a review of all contracts supporting the ongoing use of shadow IT / cloud based applications used within divisions in comparison to the guidance provided by Commercial and Procurement Services (CPS) to ensure identify any contracts that need to be refreshed or procured, with support from CPS and Digital Services. 2. Where inadequate contracts are identified, and the supplier is unable to support an immediate contract refresh, the criticality of the system and the service it supports will be assessed to determine whether the system is required, or whether an alternative system solution can be procured. 3. Where inadequate contracts support critical systems that cannot be immediately re-procured, the risks associated with ongoing use of these systems and their contracts will be recorded in divisional and directorate risk registers, and the contract re-procured at the earliest possible date.	Started	30/09/2021	1	29/12/2023	The Empowered Learning Project Team are currently working their way through all the Shadow IT in the education estate. ECS will be meeting them soon to look at progress to date and will provide an update thereafter. We had revised the date of this one last year due to the scale of the task.
10	Finance and Resources	RES1809	EHSCP	Supplier Management Framework and CIS Payments	High	RES1809 Issue 1.3(1): Contract manager support and guidance - HSCP	Health and Social Care Partnership These recommendations have been accepted and will be implemented as recommended.	Implemented	17/12/2021	0	01/08/2022	N/A IA review of evidence currently in progress at time of reporting. Now confirmed as closed.
11	Policy and Sustainability	CW1702	Corporate Services	Resilience	Medium	Rec 4) Update of Council Business Continuity Plan to include key elements from resilience	The Council Business Continuity Plan (BCP) was developed and signed off the Chief Executive in May 2019. Following Directorate review and update of resilience protocols, the Council BCP will be updated to include key elements of Directorate plans.	Started	18/12/2020	1	30/06/2024	This action was revised to allow time for completion of Directorate activities in recognition of Covid-19.
12	Policy and Sustainability	CW1910	Place	Life Safety	High	CW1910 Rec 2.1.1 Responsibility for completion and ongoing review of fire risk assessments	The appropriateness of current support arrangements for duty holders who are responsible for completion and ongoing review of Fire Risk Assessments (FRAs) across the operational and investment property estates, and multi-let buildings with common parts leased by the Council was considered by the Corporate Leadership Team (CLT) and the following actions agreed: 1. External resources will be procured by Property and Facilities Management (P&FM) on behalf of Council divisions to assess the completeness and adequacy of fire risk assessments (FRAs) across the remainder of the Council's operational property estate; refresh FRAs where required; and enhance the current baseline position. The costs associated with this exercise will be advised to divisions for inclusion in relevant divisional / directorate budgets. 2. First line duty holders will remain responsible for ensuring that FRAs are reviewed and updated as required in line with the Council's fire policy. 3. Property and Facilities Management will ensure that duty holders update their FRAs (where required) as part of their ongoing capital works programme across the operational property estate. 4. Following consolidation of the second line Housing and Operational Property teams and resources that have life safety responsibilities, the compliance team responsible for assessing the completeness and quality of FRAs will be strengthened, to ensure adequate ongoing coverage across the operational estate. 5. The revised processes supporting completion and review of FRAs will be implemented and communicated across the Council, ensuring that duty holders in operational properties, and property and facilities management teams responsible for completion of capital works and oversight of fire risk compliance are clear on their respective roles and responsibilities.	Started	30/09/2021	1	31/08/2022	A member of the CHS team is currently working with Facilities Management to identify all facilities technicians who will require this training. CHS team have completed an exercise to establish all current Duty Holders. New Duty Holder Guide has been produced and published on the Orb. All Duty Holders have been contacted to advise them of this guide. Training development underway to support the application of the Duty Holder guide to support corresponding regulatory compliance.

Ref	Executive Committee	Audit Code	Directorate	Audit Name	Rating	Recommendation Title	Agreed Management Action	Status	Est.Date	No of Revisions	Revised Date	Management update 31 August 22
13	Policy and Sustainability	CW1910	Corporate Services	Life Safety	High	CW1910 Rec. 3.1 Training and competence – Corporate Health and Safety	1. Relevant Council policies will be revised to include first line (divisional and directorate) and second line (Corporate Health and Safety) responsibilities for assessing and confirming the ongoing competence of duty holders; facility technicians; and third party external contractors (where these activities are outsourced) in relation to completion of their life safety responsibilities. 2. Corporate Health and Safety will provide guidance to support completion of a training needs analysis by first line managers for all relevant staff that will reflect the direct role responsibilities of duty holders in the context of Property and Facilities Management support. 3. Following the training needs analysis being completed for relevant roles, consideration will be given to whether any changes are required to existing training programmes.4. All duty holders and facilities technicians requiring training on the SHE portal will be required to register and attend a training session.	Started	17/12/2021	1	31/03/2023	A member of the CHS team is currently working with Facilities Management to identify all facilities technicians who will require this training. CHS team have completed an exercise to establish all current Duty Holders. New Duty Holder Guide has been produced and published on the Orb. All Duty Holders have been contacted to advise them of this guide. Training development underway to support the application of the Duty Holder guide to support corresponding regulatory compliance.
14	Policy and Sustainability	CW1910	Place	Life Safety	High	CW1910 Rec 1.1.1 Consolidated life safety management and reporting systems	Property and Facilities Management and Place Development have confirmed that their preference is to maintain separate systems for the operational property (the CAFM system) and housing property estates (the Northgate system). Housing Property Services has advised that all housing property estate asset and tenant data is maintained on Northgate and its supporting feeder systems, ensuring effective risk management and ongoing compliance with Scottish Housing Regulator requirements – no further action required. Management is currently investigating the feasibility of consolidating the second line teams and resources that have life safety responsibilities across the operational property estate. The feasibility of consolidating stand alone systems and data will be considered as part of this assessment. If a decision is made to consolidate the stand alone systems and data into either a new or existing system, a business case will be developed and (if approved) a new project established or the scope of an existing project (for example the CAFM system project) extended to support this process.	Started	31/01/2022	1	30/04/2022	Currently engaging with Internal Audit as to how this action can be progressed if second-line teams are not consolidated.
15	Policy and Sustainability	CW1910	Place	Life Safety	High	CW1910 Rec 1.2 Life safety key performance measures and reporting	A holistic life safety performance framework will be established following consolidation of the second line teams and resources that have life safety responsibilities across the housing and operational property estate, and implementation of comprehensive life safety systems that include all relevant life safety data. This framework will incorporate all existing performance frameworks (for example the Housing Property Services performance framework that is current being reviewed) and will include a new set of standard risk based and proportionate life safety key performance measures designed to support reporting to management and governance forums (including risk committees and Council executive committees) and confirm ongoing compliance with applicable legislation and regulationsThe revised performance framework will be reviewed and approved by the CLT prior to implementation.Life safety performance management information will include supporting rationale where performance measures have not been achieved or instances of non-compliance have occurred, together with details of remedial actions.The process applied to produce relevant life safety management information for reporting purposes will also include completion of quality checks to confirm its ongoing completeness and accuracy, especially where the preparation process involves manual consolidation of data from a wide range of sources. In the interim, there will be no changes made to the existing performance frameworks and the processes supporting production of existing life safety management information by divisions and directorates.	Started	29/04/2022	1	29/07/2022	Implementation of action has been delayed by absence within the Housing Team. Replacement resource now identified and action being progressed. New target date to be agreed between service area
16	Policy and Sustainability	CW1910	Place	Life Safety	High	CW1910 Rec. 3.4 Assurance framework implementation – Properties and Facilities Management	An appropriate risk based assurance programme will be implemented with resourcing requirements determined as part of the proposed consolidation of second line teams and resources that have life safety responsibilities across the housing and operational property estates (refer agreed management action 1.1.1). The assurance programme will consider all of the Internal Audit recommendations noted above and also the recommendations resulting from the recent external asbestos review.	Started	30/04/2022	1	30/07/2022	Implementation of action has been complicated as second-line teams have not been consolidated. Resource has now been identified to coordinate across constituent areas and progress action in partnership with Corporate H&S.
17	Regulatory Committee	PL2003	Place	Registration and Bereavement Services	Medium	PL2003 Recommendation 2.1: Digitalisation of historic burial records	Management plan to move burial records on-line. This will require transfer from current CGI BACAS to a Cloud based version which is currently in progress. Thereafter, that will give access to a bolt on module which will allow more secure management of burial and memorial safety records in compliance with anticipated new legislation. The cost of the module is not anticipated to be onerous, but if required will be the subject of a business case. The business case will also identify resources required to transfer historic hard copy records to the system as required.	Pending	31/03/2022	1	30/06/2022	A dependency exists due to an upcoming legislative requirement to digitally index historic burial records. Discussions have been held with multiple parties and options are still being considered. Once a preferred provider is identified a new revised date will be set.

Manual controls have been put in place in the interim to address the identified risk and ensure that hard copy burial records are protected. |

Ref	Executive Committee	Audit Code	Directorate	Audit Name	Rating	Recommendation Title	Agreed Management Action	Status	Est.Date	No of Revisions	Revised Date	Management update 31 August 22
18	Transport and Environment	PL1808	Place	Road Services Improvement Plan	Medium	PL1808 - 1.4 Post implementation reviews	A post implementation review of both the new organisational structure (31 March 2020) and completed Roads Service Improvement Plan (the Plan) actions (March 2021) will take place to assess the effectiveness of the new service and any requirements for change, and the impact of the changes delivered through the Plan.	Started	31/03/2021	1	01/11/2022	For this action to be implemented the 2022 organisational review needed to be implemented. The action will be concluded by November 2022.
19	Housing, Homelessness and Fair Work	CW2006	Place	Health and Safety – Asbestos Recommendations	Medium	CW2006 Rec 1.2: Consolidated progress reporting	A consolidated progress tracker will be created. This will include a standard set of definitions and will be reported to the Asbestos Standing Group.	Started	31/05/2022	0		Action implemented since reporting cut-off and being reviewed by IA. Progress tracker and completion timeframe reported to the Asbestos Standing Group on 22 September 2022
20	Housing, Homelessness and Fair Work	CW2006	Place	Health and Safety – Asbestos Recommendations	Medium	CW2006 Rec 1.1b: Responsibility for governance and oversight of implementation progress	A final completion timeframe will be submitted for approval to the Health and Safety Group and will then be tracked through the established Asbestos Standing Group. Recommendations 3 and 4 have been risk accepted by the Place Directorate which is now responsible for asbestos in both operational properties and properties leased to Council tenants.	Started	30/06/2022	0		Action implemented since reporting cut-off and being reviewed by IA.

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Governance, Risk, and Best Value Committee

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10.00am, Tuesday, 11 October 2022

Internal Audit Update Report: 1 May to 31 August 2022

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1.   Recommendations

1.1   It is recommended that the Committee:

1.1.1. reviews the outcomes of the final 'red' audits and those with high rated findings supporting the 2021/22 Internal Audit (IA) annual opinion presented to Committee in August 2022;

1.1.2. notes improvement recommendations in relation to annual planning made by the Chartered Institute of Internal Auditors as part of the five-yearly External Quality Assessment of the Council's IA function;

1.1.3. approves proposed revisions to 2022/23 IA annual plan;

1.1.4. notes progress with delivery of the 2022/23 IA annual plan;

1.1.5. notes the current IA risk profile; and

1.1.6. notes progress with delivery of IA key priorities and ongoing areas of focus.

Laura Calder
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Report

Internal Audit Update Report: 1 May to 31 August 2022

2. Executive Summary

2.1 The IA annual opinion for 2021/22 was presented to Committee on 23 August 2022. The remaining reports which support the 2021/22 annual assessment have now been finalised. All reports with either an overall red (Significant Improvement Required) outcome or include any red (High) rated findings are presented to the Committee for scrutiny.

2.2 The Chartered Institute of Internal Auditors (IIA) identified areas for improvement during their five-yearly External Quality Assessment (EQA) of the Council's IA function in relation to annual plan delivery and aligning resources and capacity to key risks and controls. As a result, changes to the 2022/23 IA annual plan are proposed for Committee approval.

2.3 Progress continues with delivery of the 2022/23 IA annual plan, with 26 of 40 audits (65%) included in the proposed re-based plan in progress. This includes 24 of the 31 (77%) of the audits to be completed across the Council.

2.4 Timeframes have been agreed with the Corporate Leadership Team (CLT) and Directorates for delivery of the remainder of the proposed re-based 2022/23 IA annual plan to support delivery throughout the remainder of the year.

2.5 The specification for a replacement IA system has been finalised, and procurement for this is underway.

2.6 The majority of IA risks are currently being managed within risk appetite, with appropriate actions agreed to mitigate current risks that are outwith appetite.

3. Background

2021/22 Internal Audit Annual Plan

3.1 The IA annual opinion for 2021/22 was presented to Committee on 23 August 2022. The remaining reports which support the 2021/22 annual assessment have now been finalised.

3.2 All reports with either an overall red (Significant Improvement Required) outcome or include any red (High) rated findings are presented to the Committee for scrutiny. A total of seven reports are presented to Committee for scrutiny and opportunity

Governance, Risk, and Best Value Committee, 11 October 2022

provided to discuss findings raised with the relevant service area and IA, where relevant.

3.3 Elected Members may also request presentation of other reports that do not meet these criteria at Committee. A total of 16 further reports are available and have been provided to members to review via the GRBV MS Teams room (see Appendix 1 for details).

External Quality Assessment (EQA)

3.4 An EQA of the City of Edinburgh Council's IA function was undertaken by the Chartered Institute of Internal Auditors (IIA) during 2021/22 in line with Public Internal Audit Standards (PSIAS). A copy of this report is presented to Committee on today's meeting agenda at item 8.1.

2022/23 Internal Audit Annual Plan

3.5 The Committee approved the 2022/23 IA annual plan in March 2022 which aimed to deliver a total of 45 audits (38 across the Council and 7 for ALEOs). In addition, the 2021/22 IA annual opinion advised that 6 audits remaining from the 2021/22 IA annual plan would be carried forward to the 2022/23 plan taking the total number of audits due for completion in 2022/23 to 51.

Internal Audit reports for other organisations included within the IA annual plan

3.6 All audits performed for the Lothian Pension Fund (LPF) are subject to separate scrutiny by the Pensions Audit Sub-Committee and the Pensions Committee. Progress with delivery of these audits is included in this paper for completeness.

3.7 Similarly, audits performed for the Edinburgh Integration Joint Board (EIJB) are presented to the EIJB Audit and Assurance Committee for scrutiny, with any reports that are relevant to the Council being subsequently referred to the GRBV Committee.

3.8 Audits performed for the Council that are relevant to the EIJB will be recommended for referral to the EIJB Audit and Assurance Committee by the GRBV Committee.

3.9 All audits performed for other Arms-Length External Organisations (ALEOs) are reported to the relevant management teams and audit and risk committees of those organisations as appropriate.

4.   Main report

Remaining 2021/22 audit reports for scrutiny

4.1 The following seven audit reports assessed as 'significant improvement required' or with 'high' rated findings which support the IA annual opinion presented to Committee in August 2022 have been finalised and are provided to members for scrutiny:

Audit Title	Overall Audit Assessment	Number of findings raised		
		H	M	L
1. Housing Property Services Repairs Management During Covid-19	Some Improvement Required	1	1	3
2. Implementation of historic whistleblowing recommendations	Some Improvement Required	1	-	1
3. Payment Card Industry Data Security Standard Compliance	Significant Improvement Required	1	3	-
4. Planning and Performance Framework Design Review	Some Improvement Required	1	1	1
5. Parking and Traffic Regulation	Significant Improvement Required	3	1	-
6. Technology Vulnerability Management	Significant Improvement Required	1	2	-
7. Fraud and Serious Organised Crime	Significant Improvement Required	1	1	-

4.2   Copies of the following reports together with an update from management are provided as part of today's meeting agenda:

- Housing Property Services Repairs Management During Covid-19 (item 8.3.1)

- Parking and Traffic Regulation (item 8.3.2)

4.3   A total of 16 further reports that have been assessed as either 'some improvement required' or 'effective' and have no high rated findings are available and have been provided to members to review via the GRBV MS Teams room.

4.4   A list of the 16 audit reports and outcomes is provided in Appendix 1. Members have requested that the following four reports are presented for scrutiny and that relevant Council officers are available to respond to any questions:

- Employee wellbeing (Some Improvement Required)

- CGI Performance Reporting (Some Improvement Required)

- Management and Allocation of Covid-19 Grant Funding (Effective)

4.5   The following report is a legally privileged and confidential report, and therefore will be considered in private at item 8.3.3:

- Health and Safety - Implementation of Asbestos Recommendations (Some Improvement Required)

IA External Quality Assessment (EQA)

4.6   The EQA finalised in September 2022 concluded that the Council's IA function is generally conforming with the PSIAS. Two recommendations to address partial conformance with the standards were made by the IIA.

4.7   One of these recommendations was related to audit planning and reviewing the audit plan to ensure a risk-based and proportionate approach which focuses more on the Council's strategic risks, core governance and control areas and is aligned to priorities and available resources.

4.8   As noted above copy of the full EQA report is available in the agenda for today's meeting at item 8.1.

IA capacity, EQA recommendations and impact on 2022/23 Annual Plan

4.9   The 2022/23 IA annual plan approved by Committee in March 2022 included a total of 45 audits (38 across the Council and 7 for ALEOs). In addition, 6 further audits from the 2021/22 IA annual plan that were not completed were carried forward to bringing the total number of audits for 2022/23 to 51. Two audits related to Covid-19 were consolidated leaving a total of 50 audits to be delivered in 2022/23.

4.10   Of the 50 audits, 11 specialist audits were due to be delivered by co-source partners (PwC;10 and NHS Lothian;1), with the remaining 39 audits to be delivered by the Council's IA team.

4.11   The structure of the IA function includes 12 full-time equivalent (FTE) posts. Due to a number of ongoing capacity challenges, including a vacant Chief Internal Auditor post; long term absence at manager level; maternity leave and a number of acting-up arrangements to support vacant posts, the current FTE is 8. As a result, capacity to deliver the plan as agreed by Committee in March 2022 is significantly reduced.

4.12   In addition, the EQA report completed by the IIA noted that for the past 4 years, IA has struggled to deliver the annual plan, and that failure to complete the annual audit programme within the financial year (without use of additional co-source resource over and above the planned co-source requirement at significant additional budget) is a weakness which should be addressed.

4.13   The IIA review has suggested that a significant change is needed in the way the plan is designed and delivered to avoid annual re-occurrence of the same challenge. The IIA recommend a move away from a five-year cyclical programme which aims to cover the whole organisation to an audit plan which provides assurance on business-critical risks and core controls whilst considering the context and challenges of the public sector environment of the Council.

4.14   They further recommend that the audit plan is reviewed regularly to ensure the focus remains on business-critical risks and priorities, and where relevant, proposals should include an option for delivering an internal audit opinion only in relation to the work completed (i.e., limited in scope).

4.15   As a result of internal capacity challenges and the EQA recommendations, the Council's IA function has engaged with directorates and services to develop a rebased 2022/23 IA plan which focuses on key risks and controls and reflects actual IA FTE and capacity while limiting the use of external co-source resource to reviews of specialist areas only.

Proposed re-based 2022/23 IA annual plan

4.16 Following review of IA methodology and capacity for the remainder of 2022/23, IA has engaged with directorates to develop a re-based annual plan which focuses on key risks and priorities and results in a proposed net reduction of 10 audits.

4.17 The re-based IA plan proposes that 7 audits are removed as they are no longer required and/or linked to Council's strategic risks, core governance and control areas. A further 10 audits in the originally approved 2022/23 IA plan have been proposed for consideration as part of 2023/24 planning, enabling alignment of priorities with available resources both within services and IA.

4.18 Following engagement with services, 5 new audits of new and emerging priorities are proposed for inclusion within the re-based 2022/23 IA plan.

4.19 In addition, the number of audits included in the LPF 2022/23 annual plan has been increased from 2 to 4. These specialist audits will be completed by PwC with oversight from the Council's IA management team.

4.20 As a result of the changes outlined above, the total number of audits being delivered in the proposed rebased 2022/23 annual plan is 40, with 31 completed across the Council and 9 for ALEOs. 29 audits will be delivered by the Council's IA team. Details and rationale are provided at Appendix 2.

4.21 The number of audits proposed for completion across the Council in 2022/23 (31) is aligned to previous years (31 audits in 2021/22; 34 audits in 2020/21 and 32 audits in 2019/20).

4.22 Financial impacts associated with delivery of the 2022/23 IA annual plan are set out at section 6 of this report.

4.23 It is considered that completion of the proposed rebased plan will provide sufficient assurance of the Council's governance; risk and control frameworks to support provision of an annual audit opinion, with the aim of completing audits no later than 30 April 2023, to enable the 2023/24 IA plan to commence in a timely manner.

Delivery progress of the proposed re-based 2022/23 IA annual plan

4.24 Of the 40 audits proposed for completion:

- 4 draft reports are with management for response;
- 3 draft reports are currently being prepared by IA;
- 8 further audits are in fieldwork;
- 11 audits are currently being planned; and
- 14 are not yet started.

4.25 The 26 audits in progress include 24 of the 31 (77%) of the audits to be delivered across the Council, including two ongoing 'agile' major project reviews.

4.26 Of the 14 audits not yet started, 5 are specialist audits that will be delivered by PwC/NHS Lothian. Timescales for all audits have been agreed with services and co-source partners.

4.27 Further detail on the content and delivery timescales for the re-based 2022/23 IA plan is included at Appendix 3.

4.28 To further support timely completion of the re-based plan, scoping of audit work will be reviewed to ensure a focus on key risks and controls only and alignment with allocated budgets. Where appropriate design only or lighter touch focused reviews will be completed. This is in alignment with recommendations made by the IIA as part of the EQA.

IA Risk Profile

4.29 The IA risk register continues to highlight that IA's most significant current risks that currently exceed target risk appetite are:

- Capacity – IA capacity is currently below the FTE required to deliver the IA plan originally approved without use of additional resource at significant cost.

- Assurance – risk that current audit plan is not aligned to business-critical risks and controls and that reliance on a five cyclical programme may result in disproportionate assurance on areas considered lower risk by management.

- Applications and systems design – support for the current IA system has been extended to December 2026 which removes the immediate need for replacement, however, associated procurement compliance risks, and system-based efficiencies which would support IA capacity challenges should be considered.

- Budget Management and Best Value – system procurement costs; and PwC support for delivery of specialist audit and/or additional generalist reviews.

4.30 Appropriate actions are currently being mitigated to address these risks including proposals within this report.

Progress with Internal Audit key priorities

4.31 Progress with IA key priorities and ongoing areas of focus is detailed below:

- Implementation of recommendations and continuous improvement actions identified in the recently completed EQA.

- Implementation of a new risk-based approach to follow-up and validating agreed audit actions.

- A refresh of audit reporting including redesign of audit reports to focus on key messages, and a review of CLT/Committee reporting to support decision making and scrutiny.

- Revision of the IA methodology including the scoping approach for audits and terms of reference to ensure a streamlined approach focused on key risks and controls.

- Refreshed IA intranet (Orb) pages are available, together with development of controls training for employees which will be available via the Council's myLearning Hub platform.

- Work to procure a replacement IA system is progressing with support from Commercial and Procurement Services.

5. Next Steps

5.1 IA will continue to monitor progress with plan delivery and the other activities noted in this report.

6. Financial impacts

6.1 The re-based plan would result in a reduction of budgeted costs associated for audits due to be completed by external co-source partners (PwC), with costs for 3 audits carried forward aligned to the 2021/22 budget; and the 2 additional LPF audits directly recharged. In addition, 1 audit initially proposed for PwC completion will be completed in-house as relevant experience of the audit area is available within the IA team.

6.2 Delivery of the 16 audits removed from the original 2022/23 plan would require additional resource which is unlikely to be filled internally within sufficient timescales, therefore reliance would be placed on external co-source resources with an estimated cost of circa £15k per audit (total £250k) which would need to be approved by the Finance and Resources Committee.

6.3 There are no associated budget implications for completion of audits completed for ALEOs as direct recharge is applied for costs incurred.

6.4 Procurement of a replacement IA system will incur additional costs that have not yet been fully quantified.

7. Stakeholder/Community Impact

7.1 Delivery of an audit plan which is not aligned to key risks and priorities will result in a disproportionate use of limited resources across both services and IA.

7.2 In addition, failure to take account of best practice and IIA recommendations in relation to audit planning and engagement may result in reputational damage to the Council.

8. Background reading/external references

8.1 [Process for approving changes to the Internal Audit annual plan – August 2018 – item 7.9](#)

8.2 [Public Sector Internal Audit Standards](#)

8.3 [Approved IA 2022/23 annual plan March 2022 - item 8.4](#)

8.4 The Chartered Institute of Internal Auditors: External Quality Assessment Report (see item 8.1 on today's meeting agenda).

9. Appendices

Appendix 1 – 2021/22 Audits assessed as either 'some improvement required' or 'effective' with no high rated findings

Audit Title	Overall Audit Assessment	Number of findings raised		
		H	M	L
1. Health and Safety - Implementation of asbestos recommendations	Some Improvement Required	-	3	2
2. Complaints Management	Some Improvement Required	-	2	1
3. Employee Wellbeing	Some Improvement Required	-	3	-
4. Management and Allocation of Covid-19 Grant Funding	Effective	-	1	-
5. Implementation of Child Protection Recommendations	Effective	-	1	1
6. CGI performance reporting	Some Improvement Required	-	2	1
7. Employee Lifecycle Data & Compensation and Benefits Processes	Effective	-	-	1
8. Verint system	Effective	-	-	-
9. Capital Budget Setting and Management	Effective	-	1	1
10. Digital and Smart City Strategy	Effective	-	-	2
11. Council Tax and Non-Domestic Rates	Some Improvement Required	-	2	2
12. Criminal Justice Social Work – Community Payback Orders	Effective	-	1	-
13. Transformation and Benefits Realisation	Effective	-	2	-
14. Health and Social Care Partnership Volunteer Support Arrangements	Effective	-	-	-
15. Householder Planning Applications and use of Uniform System	Some Improvement Required	-	2	-
16. The Management of Development Funding	Effective	-	-	1

Governance, Risk, and Best Value Committee, 4 October 2022

Appendix 2 – Summary of proposed 2022/23 IA Annual Plan Changes

		Council	ALEOs	Total
Total Audits per 2022/23 Annual Plan including 2021/22 carry forward* **Further Covid-19 lessons learned 21/22 and 22/23 reviews consolidated*		**43***	**7**	**50**
Less:				
Audits proposed for removal	**Rationale**	**7**	**-**	**7**
1) Quality Improvement and Curriculum	Second line assurance provided by Education Scotland			
2) Management of Waiting Lists and Assessments	Risks will be considered as part of 2023/24 audit plan in alignment with National Care Service proposals; transition and preparation.			
3) Partnership Financial Sustainability				
4) Oversight of Care homes				
5) Physical Security (Operational Properties)	Initial risk assessment was linked to compliance with Covid-19 guidance which is no longer applicable, area was previously audited in 2021			
6) Business Support Arrangements	Linked to business plan and workforce review will be considered as part of 2023/24 workforce planning audit			
7) Implementation of Covid-19 lessons learned	Two previous audits done in this area in 2020/21 and 2021/22 - is now considered business as usual			
Audits to be considered in 2023/24	**Rationale**	**10**	**-**	**10**
1) Transfer of the Management of Development Funds Grant	Scottish Government have confirmed now only required every 2 years as low risk			
2) Fleet Operations	Ongoing restructure in area – work to be considered 2023/24			
3) Refugee and Migration Services	Area of priority but current capacity issues due to ongoing Ukraine support			
4) Schools Attendance	Lighter touch review to be considered in 2023/24			
5) Health and Safety - Public Safety (PwC)	Initial assessment linked to Covid-19 but value in considering in 2023/24 due to redesign and restructure			
6) Progress with Implementation of the Governance and Assurance Model	Timing to be realigned with completion of framework design and review of process in operation			

7) Workforce Capacity to Support Service Delivery	Timing to be aligned with review of Business Plan and priorities and development of medium term business plan			
8) Food and Water Testing	Priority area to be considered early in 2023/24			
9) Council House Allocations	Priority area to be considered early in 2023/24			
10) Community Centres	Initial risk assessment linked to Covid-19 guidance which is no longer applicable. Organisational review ongoing in the area. This is scheduled to conclude late 2022 before a period of matching and assignment takes place. Directorate review of community centres is ongoing and this will be reported to committee as early as possible in 2023. An audit with refreshed focus which will provide assurance on key risk areas following the conclusion of the current review (early 23/24).			

Add				
Audit title	**Rationale**	**5**	**2**	**7**
1) Levelling Up Fund - Granton Gas Holder	Requirement inline with grant funding award			
2) City Deal Integrated Employer Engagement	Audit programme is a requirement of funding award			
3) Vendor fraud review	Service area request in response to internal review			
4) Schools Admissions (Follow- up)	Lighter touch audit - Service area request in response to priorities			
5) Health and Social Care – Total Mobile Project Implementation	Service area request to identify lessons learned to support similar projects in future			
6) LPF – Third party supplier management	LPF request to support ongoing priorities			
7) LPF – Information Governance				
Total Audits to be Delivered in 2022/23		**31**	**9**	**40**
Audits to Be Delivered by PwC / NHS Lothian (for EIJB)		**6**	**5**	**11**
Audits to be Delivered by the Council		**25**	**4**	**29**

Governance, Risk, and Best Value Committee, 11 October 2022

Appendix 3 – Rebased 2022/23 IA Plan, Delivery Progress and Expected Completion

		Audits at reporting stage	Expected Completion
1.	Corporate Services	**Implementation of the New Consultation Policy** Review of implementation and application of the Council's new consultation policy and supporting processes.	October 2022
2.		**Council Emissions Reduction Plan (CERP)** Review of the framework designed to support implementation of the Council Emissions Reduction Plan.	
3.		**Vendor Bank Mandate Process** Review of the design and effectiveness of processes established to verify and process requests to change vendor bank details on Oracle, the Council's financial management system.	
4.	Council Wide	**Records Management and Statutory Requests** Review of the design and effectiveness of processes implemented to support effective records management and compliance with statutory request requirements.	
5.		**Allocation and Management of Purchase Cards** Review of the allocation, management, use and monitoring of purchase cards across the Council.	
6.	Place	**Port Facility Security Plan** Annual review of existence and operation of the Port Facility Security Plan as per Department for Transport requirements.	
7.	Council Wide	**Induction, Essential Learning, and Training for Officers and Elected Members** Review of established induction; essential learning, and ongoing training delivered across the Council for both officers and elected members.	
Total audits at reporting stage			**7**
		Audits in progress (fieldwork)	Expected Completion
8.	Corporate Services	**Enterprise Resource Planning (ERP)** Ongoing agile review of the project management and governance arrangements supporting implementation of the enterprise resource planning system.	Ongoing agile audit
9.	Place	**Tram to Newhaven** Ongoing agile review of project governance; procurement; and gateway decisioning and payments. The audit will include ongoing assessment of the ongoing controls supporting the funding model.	
10.	Education and Children's Service	**Availability of Early Years Education and Alignment with the Poverty Strategy** Review of the strategy to support expansion of the early years education programme and its alignment with the Council's poverty strategy. Review will also consider the design and effectiveness of processes to established to	

		support allocation of places in line with eligibility criteria, and the Council's oversight of early years private partner providers.	
11.	Place	**Active Travel Project Management and Delivery** Review of the design and operating effectiveness of the key controls supporting management; governance; and delivery of the Active Travel programme.	November 2022
12.	Corporate Services	**Security Operations Centre (PWC)** Review of the adequacy and effectiveness of contractual security services delivered through the established CGI Security Operations Centre to the Council.	
13.	Place	**Repairs and Maintenance Framework (Operational Properties)** Review of the design and effectiveness of the new repairs and maintenance framework for Council operational properties prior to implementation.	
14.	Council Wide	**Application technology controls - SEEMiS and SWIFT** Review of the general (change management and access) and application (transaction processing) controls applied to technology applications hosted on Council networks and used to support service delivery.	
15.		**Validation of Implementation of Previously Closed Management Actions** Review of a sample of previously implemented and closed IA agreed management actions to confirm that they have been effectively sustained.	March 2023
Total reviews in fieldwork			**8**
Audits at planning stage			**Expected Completion**
16.	Corporate Services	**Enterprise Architecture Arrangements (PWC)** Review of the adequacy and effectiveness of established Council and CGI enterprise architecture arrangements to support change implementation in line with the Council's Digital and Smart City Strategy and support consistent alignment and use of technology (where possible) across the Council.	December 2022
17.	EIJB	**Governance of Directions** Review of governance arrangements for directions to ensure they are associated with EIJB decisions; are revised in response to transformation, service redesign, and financial developments; and partner implementation and performance is monitored.	
18.	Council Wide	**Day Care to Adult Social Care Transition Arrangements** Review of the design and effectiveness of processes established to support the transition of services for young adults with a disability or complex needs (Education and Children's Services) to adult social care (Health and Social Care).	
19.		**Management of the Housing Revenue Account (Capital and Revenue)** Review of the processes established to support both the capital and revenue elements of the Housing Revenue	January 2023

20.		**Preparation for IFRS 16 – Lease Accounting** Review of the Council's preparation for implementation of the new single lessee accounting model that recognises assets and liabilities for all material leases longer than 12 months, and proposed processes for accounting for any low value leases.	January 2023
21.	Corporate Services	**Risk Management – CGI and Digital Services (PWC)** Review of CGI and Digital services process supporting identification; assessment; recording; management; and escalation of relevant technology risks	
22.	Health & Social Care Partnership	**Sensory Support** Review of the commissioning and partnership / supplier management arrangements for provision of sensory support services to adults aged 16 and over.	
23.	^LPF	**Project Forth – Programme Management (PwC)**	
24.	Place	**Granton Waterfront – Levelling-up** Assurance required by the UK Government Department of Levelling Up, Housing, and Communities in relation to the conditions attached to the Granton Gas Holder LUF Grant Determination.	February 2023
25.		**City Deal Integrated Employer Engagement** Service request as part of required audit programme to support grant funding requirements.	
26.	Council Wide	**Review of Historic Disciplinary Cases and Complaints (Project Apple requirement)** Review of historic disciplinary cases and complaints to confirm whether any handled by for employees noted in Project Apple outcomes had been appropriately investigated and reported.	March 2023
Total reviews at planning stage			**7**
Audits not yet started			**Expected Completion**
27.	Place	**Health and Safety of Outdoor Infrastructure (PwC)** Review of the design of effectiveness of processes established to ensure the health and safety of outdoor infrastructure (for example walls; railings; paths; and equipment in children's public play areas) owned and managed by the Council.	December 2022
28.	Corporate Services	**Insurance Services (PwC)** Review of the adequacy of insurance arrangements across the Council, including the process applied to address any questions received from insurers, and implement any insurance provider recommendations and requirements.	January 2023
29.	Education and Children's Services	**Children's Social Work Practice Review Teams** Review of processes and procedures established to support review of children's social work practices across social work practice teams to confirm that the levels of support provided remain appropriate to meet the child's	

Account, and management and allocation of HRA reserves

Governance, Risk, and Best Value Committee, 11 October 2022

		needs, and that all changes in circumstances have been considered.	
30.	^EIJB	**Review of set aside budget setting and monitoring processes (NHSL)** Including identification of services and their associated costs; underlying budget assumptions; and financial reporting to the IJB on ongoing set aside budget management.	February 2023
31.	^LPF	**Information Governance (PWC)**	
32.	^LPF	**Third Party Supplier Management (PWC)**	March 2023
33.	^LPF	**Adequacy of technology security assurance arrangements (PWC)**	
34.	Education and Children's Services	**Schools Admissions – Follow-up** Service request to complete focused follow-up of audit previously completed in 2019/20 including issues with the Seemis system.	
35.	Council Wide	**Self-Directed Support – Children and Adult Social Care Services** Review of the adequacy and effectiveness of established self-directed support arrangements, including compliance with the Scottish Government's framework of standards, and consistency of application across localities.	March 2023
36.		**Empowered Learning Programme** Review of the Empowered Learning programme which underpins Digital Learning across all aspects of Learning and Teaching extending from our Early Years through primary, secondary and special needs sectors.	
37.	Health and Social Care	**Implementation of Total Mobile** Review of implementation of Total Mobile project to identify lessons learned and improvement actions to support implementation of similar projects in future.	
38.	^Tattoo	To be confirmed in line with key risks and priorities	
39.	^SEStran	To be confirmed in line with key risks and priorities	March 2023
40.	^LVJB	To be confirmed in line with key risks and priorities	
Total reviews not yet started			**14**

^Audits completed for Arm's Length External Organisations

Governance, Risk, and Best Value Committee, 11 October 2022

Internal Audit Report

Implementation of Historic Whistleblowing Recommendations

12 July 2022

C22106

Overall Assessment	Some improvement required

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Whilst processes for coordinating and reporting on whistleblowing investigation outcomes are generally operating effectively, we identified some minor weaknesses in the design and operating effectiveness of the supporting control framework operated by the Governance Team.

In addition, we identified some significant weaknesses in the design and operating effectiveness of directorate level controls for monitoring and evidencing progress and implementation of whistleblowing recommendations.

Consequently, one Low rated and one High rated finding has been raised.

The Low rated finding highlights opportunities to improve the content of the whistleblowing policy and to enhance the supporting second line operational processes to ensure:

- formalisation of roles and responsibilities;
- SMART recommendations are made;
- reports provided to committees are fully complete and accurate; and
- the Council's online records retention schedule is updated to reflect established arrangements for whistleblowing disclosures.

The High rated finding highlights the need for all directorates to establish consistent processes to ensure there is adequate oversight of whistleblowing action implementation progress and reporting in line with the previously agreed actions arising from the "Implementation of Assurance Actions and Linkage to Annual Governance Statements" audit completed in July 2020.

Specific improvements are required to ensure that:

- action owners and target dates are identified for whistleblowing management actions at the outset and appropriate handover processes are in place where action owners leave their roles;
- implementation progress is monitored by directorates to ensure actions are fully complete within agreed timescales, with regular updates provided to the whistleblowing team where appropriate;
- evidence to support implementation is retained centrally within directorates and securely for an appropriate period;
- consistent and accurate reporting of actions plans to senior officers and Committee including providing updated where actions are incomplete or delayed in line with previously reported timescales; and
- reporting arrangements are reviewed to ensure that where a previously agreed and reported action is deemed to be inappropriate or no longer applicable the service, these are reported to Committee to ensure transparent Committee review and oversight.

Implementation of these recommendations, together with the recommendations raised in the Tanner review, should support consistent achievement of the Council's objectives to ensure that recommendations raised in historic whistleblowing cases have been effectively implemented and sustained.

Alignment with the December 2021 Culture Review

Our work commenced in August 2021, prior to publication of the Independent Review of Whistleblowing and Organisational Culture report by Susanne Tanner in December 2021, and included review of a sample of

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whistleblowing recommendations. In addition to the findings included in this report our review highlighted a number of themes that are aligned with the recommendations included in the December 2021 report and actions detailed in the Council's approved implementation plan.

To minimise duplication, no audit recommendations on these areas are included in this report, however the outcomes of our work have been mapped to the relevant Tanner report recommendations and the Council's implementation plan. Further detail has been shared with the Inquiry and Review Programme Manager for consideration when progressing similar agreed actions within the Tanner report.

Audit Assessment

Audit Areas	Findings	Priority Rating		Areas of good practice
• Whistleblowing - Legal and Assurance • Implementation of Whistleblowing recommendations - Directorates	1. Corporate Whistleblowing policy and procedures 2. Directorate Whistleblowing monitoring and reporting processes	**Low** **High**		• A central register is held by the Council's Whistleblowing Team to record all whistleblowing disclosures made and any associated recommendations arising from closed investigations. • The Whistleblowing Team communicate regularly with service areas to obtain updates on the status of whistleblowing recommendations made. • A review of thematic areas for improvement identified from a historic child protection complaint in schools confirmed a comprehensive approach has been developed to address all issues raised.

Background and Scope

The City of Edinburgh Council (the Council) must uphold the highest standard of conduct and ethics in all areas of its work. The Public Interest Disclosure Act 1998 is an amendment to the Employment Rights Act 1996 and is specifically designed to protect individuals or whistle-blowers, who disclose information in the public interest where they have concerns about any aspect of their employer's activities.

Council Whistleblowing policy and procedures

The Council's current Whistleblowing policy was introduced in May 2014. The policy was last reviewed and approved by the Council's Finance and Resources Committee in May 2019. A further review was undertaken in 2020 with a number of draft changes and improvements proposed. However, adoption of the policy was paused to enable further revision following conclusion of the Council's Independent review of Whistleblowing and Organisational Culture in December 2021.

The main way to disclose concerns is through the Council's independent and confidential whistleblowing service operated by Safecall. Disclosures can also be made directly to a Manager within the Council, who must then refer the disclosure to Safecall.

When a new disclosure is received, Safecall decide if the matter is minor/operational or major/significant (the current classifications) and will liaise with the Council to confirm investigation and reporting arrangements. This can include instructing Council Officers to complete investigations where appropriate.

Whistleblowing investigation report recommendations

Whistleblowing investigation reports detail investigation outcomes and where appropriate include recommendations to address any issues identified and are provided to relevant Council directorates to implement following scrutiny

by GRBV Committee. Directorates should then allocate owners to implement the recommendations.

Quarterly and annual reports are provided to the Council's Governance, Risk and Best Value committee on whistleblowing activity and outcomes.

Recent internal audit reviews

The "Implementation of Assurance Actions and Linkage to Annual Governance Statements" audit completed in July 2020 highlighted the need for Directorates to establish frameworks to support recording, monitoring and oversight of assurance actions (including Monitoring Officer and whistleblowing actions). The related management actions were closed in August 2021 as Directorates confirmed they would implement supporting processes which would include actions arising from monitoring officer and whistleblowing reporting.

Independent Review of Whistleblowing and Organisational Culture

In October 2020, Councillors commissioned Susanne Tanner QC to undertake an independent inquiry into Whistleblowing and Organisational Culture. The review considered how the Council deals with complaints of wrongdoing, focusing on the period from May 2014, when the current Whistleblowing Policy was introduced. The outcomes of the review were presented at the full council meeting on 16 December 2021.

On 10 February 2022, the Council approved an implementation plan in response to Ms Tanner's recommendations. The plan covers a number of areas for improvement including policy development and review, the Council's approach to investigations, training and development, and systems and processes.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure that recommendations raised in historic whistleblowing cases have been effectively implemented and sustained.

This includes an assessment on whether the design and effectiveness of the control environment supports achievement of the following Council Business Plan objectives:

- Wellbeing and equalities – focus on child and adult support and protection.

Risks

The review will also provide assurance in relation to the following risks recorded in the CLT risk register:

- Health and Safety (including public safety)
- Governance and Decision Making
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk

Audit Approach

Testing was performed on major and minor whistleblowing cases closed between June 2018 and June 2021. Sampling covered all Directorates including the Edinburgh Health and Social Care Partnership, and all whistleblowing cases involving child protection which were closed between May 2014 to June 2021.

Limitations of Scope

It is acknowledged that, due to their nature, recommendations from child protection reviews often require a multi-agency response or action by an external agency. The scope of this review will be limited to processes established by the Council to implement, monitor and report on recommendations made regarding Council services.

Reporting Date

Our audit work concluded on 02 May 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Corporate Whistleblowing policy and procedures

Finding Rating	Low Priority

1. Whistleblowing policy

Review of the current Corporate Whistleblowing policy highlighted the following:

a) Chief Social Work Officer engagement - sections 4.2.13 and 4.2.14 of the current policy notes that the Whistleblowing hotline provider may determine that issues fall under the scope of other Council policies such as Child Protection and will liaise with council officers as necessary in order to progress their investigation.

The whistleblowing policy does not specifically mention the need to engage with the Chief Social Work Officer, where required, although it is noted that this happens in practice through officer referrals. The policy does include other roles that should be engaged such as the Monitoring Officer, Chief Executive and Executive Directors.

b) Implementation progress monitoring - GRBV has requested that implementation progress for recommendations arising from whistleblowing investigations is monitored, with Internal Audit reviewing a sample of completed actions on a periodic basis as part of the Internal Audit rolling cycle.

Roles and responsibilities for ensuring that whistleblowing recommendations are allocated and implemented, and ongoing implementation monitoring are not formally detailed in the current Whistleblowing policy.

Executive Director's responsibility to monitor the completion of management actions/recommendations arising from investigations and provide confirmation of closure to the Monitoring Officer is included at section 4.8.5 of the draft Whistleblowing policy (as at 2020). Publication of the revised draft was paused pending the conclusion of the Council's Independent review of Whistleblowing and Organisational Culture. However, in order to support this process, custom and practice since introduction in 2014 has been for the Whistleblowing team issue standard template emails setting out requirements for Executive Directors to notify the Whistleblowing team of a responsible officer and also when management actions have been completed.

c) Record retention - Section 10.3 of the current Whistleblowing policy states details of all whistleblowing concerns and investigations will be retained in for 6 years from the close of investigation. However, the Council's online record retention schedule does not specifically reference retention timeframes for whistleblowing disclosure / investigation papers.

Officers have confirmed that retention requirements were agreed with the Council's Information Governance Unit in June 2019, however, these have not yet been published within the online retention schedule.

2. Reporting inconsistencies

Review of whistleblowing investigation reports and associated committee reporting identified the following:

a) Report dates - examples of a small number of undated investigation and committee reports, and instances of inaccurate report dates were identified. Instances were also noted where date fields in standard reporting templates were blank. It is however acknowledged that the correct date can be traced by other references.

b) Internal Audit also encountered challenges following progress with one child protection whistleblowing disclosure raised in 2014, due to information on related individual disclosures (in this case an establishment) being consolidated and summarised at a high-level; involved officers no longer in post, and linked disclosures concerning senior officers being dealt with outwith the Whistleblowing team and central recording processes. Despite these challenges in identifying the information, we were able to confirm that the majority of management actions had been implemented.

c) Recommendations made in one investigation report were vague and did not clearly set out a course of SMART (Specific, Measurable, Achievable, Relevant and Time-bound) actions.

Risks

Regulatory and Legislative Compliance / Reputational Risk

- Lack of appropriate oversight on whistleblowing disclosures involving child protection.

- Limited assurance whistleblowing actions are completed in a timely manner.

- Records relating to whistleblowing disclosures may not be retained in line with retention requirements.

- Inaccurate / incomplete reporting to committee and citizens on whistleblowing disclosures.

- Recommendations made may not address root cause or prevent similar issues occurring.

Recommendations and Management Action Plan – Corporate Whistleblowing policy and procedures

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	Review of the Council's Whistleblowing policy and procedures should consider inclusion of the following as appropriate: a) Requirement for the Whistleblowing hotline provider to liaise with the Chief Social Work Officer and other parties as appropriate where it is unclear whether issues raised within whistleblowing disclosures fall under the scope of Child/Adult Protection procedures, and for such cases to be recorded within the central whistleblowing register and by Safecall as per the Tanner report. b) Formalising Executive Director roles and responsibilities for monitoring management actions arising from whistleblowing investigations; including notifying the Whistleblowing team of responsible officer allocation; target dates for implementing	The Whistleblowing Policy is being updated following the Tanner reviews and these changes will be implemented as part of this.	Richard Carr, Interim Executive Director of Corporate Services	Nick Smith, Service Director - Legal and Assurance Laura Callender, Governance Manager	31/03/2023

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
	actions; and when the Directorate action is complete. This should include a requirement to ensure adequate processes are in place to manage handover of outstanding actions when an action owner moves post or leaves employment with the Council. c) Quality assurance processes for investigation reports and associated committee reporting to ensure accuracy and consistency, including ensuring accurate dates are provided on all reports. d) Provision of guidance to investigating officers to support them making recommendations including ensuring recommendations are SMART (Specific, Measurable, Achievable, Relevant and Time-bound) and discussion with Directorates/Services to ensure recommendations are appropriate to the service. e) A standard reporting approach for whistleblowing action plans should be developed and communicated across all Directorates to ensure consistency and transparency in Committee reporting.			Nancy Brown, Programme Manager	
	The Council's records retention schedule should be updated to include records retention requirements for whistleblowing disclosure and investigations records in line with those set out in the Whistleblowing policy.	Retention requirements will be included in the next version of the retention schedule due to be presented to the Corporate Leadership Team in October 2022 for approval.	Richard Carr, Interim Executive Director of Corporate Services	Nick Smith, Service Director - Legal and Assurance Kevin Wilbraham, Information Governance Manager Laura Callender, Governance Manager	31/12/2022

Finding 2 – Directorate Whistleblowing monitoring and reporting processes

Finding Rating	**High Priority**

1. Directorate monitoring processes

Review of processes established within directorates for monitoring progress with implementing whistleblowing recommendations highlighted the following:

a) Custom and practice has been for the Whistleblowing team to advise Directors of the recommendations and the proposed management actions following Committee, with the expectation and understanding that Directorates will implement them timeously.

b) Responsibility for ensuring actions are implemented and sustained is delegated to action owners within services, however, there is limited consolidated review and oversight of progress at Directorate level. Some Directorates advised that they considered this to be the role of the Whistleblowing Team.

c) Instructions outlined in emails sent by the Whistleblowing team are not consistently followed, with limited evidence that Directorates are proactive in confirming responsible officer details, or whether an action is complete, unless prompted by the Whistleblowing Team.

d) Implementation evidence is not routinely retained or held centrally. Obtaining sufficient evidence to demonstrate completion of actions for the audit sample took a number of weeks as it was provided by several different officers, and in some instances could not be provided as the action owner was no longer a Council employee.

Outcomes of previous internal audit reviews

A similar finding concerning the lack of clearly established processes for responsibility for completion of, and retention of evidence to support completion of, assurance actions was raised in the 'Implementation of Assurance Actions and Linkage to Annual Governance Statements' Internal Audit completed in July 2020. In August 2021, Directorates confirmed they would implement supporting processes which would include actions arising from monitoring officer reporting.

The findings in point 1 indicate that the design of processes established are inadequate and/or not operating effectively.

2. Directorate implementation of actions

Review of a sample of whistleblowing recommendations across all Directorates highlighted the following:

a) No progress on four recommendations for one whistleblowing disclosure from December 2020 to November 2021. The Whistleblowing team issued reminders; however, action owners were not identified by the service until prompted as part of this review in November 2021.

b) 13 actions for a further disclosure were reported as complete in December 2021, however further information or supporting evidence is required on 6 actions to adequately demonstrate these are fully complete in line with the investigating officer recommendations.

c) Action required for one recommendation was due to complete in Summer 2021, however, management advised this has since been delayed due to Covid-19. No further update has been provided to committee advising that completion of the action is delayed.

d) Three separate disclosures required action on disciplinary investigations, however, Learning and Development have no record of the action owners completing the Council's mandatory disciplinary learning modules.

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3. Directorate reporting processes

Review of reporting processes highlighted the following inconsistencies in the use of action plans to monitor and report on whistleblowing related actions:

a) For one disclosure, an action plan was initially created by the Directorate and reported to Governance, Risk and Best Value Committee, as well as being tracked via the whistleblowing register in terms of closure of actions. It was noted however, that there has been no reporting to Committee by the Directorate on action plan progress since August 2020.

b) In contrast, for another disclosure an action plan was created by the Directorate and was monitored by an Executive Committee on a six-monthly basis. However, the actions were not tracked via the Council's whistleblowing register.

c) One instance was noted where the whistleblowing register, and summary table reported to the GRBV Committee omitted some wording from the original investigating officer's recommendation. Whilst the original recommendations were made available to the GRBV Committee when the investigation concluded, the officer revisions meant some context from the original recommendation was not tracked through to completion following Committee. The Whistleblowing team advise the wording was changed by the Service Director responsible for completion of the recommendations, and to prevent further occurrence, quality assurance processes were implemented to review accuracy of actions.

In addition, one instance was identified where an action owner, when prompted by Internal Audit for an update of progress, advised upon further consideration, that the investigating officer's recommendation was not appropriate for the service. This had not been communicated to the Whistleblowing Team or Committee.

Risks

The potential risks associated with our findings are:

Regulatory and Legislative Compliance / Reputational Risk

- Lack of clarity and understanding on roles and responsibilities at Directorate and service level.
- Limited assurance that management actions resulting from whistleblowing disclosures are fully implemented on a both a Directorate and Council wide level.
- Supporting evidence is not available to demonstrate completion of actions for related or further requirements.
- Inaccurate / incomplete reporting to committee and citizens on whistleblowing disclosures.

Recommendations and Management Action Plan – Directorate Whistleblowing monitoring and reporting processes

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	• Directorates should review the design and effectiveness of directorate level assurance monitoring processes established to ensure	Directorates will annotate the Whistleblowing Actions extract provided by the Governance Team with details of current action owners and target completion	Paul Lawrence, Executive Director of Place	All Place Service Directors	31/03/2023

they include allocating, monitoring and reporting on whistleblowing actions. This should include recording all relevant disclosures and management actions within a central directorate register; and a requirement for action owners to provide regular updates on progress and supporting evidence to demonstrate actions are fully implemented. • Directorates should ensure they obtain sufficient assurance from action owners that actions are fully complete. It is recommended that Directorates retain supporting information and evidence for whistleblowing disclosures within a central file location or system (with adequate security settings to ensure confidentiality) to enable completeness and accuracy of records for reference/reporting, and for provision to Internal Audit in line with any further validation in line with GRBV requirements. • Handover arrangements should also be implemented and communicated to ensure a corporate history of the disclosure can be maintained when action owners leave employment with the Council. • Where disciplinary investigations are required as a result of whistleblowing disclosure recommendations, directorates should ensure Investigating Officers have completed the Council's mandatory disciplinary learning modules.	dates. This will be maintained on an ongoing basis and updated when individual action owners depart the organisation. Assurance will be sought from action owners as to completion of actions, with supporting information stored in a secure file location. This will be available on request to the IA team for the purposes of GRBV agreed implementation progress monitoring. Where disciplinary investigations are required as a result of whistleblowing disclosure recommendations, Investigating Officers will be required to complete the Council's mandatory disciplinary learning modules.	Richard Carr, Executive Director of Corporate Services Amanda Hatton, Executive Director of Education and Children's Services Judith Proctor, Chief Officer, Edinburgh Health and Social Care Partnership	Ross Murray, Operations Manager All Corporate Services Service Directors Layla Smith, Operations Manager Education and Children's Services Service Directors Gillian Tracey, Operations Manager All HSCP Service Directors Angela Brydon, Operations Manager
			30/06/2023
			31/03/2023
			31/03/2023

2.2	• Directorates should adopt the standard reporting approach for whistleblowing action plans (refer recommendation 1.1e) to ensure consistency and transparency in Committee reporting. • Directorates should ensure the wording of investigating officer recommendations are not amended within reports/and or action plans, and where revisions are considered to be required these are reported to and approved by the Council's Whistleblowing team and GRBV Committee. • Directorates should establish arrangements to ensure that where a Service deems a previously agreed management action to be inappropriate or no longer relevant, this is reported to senior management, the Council's Whistleblowing team and GRBV Committee for transparency.	Directorates will implement the standard corporate reporting approach to whistleblowing action plans once this has been implemented and cascaded. Communications will be issued by Executive Directors to remind officers that the wording of recommendations should not be amended, and that where revisions are considered to be required or if an action is considered no longer appropriate, these are discussed with the Directorate Operations Manager and Whistleblowing Team and reported to GRBV as required.	Paul Lawrence, Executive Director of Place	All Place Service Directors Ross Murray, Operations Manager	31/03/2024
			Richard Carr, Executive Director of Corporate Services	All Corporate Services Service Directors Layla Smith, Operations Manager	31/12/2023
			Amanda Hatton, Executive Director of Education and Children's Services	Education and Children's Services Service Directors Gillian Tracey, Operations Manager	31/03/2024
			Judith Proctor, Chief Officer, Edinburgh Health and Social Care Partnership	All HSCP Service Directors Angela Brydon, Operations Manager	31/03/2024

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Payment Card Industry Data Security Standards Governance

22 July 2022

CS2108

Overall Assessment	Significant improvement required

Contents

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Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Significant and moderate control weaknesses were identified in the design and effectiveness of the control environment and governance and risk management arrangements established to ensure that the Council achieves compliance with PCI DSS requirements, with instances of non-compliance identified.

Consequently, only limited assurance can be provided that both the Council and associated partner organisations support the secure management of payment channels and cardholder data.

Our review established that the Council currently does not complete its own PCI DSS self-assessment questionnaire (SAQ) to assess compliance across all payment systems used by the Council, and shared drives where payment details could potentially be stored, instead relying solely on the Barclaycard and Worldpay payment provider SAQs to confirm ongoing PCI DSS compliance. As the Council accepts card payment transactions, it is subject to PCI DSS compliance although the handling, collection, processing, and storage of the protected cardholder data is outsourced, and should complete and submit its own annual SAQ in addition to those provided by the Barclaycard and Worldpay to confirm full ongoing compliance.

Additionally, no approved scanning vendor has been appointed by the Council to perform quarterly external vulnerability scans of the Council's networks in line with PCI DSS requirements. Whilst internal network vulnerability scans are performed by CGI (which is an additional PCI DSS requirement), their scope does not currently cover the full PCI Card Data Environment (CDE) requirements detailed in the standards.

Another area of concern relates to the volume of shadow IT applications used across the Council, as it is not currently possible to confirm whether any of these applications support card payment transactions, and (if so) the extent of their compliance with PCI DSS requirements. It is acknowledged that management is currently identifying the full population of shadow IT applications used and has implemented additional procurement controls to ensure that future purchases are identified and recorded.

We also noted that external website providers are sub-contracted by CGI to develop webpages that can include payment processes. Where this is the case, it is important to ensure that contractual arrangements agreed between CGI and the supplier include the requirement to ensure that website security controls are, and remain, aligned with PCI DSS requirements.

It is likely that these gaps have occurred as the Council's PCI DSS governance and risk management arrangements also need to be improved, with responsibilities for ensuring full end to end PCI compliance clearly defined and allocated, and ongoing compliance oversight provided by an appropriate governance forum.

The main risk associated with these findings is potential application of penalty fees and increased transaction fees by the acquiring bank (the Council's bank) where non-compliance and data breaches are identified. These penalties would be applied to the Council and can only be passed to third party payment providers where they are directly responsible for the compliance and / or data breaches. The Council would also require engaging a PCI Forensic Investigator (PFI) to establish the source of the breach which would incur additional costs.

There would also be potential reputational consequences in the event of breaches if citizens lose confidence in the Council's ability to protect their sensitive payment card information, with increased demands for alternative cash payment processes.

Management Response

The Council's Treasury Manager has historically been responsible for PCI DSS compliance.

Given the complexities associated with addressing findings and the need for collaboration across a number of services to agree ongoing ownership and responsibilities for the PCI DSS framework, a phased implementation approach will be adopted.

An implementation plan will be prepared by Treasury and Digital Services by 31 January 2023 for development of a PCI DSS Council wide framework that considers and addresses (where possible) the IA recommendations included in this report and will be agreed with all services and external stakeholders who will be required to support the process.

The plan will be shared with Internal Audit to confirm that appropriate actions have been defined, or risks accepted (where appropriate), and management actions will then be agreed based on the content of the plan, with their implementation progress monitored through the established Internal Audit follow-up process

Audit Assessment

Audit Areas	Findings	Priority Rating
• Governance and Oversight • Supplier Management	1. Payment Card Industry Data Security Standards (PCI DSS) Governance Arrangements	High
• Change Management • Asset Management	2. Third party contracts and supplier management	Medium
• Physical Security	3. Alignment between CGI contractual and PCI DSS requirements	Medium
• Cardholder Data (CHD) incident management	4. Point of Sale Device Security and Currency	Medium

Areas of good practice

The following areas of good practice have been identified:

- **Change Management Process** – there is a requirement for completion of data privacy impact assessments (DPIAs) for all planned significant process and technology changes to identify potential data privacy and security risks, with recommendations provided to ensure that they are addressed.

- **Shadow IT Applications –** the Council is in the process of identifying its full population of shadow IT applications and has implemented additional procurement controls to ensure that future purchases are identified and recorded.

- **Management of Asset Registers** - the council maintains asset registers for point of sale (PoS) devices procured through the Barclaycard and Worldpay that include their location; service owners; model details; and relevant payment provider, satisfying Requirement 9.9.1 of the PCI Standards.

Background and Scope

[The Payment Card Industry Data Security Standards (PCI DSS)](#) are the information security standards for organisations that accept card payments from major payment card providers such as Visa, MasterCard, Discover, JCB and American Express. Any organisation that accepts card payments must be compliant with PCI DSS standards to demonstrate that Cardholder Data (CHD) and other sensitive financial information is stored, processed and used securely.

PCI DSS consists of the following 12 requirements covering the security controls that interact with, or could otherwise impact the security of, CHD:

1. Protect your system with firewalls
2. Configure passwords and settings
3. Protect stored cardholder data
4. Encrypt transmission of cardholder data across open, public networks
5. Use and regularly update anti-virus software
6. Regularly update and patch systems
7. Restrict access to cardholder data to business need to know
8. Assign a unique ID to each person with computer access
9. Restrict physical access to workplace and cardholder data
10. Implement logging and log management
11. Conduct vulnerability scans and penetration tests
12. Documentation and risk assessments

It is essential to maintain PCI DSS compliance to secure cardholder data where it is captured at the point of sale as it flows into the payment system, and to ensure that security threats and vulnerabilities are identified and addressed. This includes protecting card readers; point of sale terminals; networks and wireless access points; data storage and transmission infrastructure; paper-based records; and online payment applications.

PCI DSS Management across the Council

The Council's Treasury Manager is responsible for the Council's PCI DSS compliance, with the Council's main payment gateway (Barclaycard) and associated payment Chip and Pin devices with relevant services responsible for providing ongoing compliance guidance to their own teams.

The Treasury Manager is can also liaise with the Digital Services team and their technology partner CGI for ongoing technical support and guidance.

Some Council services use other payment gateways, including Culture and Wellbeing within the Place directorate for booking tickets; Parking payments (this system is provided by a third-party supplier); and the Gov.UK Pay system, which is used across the UK public sector to take payment for services and issue refunds.

Management has confirmed that an historic policy decision was taken that the Council would not hold any CHD to reduce the risks associated with potential non-PCI DSS compliance.

Instead, all relevant CHD is acquired and managed under contractual arrangements with Barclaycard, and the Treasury Manager manages the Barclaycard supplier relationship.

The Council's Externally Hosted ["Cloud and Web" Services Protocol](#) also confirms that there is no expectation for core Council systems to store credit card details requiring detailed PCI DSS compliance; that Council processes for accepting card payments must be compliant with PCI DSS; and that any externally hosted services that do hold CHD on the Council's behalf do need to be compliant with PCI DSS regulations.

Ongoing PCI DSS compliance is achieved by ensuring that appropriate redirection to the relevant Barclaycard hosted payment pages set up by the Council but owned by Barclaycard incorporated into online payment forms included in the Council's external website. When ready to accept payment details, a URL link is accessed, and card payment details taken securely by

Barclaycard, with a success or failure message generated on return to the payment form.

Mail and telephone order (MOTO) payments processed in the Customer Contact Centre are managed through the 'Red Box' telephony application where the telephone recording drops off to enable secure provision of payment card details to Barclaycard, and then re-engages.

Physical payments are collected through BarclayCard and WorldPay chip and pin point of sale devices that do not acquire or store CHD. A significant project was completed in December 2021 that migrated all online and telephony payments to the new Barclay card payment gateway (Smartpay Fuse).

Current Compliance

Management has confirmed that the Council completed a PCI DSS self-assessment in 2020/21 with Barclaycard and has also received confirmation of Barclaycard's own compliance with the standards (September 2021).

Future Plans

Replacement of all legacy Worldpay chip and pin devices (mainly used in educational and cultural venues) with Barclaycard terminals is planned.

Scope

The objective of this review was to assess the adequacy and effectiveness of the key controls established to ensure ongoing compliance with PCI DSS requirements designed to protect cardholder data that is acquired through the Council's website and Customer Contact Centres and processed, transmitted and stored by Barclaycard on behalf of the Council.

Risks

The review aims to provide assurance that the following Council enterprise risks are being effectively managed:

- Supplier, Contractor, and Partnership Management
- Technology and Information
- Governance and Decision Making
- Regulatory and Legislative Compliance
- Fraud and Serious Organised Crime

Limitations of Scope

The following areas were specifically excluded from the scope of this review:

- Review and testing of the configuration of network security controls such as firewalls, routers and other network infrastructure, as these areas were covered in the Network Management audit completed in August 2021.

- Security controls in place in shadow IT applications provided by third parties that are not managed by the Council's technology partner CGI.

Reporting Date

Our audit work concluded on 21 July 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Payment Card Industry Data Security Standards (PCI DSS) Governance Arrangements

Finding Rating	High Priority

The Council currently has no established governance arrangements to confirm ongoing compliance PCI DSS compliance requirements.

The Treasury team currently manages relationships with the Council's payment partners (Barclaycard and Worldpay) and directs any PCI and payment card queries to either Digital Services, or CGI, however, these responsibilities have not been formally clarified or confirmed.

Consequently:

1. Payment channels - the Council cannot confirm its full population of payment channels due to the volume of shadow IT systems historically procured by services that potentially include payment processes and are not supported by Digital Services and CGI.

2. Compliance assessments - PCI DSS compliance self-assessment questionnaires (SAQs) are received annually from the BarclayCard and WorldPay payment providers, however, there is currently no set schedule for completing these annual questionnaires.

3. Compliance assessments – the Council does not complete its own SAQs in addition to those completed by the payment providers to demonstrate ongoing annual PCI DSS compliance. This would involve providing details of established PCI DSS governance arrangements including details of relevant policies; procedures; roles; and responsibilities.

4. External Vulnerability Scans – an approved scanning vendor has not been appointed to complete quarterly external vulnerability scans, or scans of the Council's networks following significant changes in line with PCI DSS requirement 11.2.2, and 11.2.3.

5. PCI documentation - details of payment channels and payment processes are not consistently maintained. Payment channel information is established when designing and implementing new payment gateways (for example, the project documentation on Barclaycard), but is not maintained to reflect any subsequent changes to operational payment processes.

6. Incident management - response plans for managing PCI related security incidents across all systems (including Shadow IT applications) that accept and process payments have not been created.

7. Risk management - the risks associated with handling; managing; and transferring card holder data (CHD) and other sensitive payment information are not recorded in relevant service risk registers. It is expected that this would include the risks associated with mishandling / misusing CHD; collecting CHD over the phone; and transferring CHD through shadow IT systems.

8. Training and awareness - training on PCI requirements (including security requirements and handling of payment card data) has not been provided to all employees who handle customer payment card details in line with PCI requirements 9.9.3 and 12.6. Guidance on handling point of sale (PoS) devices is provided for some services, however, this is informal.

Risks

- **Governance and Decision Making** - unable to confirm ongoing compliance and PCI DSS risks, and incidents are effectively managed.

- **Regulatory and Legislative Compliance** - non-compliance with requirements in relation to quarterly external vulnerability scanning.

- **Financial and Budget Management** - risk of non-compliance fees applied by relevant payment card brands.

- **Reputational Risk** – adverse publicity associated with PCI DSS breaches

Recommendations and Management Action Plan – PCI DSS Governance Arrangements

Ref.	Recommendation
1.1	1. Appropriate PCI DSS governance arrangements should be established, with responsibility for ongoing compliance responsibilities allocated to an Executive, and Service Director. One potential governance solution could include extending the responsibility of the established Cyber and Information Security Steering Group to include PCI DSS compliance. 2. A RACI matrix that details those within the Council responsible; accountable; to be consulted; and informed should be prepared that describes PCI governance and compliance responsibilities, including completion of self-assessment questionnaires by both the Council (if required) and payment providers. 3. Current incident response plans should be reviewed to ensure appropriate responsibilities for assigning council and CGI colleagues to triage; manage; and remediate security incidents that impact payment information and assets are in place. 4. Relevant risks associated with PCI compliance should be identified; assessed; recorded in relevant service risk registers; and managed, with the most significant risks escalated to the new PCI DSS governance forum.
1.2	1. An assessment should be performed to determine the full population of payment channels used across the Council, including payments processed using any shadow IT applications, but excluding transactions processed by external payment providers. Note that a register of the shadow IT applications used across the Council is currently being established and will be maintained by Commercial and Procurement Services. This could be used as a reference point. 2. The payment processes and channels identified should be appropriately documented to include detailed payment collection methods (for example, point of sale / online / telephone order) for each channel, together with volumes of annual payment transactions. 3. Digital Services / Commercial and Procurement Services should provide details of all registered shadow IT procurement approvals for applications that include payment channels to colleagues responsible for ongoing PCI DSS compliance, to ensure that the full population of Council payment channels is completely and accurately maintained. 4. The Council should complete its own annual self-assessment questionnaire (SAQ) (in addition to those provided by external payment providers) in line with PCI DSS SAQ guidance to confirm ongoing PCI DSS compliance, and should engage with the payment providers and the acquiring bank (the Council's bank) to determine whether SAQ A (for use of websites that redirect to collect payment providers) and SAQ B (for use of point of sale terminals) should be completed. 5. An approved scanning vendor should be appointed to complete quarterly external vulnerability scans in line with PCI DSS requirements 11.2.2 and 11.2.3.
1.3	1. PCI DSS training should be commissioned and delivered to all employees who handle payment transactions in line with PCI requirements on secure handling of payment data and cards. 2. The training materials should include common threats associated with payment collection and processing, such as e-skimming and the risks associated with tampering with point of sale devices.

Finding 2 – Third party contracts and supplier management

1. CGI Third Party Supplier Management

Where services procure external website providers to develop webpages for Council services, and establish contracts to support ongoing hosting arrangements, CGI may become involved in ensuring that payment interfaces are built that redirect payments to the BarclayCard or WorldPay pages for payment collection, avoiding the need for the Council to collect; process; or store any cardholder payment data.

These external relationships are then either managed by services, or CGI on behalf of the Council and include:

- The experience outdoors; joinedinedinburgh; active schools; and mobile pay websites were independently sourced by services who manage ongoing website hosting directly with these external providers. CGI involvement was developing the Barclaycard payment interface for these websites.

- Planning and Building Standards – this is a Scotland wide portal which was developed by the Scottish Government (SG), with only the Barclaycard payment interface being jointly developed by the SG and CGI for the Council.

- Verint / Redbox – the Verint customer relationship management (CRM) system and Redbox solution (used to prevent recording of payment details) is managed by both CGI and their subcontractor Commsworld.

- Gov.pay – this payment system is an addition to the Verint CRM system. The system is provided and managed by the UK Government.

- Parking – NSL provides the web-based systems used to support payment of parking fees and charges.

Our review of a sample of these contracts confirmed that:

- whilst these contracts include information security requirements, they are not fully aligned with PCI DSS security requirements.

- there are no contractual requirements for external suppliers and / or CGI to maintain security controls that are aligned with PCI DSS requirements for the systems referred to above.

It is acknowledged that CGI has established compensating controls (for example ongoing vulnerability scanning and security monitoring through the established Security Operations Centre) that should be able to identify any potential security threats or issues that arise from these third party hosted web pages. Third party sites in this instance, are the council sites that are built by third party web developers where CGI were involved for onboarding and management.

- **Shadow IT Payment Services**

Whilst the full population of shadow IT applications currently used by the Council to accept payments is currently unknown, existing guidance on procurement contracts and ongoing management of shadow IT applications does not highlight the need to ensure both initial and ongoing compliance with PCI DSS requirements where payments are accepted via shadow IT systems.

Risks

- **Supplier, Contractor and Partnership Management** - guidance on supplier contracts and ongoing supplier management does not include the requirement to consider ongoing PCI DSS compliance.

- **Technology and Information** –weaknesses in supplier's infrastructure that could potentially compromise the redirect to payment providers, or that the website providers do not inadvertently store; process; or misuse payment card data.

- **Regulatory and Legislative Compliance** - the council does not meet PCI DSS requirements.

- **Financial and Budget Management** - potential risk of non-compliance fees applied by relevant payment card brands.

- **Reputational Risk** – adverse publicity associated with PCI DSS breaches.

Recommendations and Management Action Plan – Third party contracts and supplier management

Ref.	Recommendation
2.1	The established CGI and relevant third-party provider contracts should be reviewed and updated to include: 1. responsibility for ensuring that third party security arrangements for websites that include redirection links to payment providers are appropriately secured in line with established PCI DSS security requirements. 2. the requirement to obtain ongoing assurance from third parties that their security arrangements remain aligned with PCI DSS requirements and provide confirmation of ongoing third-party compliance to the Council.
2.2	Existing guidance on procurement contracts and ongoing management of shadow IT applications should be updated to reinforce the need to: 1. ensure that procurement contracts for all shadow IT applications currently used by the Council to accept payments include the requirement to implement and maintain security arrangements that are aligned with PCI DSS standards. 2. obtain ongoing assurance from third parties that their security arrangements remain aligned with PCI DSS requirements and provide confirmation of ongoing third-party compliance to colleagues responsible for ongoing PCI DSS governance.

Finding 3 – Alignment between CGI contractual and PCI DSS requirements

Finding Rating	Medium Priority

Whilst services provided by CGI to the Council are aligned with some aspects of PCI DSS requirements (for example, managing firewall configuration; network access controls; external connections; whitelisting connections; and formal security change management processes) they are not fully aligned with the following requirements:

- Discovery exercises to identify card holder details inadvertently stored in Council network folders or applications or data stores;

- Quarterly internal vulnerability scans (or scans following implementation of significant changes) and annual penetration tests that cover the full PCI Card Data Environment (CDE) requirements, such as connections between point of sale devices and payment gateways accessed via the Council's networks as required by PCI DSS requirement 11.2.1; 11.2.3; and 11.3.1.

- Quarterly wireless analyser scans to detect and identify all authorised and unauthorised wireless access points as required by PCI DSS requirement 11.1 (1 – 2).

Risks

- **Technology and Information** - unauthorised wireless access points and vulnerabilities in connections between point of sale devices and payment gateways are not identified and remediated.
- **Regulatory and Legislative Compliance** - the council does not meet PCI DSS security requirements.
- **Financial and Budget Management** - potential risk of non-compliance fees applied by relevant payment card brands.
- **Reputational Risk** – adverse publicity associated with PCI DSS breaches.

Recommendations and Management Action Plan – Alignment between CGI contractual and PCI DSS requirements

Ref.	Recommendation
3.1	The established CGI contract should be reviewed and updated to: 1. ensure that CGI contractual and PCI DSS security requirements are consistently aligned with completion of quarterly internal vulnerability scans (or scans following significant change) and annual penetration tests that cover the full PCI card data environment in line with PCI DSS requirements 11.2.1; 11.2.3; and 11.3.1. 2. establish a PCI DSS security breach reporting process where breaches are reported to the relevant PCI DSS governance forum. 3. request CGI to provide annual assurance on compliance with PCI DSS requirements to support submission of Council annual self-assessment questionnaires.

Finding 4 – Point of Sale Device Security and Currency

Finding Rating	Medium Priority

1. **Secure Point of Sale Connectivity** - the security of point of sale (PoS) connections that connect to Barclaycard and Worldpay through independent Wi-Fi routers that are not managed by CGI cannot be confirmed as they have not been independently tested.

   Management has advised that it is Barclaycard and Worldpay's contractual obligation to ensure that these devices connect securely to their hosts.

2. **Unapproved PoS models** -Some PoS models used by the Council (IWL250, iCT200, vx680 and vx820) are not listed in the PCI approved PTS device list.

   Whilst PCI DSS does not specify that only PCI PTS-approved devices can be used, some payment brands (for example VISA or Mastercard) have their own requirements for using PTS-approved devices, including whether PTS devices with expired approvals can be used.

3. **Physical security controls** - physical security controls that should be applied consistently to safeguard PoS devices (for example, securing in locked cabinets) have not been defined and documented, in contravention of Requirements 9.9.3 and 12.6.

Risks

- **Technology and Information** - risk of point-of-sale (PoS) device firmware being open to exploitation by hackers as no tests or scans have been performed to confirm that they are running on up-to-date patches and security controls.

- **Technology and Information** - non-approved devices may not be fit for purpose or may have an inherent fault meaning they are at a higher security risk level as they may not be able to withstand the latest generations of attacks. This risk is exacerbated as non-approved devices do not receive ongoing maintenance and service updates from the payment provider.

- **Fraud and Serious Organised Crime** - unsecured PoS assets could be stolen or used inappropriately

- **Regulatory and Legislative Compliance** - the council does not currently meet the PCI DSS requirements

- **Financial and Budget Management** - potential risk of non-compliance fees applied by relevant payment card brands.

- **Reputational Risk –** adverse publicity associated with PCI DSS breaches

Recommendations and Management Action Plan – Point of Sale Device Security and Currency

Ref.	Recommendation
4.1	The implementation plan developed by Treasury and Digital Services should set out responsibilities for ongoing PCI DSS governance activities including: 1. request payment providers (Barclaycard and Worldpay) to provide ongoing assurance that point-of-sale devices (PoS) are running on the latest software.

Payment providers should be pushing software updates out to devices as part of their ongoing compliance activities, but it is recommended that the Council obtains ongoing assurance in this area.

2. engage with merchant acquirers or payment brands to advise them of the expired PoS devices currently in use and discuss potential implications.

3. develop plans to replace all non-approved PoS devices currently used by the Council.

4. confirm whether new payment devices are approved versions in line with the PCI PTS listing and determine when approvals expire.

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report
Planning and Performance Framework – Design Review

30 June 2022

CS2109

Overall Assessment	Some Improvement Required

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Whilst some moderate control weaknesses were identified in the design of the key controls supporting the newly developed integrated planning and performance framework, they provide reasonable assurance that risks associated with the design of the framework are being managed, and that the Council's objectives to implement an appropriately designed framework to support ongoing monitoring of business plan delivery should be achieved.

The design of the planning and performance framework is dependent on first line Council directorates and divisions providing complete and accurate source data to support calculation of KPIs and performance benchmarks and preparation of performance reports by the Data, Performance and Business Planning team ('DP&BP team'), with significant reliance on first line Information Asset Owners (IAOs) to ensure that this is consistently achieved

Our High rated finding highlights this risk and includes some recommendations that, if implemented, should provide ongoing assurance on the completeness and accuracy of high-risk data that, if incomplete or inaccurate, could have a significant impact on the content and accuracy of performance reports.

Our Medium finding highlights the need to make improvements to the design of operational performance reporting processes that will be applied by the DP&BP team. These include ensuring that data and formulae included in key performance reporting spreadsheet models is appropriately protected.

Finally, our Low rated finding recommends that data quality performance objectives are defined and consistently applied in first line directorates and divisions involved in extracting and providing source performance data to the DP&BP team for inclusion in performance reports.

Audit Assessment

Audit Areas	Findings	Priority Rating	Areas of good practice
• Development of performance metrics and methodology	1. Completeness and Accuracy of Divisional Source Performance Data	**High**	Our review identified that good progress is evident with the identification of relevant performance KPIs and benchmarks, and that the framework has been designed to support and encourage a culture of continuous improvement and data-based decision making within the Council. The following specific areas of good practice were also noted:
• Strategic Change and Delivery (second line) Data quality	2. Design of Performance Framework Operational Processes	**Medium**	• Significant research is evident in the design of the framework (which includes the "plan; do; check; and act" methodology) and identified best practice approaches have been incorporated in the creation of performance reporting KPIs; metrics; and milestones. • Good engagement has been carried out with senior Council staff and elected members in order to produce the framework. This included an initial briefing to Policy and Sustainability on the proposed approach, followed by a final paper setting out the

• Performance monitoring and reporting	3. Directorates and Divisional Data Quality Objectives	**Low**	full planning and performance framework. As part of the design, meetings were held with all political groups and a workshop was arranged with the Governance, Risk and Best Value Committee. Meetings were also held with the Wider Leadership Team and the Corporate Leadership Team was closely involved in the design of framework. Positive feedback on the framework design has been received from both officers and elected members.
• Data protection			• The benchmarks chosen for the KPIs are aligned with the Local Government Benchmarking Framework. • The framework addresses a number of observations detailed in Audit Scotland's Best Value Assurance Report of the City of Edinburgh Council in 2020. • Management intends to create a 'Data Dictionary' or 'single source of truth' that will include detailed performance metric calculations; their owners; and relevant data sources that will be shared across all relevant Council stakeholders.

Background and Scope

The Council's new business plan titled 'Our Future Council, Our Future City', covering three-year period 2021-2024, brings together the Council's three priorities of tackling poverty and inequality; boosting sustainability; and enhancing wellbeing. The plan includes fifteen outcomes and actions that will help to successfully deliver these priorities for the citizens of Edinburgh and its visitors.

It is essential that high level strategic performance objectives and priorities are established and communicated across the Council to support the business plan delivery. These should then be supported by divisional delivery performance objectives together with clearly defined employee expectations, and ongoing performance monitoring and reporting to confirm whether objectives are being consistently achieved. Planning and performance frameworks achieve this by creating a 'golden thread' that consolidates collective performance across organisation to determine progress towards delivery of strategic objectives.

The Council's new Performance Framework

An integrated planning and performance framework has been developed by the Data, Performance and Business Planning team ('DP&BP team') to support delivery of the business plan. The framework design is based on the 'plan, do, check, review, and act' performance cycle, with the objective of enabling effective performance discussions across all divisions and driving a continuous improvement culture.

The framework design involves analysing and presenting a combination of external data (for example from the Scottish Government), and internal data from a combination of the DP&BP team and Council divisions.

Data will be received by a generic team email, system generated reports, or manual data extraction from systems, that will be analysed and consolidated to produce data trend performance reports using the appropriate Business Intelligence application. A 'Data Dictionary' that details all KPI calculations is included in the design and is in the next phase of development, not covered by this audit.

The performance reports will assess ongoing strategic delivery progress in comparison to a range of specific performance milestones and SMART (Specific, Measurable, Achievable, Relevant, and Timebound) key performance indicators (KPIs) that are aligned to each of the 15 Business Plan outcomes.

Performance reports will be produced regularly to support both management decision making at all levels across the Council and elected member scrutiny, and the Council's main KPIs will also be published on the Council's website.

The new performance monitoring framework will see a shift from performance reporting based on single data points, which provide only a snapshot in time, towards data trend analysis.

A phased rollout of the performance framework has commenced across Directorates and the first performance report will be brought to the Policy and Sustainability Committee in November 2021.

Information Management Across the Council

Discussion with the Information Governance team has confirmed that the Council currently applies a devolved approach to managing information, with first line directorates and divisions responsible for managing their information assets. Information Asset Owners (division directors) are ultimately responsible for identifying and addressing any risks relating to their information and ensuring ongoing compliance with the Council's information governance policies. IAOs are supported in delivering these responsibilities by System Administrators who should have authority to apply relevant information governance rules, including updating Council data and records to ensure their integrity and quality. Further detail is included on the Orb.

Scope

This review assessed the design of the key controls supporting the newly developed integrated planning and performance framework.

Testing was performed across the period May 2021 to June 2021.

Risks

The review also provides assurance in relation to the following Corporate Leadership Team (CLT) risks:

• Strategic Delivery

• Financial and Budget Management

• Technology and Information

• Governance and Decision Making

• Service Delivery

Limitations of Scope

The scope of this review was limited to assessing the design of the new planning and performance framework prior to its implementation.

Both the effectiveness of the implementation process and the use of the framework by Council divisions and directorates were specifically excluded from our scope.

Existing data quality checks performed by first line teams on the performance data submitted to support consolidated performance reporting were also specifically excluded from our scope, however, the design of data quality checks performed by the second line Change and Delivery Team were included.

It is likely that a further review of the effectiveness of the performance framework will be completed once it has been embedded operationally across the Council that will include the data quality checks performed by first line teams.

Internal Audit recommendations included in this report will not be applied to the Health and Social Care Partnership as they have established their own performance framework.

Reporting Date

Our audit work concluded on 29 June 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Completeness and Accuracy of Divisional Source Performance Data

Finding Rating	High

The Data, Performance and Business Planning team (DP&BP team) confirmed that whilst a sense check is performed on source performance data received from divisions, there are no detailed quality assurance checks to confirm its completeness and accuracy.

Instead, reliance will be placed on the Council's first line Information Asset Owners (IAOs) and System Administrators to manage their information assets appropriately and confirm the completeness and accuracy of the performance data provided, with the DP&BP team highlighting significant variances in expected metrics and historic trends, where further first line investigation is required.

Additionally, no assessment has yet been performed to identify high risk first line data that, if incomplete or inaccurate, could potentially result in both inaccurate KPI outcomes and incorrect progress reporting on business plan delivery.

Management has advised that data quality is a recognised issue across the Council, and that the Information Board has been established with the objective of reviewing and addressing these known data quality concerns

Risks

- **Technology and Information** – incomplete and/or inaccurate data is used as the basis for performance reporting;

- **Governance and Decision making** – incomplete and/or inaccurate data provided and used for decision making and scrutiny;

- **Strategic Delivery** – delivery of the business plan is impacted due to inappropriate strategic decisions based on incomplete/inaccurate data;

- **Service Delivery** – is impacted due to inappropriate operational decisions based on incomplete/ inaccurate data, and the inability to identify and resolve underlying performance issues; and

- **Reputational Risk** – reputational damage associated with inability to deliver the business plan and Council services to the expected standards

Recommendations and Management Action Plan – Completeness and Accuracy of Divisional Source Performance Data

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	a. The DP&BP team should provide standardised guidance to first line directorates and divisions on how data for the Planning and Performance Framework	a. This recommendation will be implemented as recommended by Internal Audit.	Richard Carr, Interim Executive Director of	Gillie Severin, Head of Strategic Change and Delivery	a. 30/09/2022 b. 28/02/2023

should be extracted; analysed; collated; and submitted to the DP&BP team. This should include, but not be limited to guidance on how to: • Review and cleanse data; • Reconciliation controls that should be applied to support data extraction and confirm its completeness; • Data analysis controls (especially when using spreadsheet models); • The importance of appropriate quality assurance checks and review prior to submission; and • The process for submitting data (use of the generic DP&BP team email address). b. Directorates and divisions should be requested to confirm, at an appropriate frequency, that the guidance provided is being consistently applied, and proactively advise if there have been any changes to and/or significant issues with the process.	b. A questionnaire will be designed based on the guidance provided and will be issued to divisions annually, in line with the requirement to provide annual assurance framework submissions, to provide assurance that they are performing data extraction; analysis; collation; and submission in line with original guidance from the DP&BP team. Responses will be reviewed and considered as part of recommendation 1.3 below	Corporate Services	Edel McManus, Change & Delivery Manager Catherine Stewart, Lead Change and Delivery Officer	

| 1.2 | Directorates and divisions should:

1. Incorporate the guidance provided by the Data, Performance and Business Planning (DP&BP) team into established processes to support the completeness and accuracy of high-risk divisional data to be provided for inclusion in performance reporting;

2. Ensure that these checks are consistently and effectively applied;

3. Take appropriate actions to address any data quality issues identified and ensure that these are included (where appropriate) in divisional risk registers.

4. Provide confirmation to the DP&BP team that the guidance is being consistently applied within agreed timeframes. | a. The guidance will be applied when issued by DP&BP team and dip sampling of data returns will be undertaken on a quarterly basis via the Directorate Assurance Officer to provide assurance that guidance is being applied. This will be aligned to required reporting to the Directorate Quarterly Performance and Assurance Meetings between the Divisions and the Executive Director.

b. The guidance will be reviewed, and relevant elements applied when issued by DP&BP team and dip sampling of data returns will be undertaken on a regular basis via the Directorate Assurance Officer to provide assurance that guidance is being applied.

c. ECS will implement dashboards at each level of the organisation and will also undertake case file audits, in which a percentage per month will be randomly selected across Audits, Thematic multi-agency audits, Complaints and complements, Reviews, Data, Voice – individual and group, Research and practice wisdom, Line of sight activity, in order to test for data quality. This will be a mirror of regulation 44 when reports are compiled to ensure that the children are being kept safe and how well their wellbeing is being promoted. | a. Richard Carr, Interim Executive Director of Corporate Services

b. Paul Lawrence, Executive Director of Place

c. Amanda Hatton, Executive Director of Education and Children's Services | a. Hugh Dunn, Service Director: Finance and Procurement

Nicola Harvey, Service Director: Customer and Digital Services

Katy Miller, Service Director: Human Resources

Nick Smith, Service Director: Legal and Assurance | a. 30/09/2023

b. 30/09/2022

c. 30/09/2023 |

| 1.3 | The DP&BP team should:

1. Complete a risk assessment on the source performance data provided by first line divisions to identify the high-risk data that (if incomplete or inaccurate) could have a significant impact on performance reports. It is recommended that source data should be assessed as either high; medium; or low risk with supporting rationale provided for these classifications;

2. Establish whether any first line checks are currently performed to confirm the completeness and accuracy of this data and (if so) whether these checks are adequately designed and consistently performed;

3. Where no first line checks are currently performed, agree with first line divisions the nature and frequency of checks that will be performed to confirm the completeness and accuracy of first line data;

4. Obtain confirmation from directorates and divisions that agreed data checks have been completed and that the data provided is complete and accurate, or obtain details of any inaccuracies identified and corrective actions; and

5. Include appropriate caveats in performance reports where any data inaccuracies have been identified. | A phased approach will be applied to implementation of these recommendations, recognising that circa one year will be required to assess the quality of data provided by divisions for performance reports.
Once the process has been applied for a full year, a review will be performed by the DP&BP team to identify potentially high-risk data or divisions where additional support is required based on the outcomes of the survey (refer to Recommendation 1.1 above), and an action plan will be developed and discussed with IA. | Richard Carr, Interim Executive Director of Corporate Services | Gillie Severin, Head of Strategic Change and Delivery
Edel McManus, Change & Delivery Manager

Catherine Stewart, Lead Change and Delivery Officer | 31/03/2023 |

Finding 2 – Design of Performance Framework Operational Processes

Finding Rating	Medium Priority

Review of the performance framework operational process design that will be applied by the Data, Performance and Business Planning (DP&BP) team in comparison with good practice, established that:

1. a detailed performance reporting timetable has not yet been created to ensure that divisions produce and provide data on time for inclusion in performance reports. Management has advised that a timeline is part of the implementation phase.

2. some source data for inclusion in performance reports will be provided by divisions via email to a group email address.

3. written processes for DP&BP data validation and cleansing have not yet been established but are part of the implementation phase.

4. collation and analysis of data used to calculate key performance indicators (KPIs) and prepare performance reports involves a significant amount of manual intervention from the DP&BP team

5. KPI spreadsheet formulae and contents are not protected by cell protection to prevent inadvertent or erroneous changes.

6. a change log has not yet been developed to record any changes made to KPI spreadsheet formulae and contents. Management has advised that this will be delivered as part of the design of the planned data dictionary.

Risks

- **Technology and Information** – incomplete and/or inaccurate KPIs and performance data is used to produce performance reports

- **Service Delivery** – performance reports are not delivered on time and to the expected level of quality.

Recommendations and Management Action Plan – Design of Performance Framework Operational Processes

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	The DP&BP team should: 1. establish and agree a detailed timetable with directorates and divisions that includes timeframes for provision of source data for inclusion in performance reports; 2. establish a process (where feasible), where secure network folders or another suitable alternative (for example a SharePoint site) accessible by the DP&BP	As part of the implementation of the Planning and Performance Framework, the DP&BP team will establish a detailed performance reporting timetable for first line directorates and divisions that will include timeframes for the provision of source data to the DP&BP team for inclusion in performance reports. All data received by email from divisions will be sent to a group email inbox as detailed in	Richard Carr, Interim Executive Director of Corporate Services	Gillie Severin, Head of Strategic Change and Delivery Edel McManus, Change & Delivery Manager Catherine Stewart, Lead Change	31/12/2022

	team and relevant first line divisional team members are used to support both provision and storage of first line performance data, avoiding use of email submissions (where possible).	recommendation 1.1. Any emails sent directly to officers will be sent a reply request submission of future data via the group inbox.		and Delivery Officer	
2.2	The DP&BP team should: 1. document data validation and cleansing processes that they will apply to deliver performance reports, and ensure that they are consistently applied; 2. ensure that all manual data collation and analysis processes are documented and consistently applied; 3. document all key performance indicator (KPI) and other performance metric calculations and ensure that they are consistently applied; 4. establish appropriate change control processes to support ongoing maintenance of operational procedures and any changes to KPIs and other performance metrics; 5. design and implement cell protection (where required) to ensure that source data and key formulae required to calculate KPIs, and other performance metrics cannot be inadvertently overwritten or changed.	The DP&BP team will document the cleansing guidance and the manual data collation and analysis processes and ensure these are consistently applied by the team. The proposed data dictionary will document all KPIs and other performance metric calculations and will be the only calculations applied. The data dictionary will also act as a change log to capture any changes to the KPIs and other performance metrics and will include details of the original calculation and source data, the date of change, and how the change was authorised. Finally, the Team will also ensure that the KPI spreadsheet formulae and data are protected to prevent inadvertent changes being made	Richard Carr, Interim Executive Director of Corporate Services	Gillie Severin, Head of Strategic Change and Delivery Edel McManus, Change & Delivery Manager Catherine Stewart, Lead Change and Delivery Officer	31/03/2023

Finding 3 – Directorates and Divisional Data Quality Objectives

Data quality performance objectives for directorates and divisions involved in managing, extracting, and providing performance data to the Data, Performance and Business Planning team (DP&BP team) for inclusion in performance reports, have not yet been defined.

Risks
Service Delivery – receipt of poor-quality source data from first line divisions leading to potentially inaccurate/incomplete performance reports.

Recommendations and Management Action Plan – Directorates and Divisional Data Quality Objectives

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
3.1	The DP&BP team should: 1. design a SMART (specific; measurable; achievable; realistic; and timebound) data quality objective for Directorates and Divisions involved in managing and providing source data for inclusion in performance reports. 2. the objective should include being clear that services are responsible and accountable for data quality in their teams. 3. communicate the data quality objective to Service Directors for their information and use	The DP&BP team will prepare data quality objectives and share with directorates and divisions involved in provision of data for inclusion in performance report for discussion and agreement.	Richard Carr, Interim Executive Director of Corporate Services	Gillie Severin, Head of Strategic Change and Delivery Edel McManus, Change & Delivery Manager Catherine Stewart, Lead Change and Delivery Officer	31/12/2022
3.2	First line directorates and divisions should ensure that: 1. the performance reporting objective designed by the DP&BP team are considered and (where appropriate) incorporated into annual service plans and Performance processes; and	a. The Corporate Services Directorate will continue to work closely with the DP&BP Team on the relevant performance reporting objectives, keeping these under regular consideration and review, and where b. Paul	a. Richard Carr, Interim Executive Director of Corporate Services b. Paul	a. Hugh Dunn, Service Director: Finance and Procurement Nicola Harvey, Service Director:	a.30/09/2023 b.30/09/2023 c.30/09/2023

2. any capacity and/or performance challenges associated with data management are discussed with the DP&BP team.	appropriate will incorporate these into our Annual Service Plans. Regular discussions will take place with the DP&BP Team to consider any capacity and/or performance challenges associated with data management. b. Performance reporting objectives designed by the DP&BP team will be considered and (where appropriate) incorporated into the Place Annual Service Plan. Achievement of these objectives will be closely monitored with performance challenges associated with data management discussed with the DP&BP team. c. ECS will integrate Performance reporting objectives designed by the DP&BP i.e. PoaP in collaboration with the Change & Culture Framework to achieve clarity of targets so everyone can see their role in delivering data quality, including rigorous monitoring of progress towards impacts, ability to highlight and celebrate success, risk mitigation and management.	Lawrence, Executive Director of Place c. Amanda Hatton, Executive Director of Education and Children's Services	Customer and Digital Services Katy Miller, Service Director: Human Resources Nick Smith, Service Director: Legal and Assurance b. Ross Murray, Operations Manager – Place; Alison Coburn, Operations Manager, Place c. Gillian Tracey, Education and Children's Services Operations Manager	

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Vulnerability Management
(Corporate, Learning & Teaching and Peoples Networks)

CS2102

28 September 2022

Overall Assessment	Significant improvement required

Contents

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Significant and moderate weaknesses were identified in both the design and effectiveness of the control environment supporting ongoing vulnerability management and remediation across the three networks operated by the Council and managed in partnership with CGI. Consequently, only limited assurance can be provided that security risks are being effectively managed and that the Council's objectives of maintaining secure network operating environments can be achieved.

Scanning an organisation's entire technology estate is essential and is the foundation of a good vulnerability management program, as vulnerabilities can exist in any system and cannot be addressed unless they are identified. Additionally, once an attacker breaches the security supporting one system, it can be used as a foothold to move laterally across the network and launch further attacks.

Our review confirmed that there are gaps in the coverage of monthly vulnerability scans, as there are no established controls to confirm that the full network range is scanned; and no integration between the Configuration Management Database (CMDB) (the Council's central asset repository) and the vulnerability scanning systems used, with no manual reconciliation performed to confirm completeness of assets to be scanned prior to their initiation.

Additionally, review of the content of the CMDB confirmed that information about Council assets (mainly critical IP address information for static IP devices) is not included, which impacts the completeness and effectiveness of scanning.

CGI does perform a monthly network discovery scan to identify active network assets and subsequently scans them to identify potential vulnerabilities. Whilst this is a good practice vulnerability management approach, lack of assurance on completeness of the network range limits the effectiveness of this process, as assets could be active on other areas of the network that may not have been included in the scan.

We also identified the need to improve the vulnerability remediation process as system patching is not currently prioritised based on system criticality, as this requirement is not specified in the established CGI contract and noted that timeframes for application of recently released patches to critical systems by CGI are presently unclear.

Our final finding highlights the need for CGI to establish and implement an exception tracking process that records and monitors the unique and cumulative risks associated with approving short-term exceptions from established Council security policies and standards and ensures that all approved exceptions are subsequently closed.

It is important to ensure that these findings are addressed as independent assessors who assess the vulnerability of networks to support both Cyber Essentials Plus and Public Services Network compliance complete their independent testing based on details of the technology estate maintained by CGI on behalf of the Council.

Audit Assessment

Audit Areas	Findings	Priority Rating		Areas of good practice
• Performance and Oversight	1. Incomplete vulnerability scanning coverage	**High**		The following areas of good practice were identified:
• Asset Management	2. Vulnerability prioritisation and remediation	**Medium**		1. Patch Management – there is a defined patch cycle for technology assets, and appropriate change management practices are applied to support patching and other updates to asset operating systems. 2. Gold Images and Baselines - End User Devices (laptops/desktops), Windows & Unix server systems have standard gold images with Centre for Internet Security (CIS) controls applied as part of baseline practice. These images are reviewed and approved by the CGI Information security team before being rolled out across the estate. However, it was identified from previous audits that baseline images for network devices such as firewalls, routers were not maintained as identified in the Network Security review performed in 2021.
• Vulnerability Management				
• Change Management	3.Security policy exception management	**Medium**		3. Governance and oversight – Regular engagement is evident between CGI and the Council to review the vulnerability management reports and patching performance. Monthly technology currency meetings are established to review, plan and mitigate against risks introduced by end of life and end of support systems.

Background and Scope

Modern technology systems contain vulnerabilities either due to software defects that require patches to remedy or due to configuration issues. These vulnerabilities could be used by an attacker to gain unauthorised access to systems and data leading to disruption to Council services and/or a breach of staff, client or other data.   As vulnerabilities are being discovered all the time, the Council needs a robust vulnerability management process to manage the risk that vulnerabilities present.

Vulnerability Management across the Council

The City of Edinburgh Council (the Council) currently utilises three separate networks, namely the corporate network (which is used by a majority of Council divisions), the learning and teaching (L&T) network (which is used by the schools) and the Peoples network (used by libraries)

The networks are segregated and separately managed and maintained by the Council's technology partner CGI, with the Council's Digital Services team providing oversight by obtaining assurance over network performance and security.

Regular vulnerability scanning has been implemented for all three networks and is performed by CGI. The design of the vulnerability scanning includes all assets with an IP address that are recorded in the Configuration Management Database (CMDB) maintained by CGI.

In addition, the corporate network is scanned by an independent third party as part of maintaining ongoing compliance with the UK Government's Public Services Network (PSN) accreditation and Cyber Essentials Plus (CE+) accreditation.

All vulnerabilities identified from these scans are then considered and reviewed by Digital Services and CGI and outcomes shared with the UK Government Cabinet Office to support the PSN accreditation process. Confirmation is also provided to the Scottish Government that the independent CREST accredited organisation who performed the scan has awarded the CE plus accreditation.

The Council's Digital Services cyber security team and CGI colleagues oversee the vulnerability scanning and remediation services provided by CGI through ongoing review of security metrics and vulnerability management reports provided by CGI.

The process supporting ongoing management and remediation of vulnerabilities across Corporate, L&T and Peoples network are similar, with minor variations in relation to end user devices normally connected to the Peoples network, primarily due to the Council's Covid-19 response.

Scope

This review assessed the adequacy of the design and operating effectiveness of the key vulnerability management controls to ensure effective management and remediation of vulnerabilities identified across the three networks managed by the Council.

This review has been performed by exercising the 'right to audit' clause included in the CGI contract.

Limitations of Scope

No additional vulnerability scanning, or penetration testing has been performed across the Council's networks.

We recognise that libraries were, and some still remain closed as part of the Council's Covid-19 resilience response, the review has focused on plans to reinstate vulnerability scanning across the Peoples network and libraries that have now reopened.

Reporting Date

Our audit work concluded on 26 August 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Incomplete vulnerability scanning coverage

Finding Rating	High Priority

Corporate and Learning and Teaching vulnerability scans - review of a sample of 23 assets used across the Corporate and Learning and Teaching networks sourced from the Configuration Management DataBase (CMDB) (the central repository for all Council technology assets with an IP address to be included in ongoing vulnerability scans) confirmed that 14 of the assets were excluded from the March 2022 vulnerability scan.

The missing assets included end user devices; servers; and firewalls. Further investigation confirmed that these devices were excluded due to:

Network range completeness: vulnerability scan network ranges are updated quarterly, however, there are no established controls to ensure that there is 100% coverage of the current network environment and confirm that there are no exclusions or exceptions to the scan.

Incomplete CMDB content: the CMDB does not include critical IP address information for static IP devices, resulting in gaps in the completeness of the scanning operation.

CMDB alignment: there is currently no reconciliation performed between CMDB content, and the assets included in monthly vulnerability scans.

CGI management has confirmed that this reconciliation is performed for other CGI clients to confirm that vulnerability scans are complete.

It is acknowledged that CGI performs a monthly network discovery scan to identify active network assets, and subsequently scans them to identify potential vulnerabilities. Whilst this is a good practice vulnerability management approach, lack of assurance on completeness of the network range limits the effectiveness of this process.

Additionally, if the full population of Council assets is not recorded in the CMDB, this will present challenges when investigating security incidents.

Risks

Technology and Information

- Potential risk of cyber-attack due to incomplete vulnerability scanning coverage across the network environment and network assets as potential vulnerabilities cannot be identified and remediated.

- Inability to complete security incident investigations if CMDB content is incomplete.

Recommendations and Management Action Plan – Incomplete vulnerability scanning coverage

Ref.	Recommendation	Agreed Management Action	Owners/Contributors	Timeframe
1.1	1. A full review of the content of the Configuration Management Database (CMDB) should be performed to identify any Council technology assets (including critical IP	A monthly hardware asset management review is provided to the Council that is reasonably comprehensive and granular. This	**Owners:** Richard Carr, Interim Executive Director Corporate Services; and Mark Bulmer, Vice President Consulting Services, CGI	31/12/2023

			Contributors: Nicola Harvey, Service Director, Customer and Digital Services
	addresses for static devices) that are not included. 2. Ensure that missing assets are identified and the CMDB updated to include their details. 3. Establish processes to confirm the ongoing completeness of the population of CMDB assets. This should be linked to established asset addition and disposal processes.	will be updated to reflect the points noted above.	Heather Robb, Chief Digital Officer; Mike Brown, Cyber Security Manager, Digital Services Mark Burtenshaw, Cyber Security Officer, Digital Services Jackie Galloway, Commercial Manager, Digital Services Alison Roarty, Commercial Lead, Digital Services	
1.2	The following controls should be implemented to confirm and provide assurance that ongoing vulnerability scanning covers the entire Council technology estate: 1. Agree a methodology or process between CGI and the Council to confirm that planned vulnerability scans include the Council's full network range prior to the start of the scanning process. 2. Perform ongoing reconciliations between the content of the Configuration Management Database (CMDB) and the technology assets to be included in scans to confirm that all expected assets are included.	Digital Services will liaise with CGI to agree processes and assurance arrangements aligned to the recommendations above. Internal Audit will be advised of the outcomes of the review and details of processes implemented provided.	Owners: Richard Carr, Interim Executive Director Corporate Services; and Mark Bulmer, Vice President Consulting Services, CGI Contributors: Nicola Harvey, Service Director, Customer and Digital Services Heather Robb, Chief Digital Officer; Mike Brown, Cyber Security Manager, Digital Services Mark Burtenshaw, Cyber Security Officer, Digital Services Jackie Galloway, Commercial Manager, Digital Services Alison Roarty, Commercial Lead, Digital Services	31/12/2023

Finding 2 – Vulnerability Prioritisation and Remediation

Finding Rating	Medium Priority

Review of established vulnerability remediation processes confirmed that:

Vulnerability prioritisation - critical asset vulnerabilities are not prioritised for resolution as information on asset criticality is not currently available

Vulnerability remediation - critical or significant medium vulnerabilities are not currently patched within 48hrs of release of patches from system / software providers (for example Microsoft) as required per Schedule Part 2.4: "Security Management" of the established CGI contract.

Management has advised that that an informal agreement has been established between CGI and the Council to adopt a more practical remediation approach that is aligned with recommendations from authorised threat intelligence sources such as National Cyber Security Centre (NCSC), however no revised patch implementation timeframes have been specified, and this change has not been reflected in the contract.

Risks

- **Technology and information** - patches to address critical or significant medium vulnerabilities are not prioritised or applied in a timely manner, exposing the Council to a risk of a potential cyber-attack.

- **Supplier, contractor, and partnership management** – operational processes do not reflect established contractual requirements.

Recommendations and Management Action Plan – Vulnerability Prioritisation and Remediation

Ref.	Recommendation	Agreed Management Action	Owners/Contributors	Timeframe
2.1	1. A process should be established to identify and prioritise remediation of any critical assets where critical or significant medium vulnerabilities have been identified (ideally based on criticality assessments from the Configuration Management Database – refer recommendation 1.1). 2. Where the asset criticality has not been previously determined & documented, clarification in relation to their significance and prioritisation for remediation should be obtained from the Council.	For all P1 systems (where CGI hardware is deemed to be a critical asset), Digital Services will work with CGI to identify critical and high vulnerabilities on a quarterly basis and ensure that a remediation plan is prepared and put in place that prioritises critical assets. Risk acceptance of individual vulnerabilities may be required at times to ensure business continuity.	**Owners:** Richard Carr, Interim Executive Director Corporate Services; and Mark Bulmer, Vice President Consulting Services, CGI **Contributors:** Nicola Harvey, Service Director, Customer and Digital Services Heather Robb, Chief Digital Officer; Mike Brown, Cyber Security Manager, Digital Services	20/12/2024

| 2.2 | 1. Refreshed timeframes for the patching of critical or significant medium vulnerabilities following release of patches from system / software providers should be agreed between CGI and the Council.

2. Schedule Part 2.4: "Security Management" of the established contract should be updated to reflect these refreshed timeframes, together with any relevant key performance indicator metrics | Digital Services will review the current CGI contract obligations and, if possible, make changes where relevant. Internal Audit will be advised of the outcomes of the review | **Owners:**
Richard Carr, Interim Executive Director Corporate Services; and Mark Bulmer, Vice President Consulting Services, CGI

Contributors:
Nicola Harvey, Service Director, Customer and Digital Services

Heather Robb, Chief Digital Officer; Mike Brown, Cyber Security Manager, Digital Services

Mark Burtenshaw, Cyber Security Officer, Digital Services

Jackie Galloway, Commercial Manager, Digital Services

Alison Roarty, Commercial Lead, Digital Services | 30/06/2023 |

Finding 3 – Security policy exception management

CGI currently has no established formal exception tracking process that records approved vulnerability management (and other relevant) exceptions from established security policies and standards; and confirms that they are approved at an appropriate level and closed when exception timeframes have expired.

CGI management has confirmed that an informal process is applied where exception approvals are requested from the CEC Cyber Security Team and individually reviewed and approved via email by the CEC Cyber Security Manager.

To support ongoing vulnerability management, the following examples of exceptions may be required:

1. System Baseline Exceptions - operating system baselines (pre-configured settings (including security) applied to a system before it is released into production) are defined and gold (standard or master) images are used to support baseline deployment across various operating systems.

Gold images are secured with enhanced controls that are reviewed and approved by the Information Security team. However, some business or technical requirements may involve changes to images, which should be approved though an established exception process.

2. Patch schedule exceptions - there is a defined patching schedule for servers, and patching is performed in line with this schedule by system administrators. Again, some business or technical requirements may require exceptions to the defined patching schedule.

Risks

Technology and information

● If exception timeframes are not monitored and closed, vulnerabilities could remain in the system, resulting in increased security risks.

● Reviewing exception requests individually does not provide a view of the cumulative risks associated with multiple related and / or unique security policy exceptions.

Recommendations and Management Action Plan – Security policy exception management

Ref.	Recommendation	Agreed Management Action	Owners/Contributors	Timeframe
2.1	A comprehensive centralised security exception tracking process should be developed and implemented that captures relevant information associated with each request. This should include: 1. Centrally recording and maintaining the following information:	Digital Services will liaise with CGI to review existing process and documentation available for this and discuss how this can be changed within the existing contract.	**Owners:** Richard Carr, Interim Executive Director Corporate Services; and Mark Bulmer, Vice President Consulting Services, CGI **Contributors:**	30/09/2024

	- Nature of exception and relevant policy/standard/document that would normally apply. - Risk associated with the exception request - Exception significance based on risk (e.g., critical; high; medium; low) - Requestor - Reviewer/Approver, - Duration of exception - Responsibility for exception remediation / closure 2. The cumulative risks associated with all open exceptions should be considered and recorded when considering new exception requests. 3. Ongoing monitoring should be performed to confirm that cumulative risks associated with open exceptions remain within appetite, and that all exceptions have been remediated within agreed timeframes. 4. Open exceptions that have not been remediated / closed within agreed timeframes should be investigated and resolved.		Nicola Harvey, Service Director, Customer and Digital Services Heather Robb, Chief Digital Officer; Mike Brown, Cyber Security Manager, Digital Services Mark Burtenshaw, Cyber Security Officer, Digital Services Jackie Galloway, Commercial Manager, Digital Services Alison Roarty, Commercial Lead, Digital Services	

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
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Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Fraud and Serious Organised Crime

20 September 2022

CW2009

Overall Assessment	Significant Improvement Required

Contents

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The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Significant control weaknesses were identified in both the design and effectiveness of the Council's fraud and serious organised crime (SOC) (including anti-money laundering (AML)) control environment and governance and risk management frameworks.

Consequently, only limited assurance can be provided that fraud and SOC risks are being identified and effectively managed, and that the Council's objectives of managing and mitigating the impacts of fraud and serious organised crime will be achieved.

Ongoing Assurance

Review of a sample of established first line service fraud management arrangements confirmed that (whilst inconsistent) they were generally well designed, although there is currently no ongoing service and directorate (first line) or established second line assurance performed to confirm their ongoing effectiveness.

A lack of ongoing assurance presents a challenge for individual directors and the Corporate Leadership Team (CLT) in meeting their responsibilities outlined in Council policies to ensure that the Council develops and maintains effective controls to detect and prevent fraud, bribery, and anti-money laundering.

The Council also has limited assurance that new controls are being designed and implemented to combat the pace and consistently changing nature of fraudulent activity.

It is acknowledged that this may be addressed by implementation of the planned governance and assurance model, and that external audit will provide some assurance on key financial controls during to support preparation of the financial statements.

Reporting

There is no established Council-wide process for recording fraud; SOC; and AML incidents, across Council services, or consolidated reporting provided to directorates and the CLT to provide a view on the volume; nature; and impact of frauds that occur. Consequently, the Council has no overarching view of the volume and impact (including the financial impact) of incidents and cannot clearly define whether and what action is required to improve the design and effectiveness of established fraud prevention and detection controls.

Whilst there is a clearly defined escalation route for fraud and SOC incidents defined in Council policies to the Chief Executive; Monitoring Officer; Money Laundering Reporting Officer; and Chief Internal Auditor; numbers reported are low.

This suggests either the volume; nature; and impact of fraud experienced across the Council is immaterial, or that fraudulent activity is potentially not being identified and escalated in line with established policy requirements.

Risk Management

Fraud and SOC is an enterprise risk for the Council, which is reviewed and assessed regularly at a Council wide level, however there is no established process in place to identify and manage thematic service fraud and SOC risks across the Council.

The Corporate Resilience team were advised through previous discussions with the Corporate Risk Team circa 2019, that consideration of fraud and SOC related risks should be performed within individual service areas as part of the Council's corporate risk management approach.

Phased Implementation Approach

It is recommended that a phased implementation approach is adopted, to enable sufficient time for the design and implementation of the new process. The new process should give consideration to Audit Scotland expectations as detailed in their July 2022 publication on Fraud and Irregularity.

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Audit Assessment

Audit Areas	Findings	Priority Rating		Areas of good practice
1. Anti-Money Laundering Arrangements 2. Strategy and Governance 3. Training 4. Partnering 5. First line arrangements	1. Established Fraud and Serious Organised Crime Arrangements	**High Priority**		• Fraud prevention, Anti-bribery, and Anti-Money Laundering policies have been established and are published on the Council's intranet (the Orb). • The Council has established a Serious Organised Crime Group which includes a wide breadth of representation across the Council with external input (such as Police Scotland) as required. • The Council has a clearly defined risk appetite for fraud and SOC. • An annual fraud and detection report provides details on fraud detection and prevention activities undertaken by the Customer Fraud Team and outcomes of the NFI exercise. • Information sharing protocols in relation to Fraud and SOC are in place.
	2. Risk Management – Fraud and SOC	**Medium Priority**		• The Council participates in the Scottish Local Authority Investigators Group (SLAIG) and the Institute of Revenues Rating and Valuations (IRRV) professional group. • The services most likely to be impacted by fraud and SOC have established fraud prevention and detection processes. • There is a clearly defined fraud and SOC escalation route to the Council's Monitoring Officer; Chief Internal Auditor; and Chief Executive; and a clearly defined escalation rout to the Money Laundering Reporting Officer (MLRO), together with a requirement for provision of an annual money laundering report by the MLRO to the Governance, Risk, and Best Value Committee. • The Council's external website includes a link to an electronic fraud form enabling citizens and other parties to report a possible fraud. • Various training and awareness sessions for employees and elected members have been facilitated by the Corporate Resilience team.

Background and Scope

The [Scottish Government's Serious Organised Crime Strategy](#) outlines how Scotland should work together to reduce the harm caused by serious organised crime (SOC). The Strategy defines SOC as a crime that:

- involves more than one person
- is organised, involving a level of control, planning and specialist resources
- causes, or has the potential to cause, significant harm
- involves financial or other benefit to the individuals concerned

Local authorities (LAs) face significant risks related to fraudulent transactions and other criminal activities, including money laundering, perpetrated by SOC groups. Further areas of risk and vulnerability related to serious and organised crime include cybercrime, human trafficking, bogus tradespeople, inadvertent funding of SOC groups through procurement and licensing activities, counterfeit goods etc.

LAs can be used by criminals and anti-social elements to facilitate their money laundering activities.

Relevant Legislation and Guidance

Relevant fraud, Anti-Money Laundering (AML), and SOC legislation that applies to the Council includes:

- [Criminal Justice and Licensing (Scotland) Act 2010](#)
- [Serious Crime Act 2007](#)
- [Proceeds of Crime Act 2002](#)
- [Terrorism Act 2000](#)
- [Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017](#)

Whilst LAs are not directly included within the scope of anti-money laundering legislation, the Chartered Institute of Public Finance and Accountancy (CIPFA) advises LAs to proactively comply with the underlying principles of the anti-money laundering legislation and regulations, and not to presume that money laundering isn't an issue for local government.

Consequently, CIPFA considers that it is good practice for LAs to appoint a designated Money Laundering Reporting Officer (MLRO) and apply AML policies and procedures.

LAs are also expected to play active part in the wider remit of the [Scottish Government Serious Organised Crime Strategy](#) through active cooperation with the wider network of partnering agencies, including provision of good quality data for the purpose of knowledge sharing / data matching exercises.

Covid-19 Impacts

Recent [CIPFA](#) and [Audit Scotland](#) publications have highlighted significantly increased fraud and SOC risks, as a result of the Covid-19 pandemic. These are primarily due to high amounts of funding distributed by public bodies; the need to respond quickly; relaxation of certain public contract procurement and grant approval requirements; and the impact of homeworking and physical distancing on routine validation and data security checks.

The Council's approach to Fraud and SOC

Key Council policies designed to ensure compliance with applicable legislation and manage the Council's potential fraud and SOC risks include:

- [Fraud Prevention Policy](#)
- [Anti-Bribery Policy](#)
- [Whistleblowing Policy](#)
- [Employee Code of Conduct](#)

The Council's Fraud and SOC Framework

The Council has no established second line framework that provides fraud and SOC guidance to directorates and services, and no centralised reporting and oversight of fraud and SOC incidents.

Each directorate and their services are responsible for identifying their relevant fraud and SOC risks and implementing appropriate processes; procedures; and controls to ensure that these risks are effectively managed and confirm alignment with the Council policies noted above. This will often involve working closely with multi agency partners (for example Police Scotland).

It is acknowledged that implementation of a framework would be complex given the volume and variation of fraud and SOC risks that could potentially impact a number of Council services, and the complex governance and oversight of these services and their associated risks performed by relevant executive committees.

Council Serious Organised Crime Group

The Council's SOC Group was established at the request of the Corporate Leadership Team (CLT) to coordinate and monitor the Council's fraud and SOC activities in response to Scotland's SOC Strategy. The Group is chaired by the Resilience Manager, who has delegated responsibility for the coordination of the Council's response to serious and organised crime including:

- raise awareness of potential vulnerability from SOC and other forms of corrupt practice
- enhance resilience against corrupt practice
- develop, agree and monitor the annual workplan
- share good practice
- ensure appropriate infrastructures and internal controls are in place

corporately promote the benefits of positive ethics and integrity.

The Council's SOC group meets quarterly and reports to the Edinburgh Multi-Agency Serious Organised Crime Board chaired by Police Scotland.

The Council's SOC group is also responsible for completion of the Local Authority Serious and Organised Crime Checklist provided by SOLACE. The checklist is designed to be used as an internal self-assessment tool by senior management to provide a high-level overview of the serious and organised crime risks that could potentially impact each authority.

Customer Fraud Team (CFT) and National Fraud Initiative

The Council's CFT investigates and recovers the proceeds from fraudulent activity reported by members of the public or other government agencies. This includes external fraud home visits.

The Council also participates in Audit Scotland's National Fraud Initiative (NFI) exercise, which is a comprehensive data matching exercise completed over a two-year period that compares information held by public bodies to highlight discrepancies between the records held across various public organisations and identify any potential instances of fraud.

An annual fraud and detection report is presented to the Finance and Resources Committee which provides details on fraud detection and prevention activities undertaken by the Customer Fraud Team and outcomes of the NFI exercise.

Scope

This review assessed the adequacy of the design of the governance arrangements and operational processes and controls established by directorates to support services with effective management of their fraud and serious organised crime risks, and established assurance arrangements to confirm that processes and controls are being consistently and effectively applied.

We also considered the processes established to support completion of the UK Government's local authority serious and organised crime checklist, and the adequacy and effectiveness of governance arrangements established to provide a holistic view of the management of fraud and SOC risks and incidents across the Council, with focus on the areas detailed below:

- Licensing
- Planning and Development Management
- Council housing allocations and end of tenancy agreements
- Finance and Procurement
- Customer and Digital Services (CFT and financial transaction processing)

Risks

The review also considers assurance in relation to the following Corporate Leadership Team (CLT) risk:

- Fraud and Serious Organised Crime

Limitations of Scope

This review was limited to assessing the design of the Council's established fraud and SOC governance and risk management processes and supporting policies; procedures; and controls but did not consider their effectiveness.

Whistleblowing was also specifically excluded from the scope of this review as this was considered by the separate independent review.

Reporting Date

Testing considered the period 2017 to 2022. Our audit work concluded on 20 September 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Established Fraud and Serious Organised Crime Arrangements

Finding Rating	High Priority

Review of the Council's Fraud and Serious Organised Crime (SOC) arrangements highlighted:

1. The Council does not have a clear fraud, SOC, and AML strategy and plan that covers both operational and cyber fraud.

2. The Council's fraud prevention policy is dated 2013. Review of the current policy confirmed that:

   - the policy refers to the Council's Monitoring Officer as having overall responsibility for the policy. This is incorrect and reflects historic structures where the Director of Corporate Governance (who was also the Council's Monitoring Officer) had overall policy responsibility and the Head of Finance, as one of their direct reports, was the policy owner. The references require updating to refer to the Director of Corporate Services.

   - it states that the Council's Internal Audit (IA) service plays an important role in the prevention and detection of Fraud. This suggests that IA has responsibility for ownership of key operational fraud prevention controls, which is incorrect and does not support IA independence. This reference is also included in the Anti-Money Laundering Policy.

   - it states that the Council's financial and non-financial systems are also independently monitored by Internal Audit. This suggests that Council systems are reviewed by IA on an ongoing basis, which is not aligned with the risk based annual IA plan and does not recognise the role of External Audit.

   - it does not provide detail on the significance of frauds (e.g. value and impact) that should be escalated to senior management.

3. The Council's anti-bribery policy is dated 2015. Review of this policy and the supporting anti-bribery procedure confirmed that they refer to historic risk management procedures, and risk management officers in directorates /services who are no longer in post.

4. Clearly defined fraud and SOC roles, responsibilities, and accountabilities for first line services and the second line framework owners and assurance teams have not been established. In addition, work is required to understand potential key-person dependencies to ensure there are adequate resources and deputising arrangements to for oversight during absence periods as required.

   It is acknowledged that the fraud prevention policy includes a generic statement that directors are responsible for the prevention and detection of fraud, the ant-bribery policy includes clearly defined responsibilities, and the Council's Response to Serious Organised Crime Group has responsibility to oversee compliance with Scotland's Serious Organised Crime Strategy.

5. Processes for consistent recording; collation; and reporting fraud and SOC incidents (including AML) across the Council with reports provided to senior management; directors; and the Corporate Leadership Team (CLT) on total incident volumes and their nature and impact (including financial losses) have not been established.

6. A system that supports ongoing recording of fraud; SOC; and AML incidents across Council services is not in place.

7. There is limited information available for services on how to mitigate; identify; manage; address; and report on fraud and SOC incidents.

8. There is limited ongoing assurance on the adequacy and effectiveness of specific fraud and SOC training developed by services and delivered to employees

9. Fraud and SOC e-learning is not reviewed regularly to reflect the changing external environment; the nature of new and emerging fraud and SOC risks; and AML awareness and reporting requirements.

10. Appropriate information and support for Council employees who could potentially suffer from intimidation, harassment, and internal and / or external pressure to engage in fraud and SOC activities has not been developed.

11. An Information Sharing Protocol relation to 'Data washing/Data Sharing' has been drafted and provided to Police Scotland, however feedback and finalisation is outstanding.

12. It is also noted that the Edinburgh Serious Organised Crime Multi-agency forum (a Police Scotland led group which the Council is a member of) has not met formally since August 2019, with no immediate plans to reinstate these meetings.

    The Corporate Resilience team have advised that this is a known issue across a number of local authorities and there have been several requests to the Scottish Government and Police to resume these meetings with no success.

Risks

The potential risks associated with our findings are:

- **Governance and Decision Making** - Fraud and SOC control weaknesses are not identified and addressed through assurance processes, and fraud and SOC incidents and potential incidents are not reported and managed appropriately, with no corporate view of the nature and impact of incidents impacting the Council.

- **Fraud and Serious Organised Crime** – lack of clarity across the Council on frauded and SOC roles, responsibilities, and accountabilities.

- **Workforce** – employees may not be adequately protected from intimidation, harassment, and internal and / or external pressure to engage in fraud and SOC activities.

Recommendations and Management Action Plan – Established Fraud and Serious Organised Crime Arrangements

Ref.	Recommendation	Agreed Management Action	Action owner, key contributors, and estimated date
1.1	The Council's fraud and SOC arrangements should be reviewed, this should include: • update of relevant policies and development of an overarching framework which gives consideration to the issues noted above and is aligned with Audit Scotland expectations on public body counter-fraud arrangements.	Fraud and SOC arrangements will be reviewed and appropriate recommendations for relevant policies and the framework presented to CLT for approval. The revised arrangements will give consideration to Audit Scotland expectations as detailed in their July 2022 publication on Fraud and Irregularity. A phased implementation approach will be adopted, to enable sufficient time for the design and implementation of the new process.	**Owner:** Richard Carr, Interim Executive Director of Corporate Services **Key Contributors:** Hugh Dunn, Service Director – Finance and Procurement Nick Smith, Service Director – Legal and Assurance Gavin King, Head of Democracy, Governance and Resilience

Ref.	Recommendation	Agreed Management Action	Action owner, key contributors, and estimated date
1.1 cont.	• agreement for where overall responsibility for the framework should sit. Given the current structure of Council and recognition that associated risks are largely related to financial impacts, overall ownership by Finance may be appropriate with support from Corporate Resilience, ultimately this is management's decision. • Formal agreement from Police Scotland on information sharing and future arrangements for the Edinburgh Multi-Agency Serious Organised Crime Board • It is also recommended that the framework is aligned to implementation of the planned Governance and Assurance model to ensure that appropriate and proportionate ongoing first and second line assurance is provided on fraud (including cyber fraud) and SOC high risk services that are most likely to be impacted.	An implementation plan that considers and addresses (where possible) the IA recommendations included in this report will be prepared by 31 March 2023. The plan will be agreed with all services and external stakeholders who will be required to support the process. The plan will be shared with Internal Audit to confirm that appropriate actions have been defined, or risks accepted (where appropriate), and management actions will then be agreed based on the content of the plan, with their implementation progress monitored through the established Internal Audit follow-up process.	Mary-Ellen Lang, Corporate Resilience Manager **Estimated date for completion of implementation plan**: 31 March 2023

Finding 2 – Risk Management – Fraud and SOC

Risk identification and reporting

The Council's current risk profile includes Fraud and SOC as a key risk category which is reviewed and reported to CLT and Committee. Whilst this includes consideration of high-level associated risks and impacts at a directorate level, there is no established process in place to identify; record; assess; escalate; and manage thematic service fraud and SOC risks across the Council. The Corporate Resilience team raised this through previous discussions with Corporate Risk Management (circa 2019) who advised that risk management work and recording of relevant risks should be performed within individual service areas.

Completion of the annual fraud and SOC checklist (produced by SOLACE, a consulting local government group) is the responsibility of the Council's SOC group and supports identification of thematic risks, however the checklist was last completed in full in July 2019. Management advised that work to update the checklist in commenced in July 2020, however it was not completed due to Covid-19.

It is acknowledged that implementation of the Council's refreshed risk management framework should enable production of consolidated risk reporting to inform the Corporate Leadership Team and Governance, Risk, and Best Value Committee on thematic fraud and SOC risks, and support comparison between the current fraud and SOC risk profile and the Council's agreed risk appetite. It does however remain the responsibility of services to ensure that relevant risks are recorded.

Risks

The potential risks associated with our findings are:

- **Governance and Decision Making** - The Council's fraud, SOC and AML risks are not effectively identified and managed.

Recommendations and Management Action Plan – Risk Management: Fraud and SOC

Ref.	Recommendation	Agreed Management Action	Action owner, key contributors, and estimated date
2.1	Development of the framework at recommendation 1.1 should include engagement with the corporate risk management team to ensure processes are established to identify; assess; and record thematic fraud; serious organised crime (SOC) and anti-money laundering (AML) risks across Council services. In addition, the annual SOLACE fraud and SOC checklist should be completed, and results reviewed by the Council's SOC group. Any gaps identified should be recorded in the CLT risk register, with mitigating actions and implementation timeframes agreed and implementation progress monitored.	As per 1.1, this will be addressed via the phased implementation approach and implementation plan.	**Owner:** Richard Carr, Interim Executive Director of Corporate Services **Key Contributors:** Hugh Dunn, Service Director – Finance and Procurement Nick Smith, Service Director – Legal and Assurance Gavin King, Head of Democracy, Governance and Resilience Mary-Ellen Lang, Corporate Resilience Manager **Estimated date for completion of implementation plan**: 31 March 2023

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Employee Wellbeing

31 August 2022

C/W2102

Overall Assessment	Some Improvement Required

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Whilst some control weaknesses were identified in the consistent application and effectiveness of established wellbeing processes and initiatives implemented across the Council during Covid-19, they provide reasonable assurance that employee wellbeing is being managed, and that the Council's 'Our People' objective to provide ongoing focus on the physical, mental, and emotional wellbeing of our employees should be achieved.

Audit outcomes

Survey responses identified three recurring themes, highlighting that respondents felt that messages from the Corporate Leadership Team are not consistently and effectively communicated across teams; that there were inconsistent approaches to employee wellbeing across the Council (most noticeably completion of display screen; risk; and stress risk assessments); and that employee capacity to deliver existing and future service demands has a significant impact on ability to focus on wellbeing.

It is important to ensure employee feedback is considered and addressed as the Council continues to face significant workforce challenges, including ongoing Covid and other sickness absences; retention and recruitment challenges; ongoing service delivery challenges as the Council continues to respond to Covid and other demands for support (for example the Ukraine crisis); and the extent of the change agenda that the Council is being asked to deliver.

Consequently, three medium rated findings have been raised together with recommendations for management to consider.

Further information is included at Section 3.

Areas of good practice

- The Council introduced a Covid related absence scheme with full pay for colleagues absent with a Covid related reason. This was also extended beyond health/medical related instances to include those with caring responsibilities.
- A wide range of wellbeing activities and employee support is provided, including employee wellbeing roadshows delivered both remotely and across a range of services based in various geographic locations across the city.
- Wellbeing initiatives are effectively communicated to all employees with a Council email address, and to those who provided their own personal email addresses to receive Council communications.
- Communication of wellbeing initiatives to employees with no email address through use of payroll inserts.
- Sickness absence data is regularly reviewed to identify key themes with a dashboard and supporting commentary provided to both Directorate and the Corporate Leadership Teams.
- Remote working practices provide an improved ability to manage work/life balance for those able to work from home. Employees surveyed advised were able to plan their days more effectively, factoring in time for breaks, exercise and wellbeing activities.
- MS Teams is used for regular meetings, wellbeing checks and interactions with managers and has increased the ease of adapting to hybrid working.
- A number of respondents felt the council took the risks identified with coronavirus seriously and were quick to implement government guidelines on hand sanitising, face masks, and social distancing supporting employees with their physical wellbeing concerns.
- Covid-19 manager and employee guidance was developed; regularly updated; and published on the Orb (the Council's intranet).
- A new leadership goal has been introduced for 2022/23 onwards which signposts expectations of managers with associated measures for leading, developing and supporting teams.
- A new People Board has been established which should support ongoing focus on the design and implementation of employee wellbeing initiatives.

Audit Assessment

Audit Areas	Findings	Priority Rating
1. Human Resources employee wellbeing initiatives and guidance	1. Employee Communications	**Medium**
2. Employee wellbeing surveys	2. Varying approaches to wellbeing across the Council	**Medium**
3. Directorate and Service wellbeing activities	3. Capacity to Focus on Employee Wellbeing	**Medium**

Basis of opinion

Our audit opinion is based on the outcomes of discussions with employees and results of audit surveys completed by employees. A total of 205 responses were received. The majority of responses were from colleagues with people management responsibilities (176) with the remaining 29 front line or furloughed employees. Responses represent approximately 1.75% of employee roles most likely to have been impacted by Covid-19 (circa 11,600 in total) and 0.9% of the total number of Council employees.

There was limited attendance at a series of one hour working groups arranged to support the audit with only 6 first-line colleagues attending the sessions. It is acknowledged this could be attributable to the Council's wider engagement culture, as there has typically been limited engagement in previous Council-wide surveys and workshops.

Review of qualitative survey feedback highlights that increased workloads; potential survey fatigue; and lack of confidence in the Council's ability to effectively implement change could also be potential reasons for the limited attendance at workshops. There was also a low response rate from furloughed employees and those with no Council email addresses.

Further detail on our audit approach, sample selection, survey details and response rates is included at Appendix 2.

Qualitative feedback from employees

Qualitative comments were provided in survey responses which covered a wide range of themes. These have been collated and shared with senior management to highlight what worked well, and where further areas of improvement was indicated by survey respondents.

Background and Scope

Employee health and wellbeing is a core element of any People strategy, as investment in employee wellbeing should result in increased organisational resilience; better employee engagement; reduced sickness absence; and higher performance and productivity.

The City of Edinburgh Council's Wellbeing approach

The Council's [Business Plan](#) includes a section on 'Our People' that highlights the Council's ongoing focus on the physical, mental, and emotional wellbeing of employees as detailed in the Council's [People Strategy 2021 - 2024](#) approved in April 2021. In addition, the Council's [Wellbeing Strategy](#) is an integrated strategy that was approved in 2019, with the objective of implementing a holistic approach to employee wellbeing.

[Supporting resources and guidance](#) for mental, physical and emotional health is available for both employees and managers, and a range of ongoing employee wellbeing roadshows that include sessions with internal and external experts on various physical and mental health topics have been provided.

Wellbeing surveys were completed in April and November 2020 with a 14% and 12% employee response rate that focused on employee wellbeing; caring responsibilities; working from home; and active travel.

The Council's digital learning platform myLearningHub also includes a Wellbeing Hub (launched in November 2021) that provides access to useful wellbeing information, resources and access to wellbeing session recordings.

A significant challenge in relation to employee wellbeing is ensuring that all initiatives are communicated to the circa 5,000 employees who currently have no Council email addresses. Whilst the myLearning Hub can be accessed from any device, permission is required to use personal email addresses to access the system.

Covid-19 wellbeing response

The Council implemented operational resilience arrangements to support the health, safety, and well-being of employees during Covid-19. These included remote working where possible; enhanced health and safety measures for front line employees; a Covid related absence scheme; and furloughing employees where services could not be delivered.

Detailed coronavirus guidance related to working from home, Covid absences, health & wellbeing tips, tools and resources (including details of employee assistance program – PAM assist) have been published for both employees and line managers on [the Orb](#) and the Council's [external website](#).

Risk assessments

In addition to the wellbeing initiatives and surveys highlighted above, the Council's [stress management policy](#) recommends that managers should perform individual and team stress risk assessments to prevent and detect any potential employee or team stress risk.

Corporate Health and Safety also recommends that employees perform [Display screen equipment risk assessment](#) to ensure that employees' working practices are safe and healthy and any gaps can be addressed.

General guidance on risk assessments is also provided via the [Risk Assessment Toolkit](#) on the Orb.

Scope

The objective of this review was to assess the effectiveness of the key wellbeing initiatives and controls applied by the Council during Covid-19 to assess and support employee wellbeing.

Risks

- Health and Safety
- Workforce

Audit Approach

The original Internal Audit testing approach was to:

- identify roles across the Council most likely to have been significantly impacted by Covid-19 (mainly front-line workers).
- issue surveys to people managers and employees in these roles and all furloughed employees.
- hold twenty separate one hour focus groups with a sample of circa 400 employees and managers, including those with no Council e mail addresses.

Due to limited uptake on focus groups this approach was then revised with surveys issued to the IA sample of furloughed employees; employees in roles most significantly impacted by Covid-19 and meetings arranged (where possible) with employees with no Council e mail addresses.

Communication was included in Managers' News to encourage employees to complete the surveys and completion timeframes were extended in an effort to increase response rates.

Sample Selection

1. Total Council employees (per iTrent) - 22,724.
2. From this, a total of 11,597 roles across all Council directorates that were most likely to have been impacted by Covid-19 were identified.
3. A random sample of 400 employees were then selected to participate in surveys / focus groups. This included 46 colleagues with no Council e mail addresses.
4. As part of responses, colleagues were asked to confirm whether they had people management responsibilities (it is not currently possible to identify people managers from iTrent records).
5. All 420 furloughed employees were also surveyed.
6. Surveys were emailed to all employees with a Council email address asking them to support the audit, and reminders were also included in Managers News.

7. Line managers engaged with colleagues with no email addresses to arrange meetings with Internal Audit.
8. All surveys were anonymous.

Survey details and a summary of response rates is provided at Appendix 2.

Limitations of Scope

The following areas were excluded from scope:

- Provision of personal protective equipment (PPE) to Council employees was specifically excluded from the scope of this review as this was covered in the Procurement and Allocation of PPE review completed in October 2020.

- Whilst colleagues with no Council email addresses were included in scope, challenges with engaging a representative sample of this colleague population were acknowledged.

Reporting Date

Our audit work concluded on 10 June 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Employee Communications

Finding Rating	Medium Priority

Review of established communication processes and survey feedback on communicating details of the Council's wellbeing initiatives, and Covid manager guidance to people managers confirmed that:

1. Known challenges regarding communicating with Council employees (circa 4,000 employees in predominantly front-line roles) who do not have a Council email address, and had not provided their personal email addresses, impacted levels of knowledge and awareness of wellbeing initiatives resulting in a key dependency on effective line manager cascade.

   50% of the employees surveyed with no Council email account advised they were not aware of employee wellbeing initiatives.

2. 45% of Council people managers surveyed, confirmed they were aware of the two employee wellbeing surveys conducted by the Council during Covid and had communicated the outcomes of the survey to their teams.

3. Wider Leadership Team (WLT) members would have been aware of the surveys and should have understood the need to cascade the request to complete them, and share the outcomes with their teams, therefore, the lack of people manager awareness suggests issues with communication from heads of service to their teams, most notably front-line employees with no Council e mail addresses.

4. The internal audit sample selection process also highlighted that some of the information held on the Global Address List (GAL) in relation to employee roles and reporting lines is out of date and requires updating. It is acknowledged that this could be due to the ongoing organisation restructure.

Risks

- **Workforce** - communication challenges could potentially impact the Council's ability to attract and retain talent in the current employment market

- **Service delivery** - performance and quality could be impacted if communication across all Council employees is not effective.

Recommendations and Management Action Plan – Employee Communications

Ref.	Recommendation	Management Response	Timeframe
1.1	Management should consider further ways to communicate with employees with limited system access. One option is feasibility of establishing securely hosted external web pages linked to the Council's website and can be accessed by	Use of hosted external web pages (extranet) have been used and are in place which contain certain information. As this requires information to be duplicated from the intranet this has resource implications to continue to do this ie. we are not resourced to do so. It is also not always appropriate to post certain documentation on an extranet.	N/A

employees via secure log-in details.

Should this be feasible, then all employee news and communications (including details of planned wellbeing initiatives and future wellbeing survey outcomes) should be published via these secure pages, with access rates monitored to determine the effectiveness of this communication channel.

All-employee access to the HR system is a current priority (for core system self-service) but this won't solve the issue of access to the Orb. Therefore, potential solutions for all employee access to the Orb is being explored through a Change request to CGI, (the Council's technology partner). Neither of these pieces of work will solve the issue of all employee access to Mylearninghub (unless personal email addresses are supplied – see below). Therefore, the risk is accepted at this time.

In the interim, we are continuing our campaign to encourage employees who don't have access to our digital systems to sign up to receive direct communications to their personal email address. Once signed up they can receive Council wide communications, a weekly summary of Newsbeat articles, emergency notifications, as well as access to online learning and secure payslips.

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.2	a) The Wider Leadership Team should consider options for ensuring key messages, goals and priorities are cascaded across services and teams including opportunities to discuss in further detail where required. b) Management should consider options for automating updates to the Global Address List (GAL), for example via the iTrent system to support effective ongoing communications across the Council. If automatic updates are not possible, then regular reminders should be issued to employees to request information remains complete and accurate.	a) We will consider options for improving the communication and cascading of key messages; goals and priorities including options to update essential learning for managers and targeted communications via Managers' News. b) It is not possible to fully automate updates to the Global Address List (GAL) due to known limitations with linking iTrent and the GAL. A link to request updates to incorrect or missing details is provided via GAL entry for each employee. This request is then actioned by Digital Services colleagues, typically within 24 hours. In addition, regular reminders are issued by directorates to request that employees review and update their details as required. A further reminder will be issued to all employees reminding them to ensure their information remains up to date.	Richard Carr, Interim Executive Director of Corporate Services	Michael Pinkerton, Head of Communications Paul Lawrence, Executive Director of Place Amanda Hatton, Executive Director of Children's Services Judith Proctor, Chief Officer Edinburgh Health and Social Care Partnership	30/11/2022

Finding 2 – Varying approaches to wellbeing across the Council

Finding Rating	Medium Priority

It is acknowledged that ensuring full and effective support employee wellbeing was challenging at the beginning of the pandemic with managers adapting to the impact of Covid on their own wellbeing, whilst continuing to deliver critical services and managing workforce challenges where employees were impacted by Covid including shielding.

Survey responses and employee discussions highlighted varying approaches to employee wellbeing were applied across the Council. Specifically:

1. Of the population of employees and people managers who responded:

- 49% felt supported
- 35% did not feel supported
- 16% felt neither supported nor not supported

2. Completion of display screen equipment (DSE) assessments; provision of equipment for employees working from home; and completion of risk assessments for front line employees surveyed varied with:

- 49% of respondents who worked from home completed DSE assessments, and of that 49% some 47% advised that were provided with the correct equipment.

- Survey comments included mention of 'lack of equipment'; 'had to buy own equipment'; 'lack of IT equipment/support'; 'not provided with equipment'; and four specific comments stating that employee health was impacted due to incorrect equipment.

- Only 47% of managers surveyed confirmed they had completed risk assessments for front line employees delivering services during the pandemic.

- Employee survey respondents felt that some risk assessments 'did not ask the right questions'; and some 'risk assessments were not adhered to'. Comments also highlighted that some employees were adversely impacted physically and mentally from changes in workload; working patterns; and manager's expectations.

3. Survey results note a gap between manager and employee views on the adequacy of ongoing employee wellbeing checks with:

- 99% of line managers who responded advising that they made contact with individuals and teams, with 13% saying they made contact monthly, 47% weekly, 17% daily, and 22% on an ad hoc basis.

- Almost all managers who responded advised they had been in contact with their team to carry out wellbeing checks.

- In contrast, 66% of general employees who responded (including those furloughed and those with no email address) confirmed that they received manager contact during the pandemic. In addition, survey feedback suggests a gap in perception of wellbeing checks between managers and their teams.

- 66% of employees who responded advised that they felt able to contact their managers with any wellbeing concerns.

- A number of respondents highlighted the impact of increased workloads and lack of manager support on their wellbeing, suggesting that whilst wellbeing concerns could be raised, they were not always addressed.

It should be noted that it was not possible determine thematic wellbeing outcomes across services and directorates as all survey responses were anonymous.

Risks

- **Workforce** – an inconsistent approach to wellbeing could impact the Council's ability to engage, support, and retain employees.
- **Regulatory Compliance** – non-compliance with Health and Safety Executive requirements to complete DSE assessments and to complete and action risk assessments appropriately.

Recommendations and Management Action Plan – Varying approaches to wellbeing across the Council

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1a	Communications should be issued to remind all employees and managers of the importance of completing DSE self-assessments. This should include links to guidance on the Orb, e-learning and details of employee and manager responsibilities, including ordering equipment (where required).	A communication will be issued to remind employees and managers of the importance of completing DSE self-assessments with links to current guidance and e-learning. In addition, Corporate Health and Safety will review the current guidance to ensure it reflects both the home working environment and the workplace, and other types of DSE equipment in use (e.g., tablets, and mobile phones).	Richard Carr, Interim Executive Director of Corporate Services	Chris Lawson, Head of Corporate Health and Safety Mike Pinkerton, Head of Communications	31/03/2023
b)	Communications should be issued to raise awareness of the Council's Stress Management Policy, Stress Management User Guide, and the supporting individual and stress risk assessments templates available via the Orb. In addition, managers should be reminded of their responsibilities to regularly complete and review the outcomes of both team and individual stress risk assessments and where required, develop an action plan to address concerns raised.	Communications will be issued to raise awareness of the Council's Stress Management Policy and user guide, including a reminder to managers to complete regular stress risk assessments, and take actions to address concerns raised.	Richard Carr, Interim Executive Director of Corporate Services	Katy Miller, Service Director Human Resources Mike Pinkerton, Head of Communications	30/11/2022
c)	Communications should be issued to remind managers to regularly review risk assessment templates and processes in line with the Risk Assessment Toolkit available via the Orb, to ensure they remain	A targeted communication was issued by Corporate Health and Safety via Newsbeat in August 2020, reminding all services including the Health and Social Care Partnership to review existing risk assessments and procedures to ensure they remain valid,	Richard Carr, Interim Executive Director of Corporate Services	Chris Lawson, Head of Corporate Health and Safety	30/11/2022

	appropriate for the services provided and work activities performed by their team. In addition, managers should be reminded to regularly review risk assessments (at least annually) and where required, reperform these to ensure they reflect current working practices and risks	accurate and appropriate and where required to complete new risk assessments. A further reminder will be issued with links to relevant guidance and advising further support and information is available from Corporate Health and Safety.		Mike Pinkerton, Head of Communications	
d)	Management should consider providing consolidated DSE, risk and stress risk assessment completion data and thematic outcomes to the Council's Health and Safety Group and directorate risk committees for review and resolution of any significant gaps.	Corporate Health and Safety will explore whether DSE and risk assessment workflows can be recorded and managed through the SHE system for reporting to management and trade unions as appropriate.	Richard Carr, Interim Executive Director of Corporate Services	Chris Lawson, Head of Corporate Health and Safety	31/03/2023
2.2	During audit discussions, some colleagues suggested having informal mental health wellbeing drop-in sessions held at various locations for colleagues with no Council email addresses. The Council should consider feasibility of providing this type of support.	The proposal for drop-in sessions would require fully trained/experienced individuals, and experience has shown that initiatives, such as the coaching bank, have little uptake in practice. Further support will however be provided on an ongoing basis through: • Promotion of Employee Assistance Plan/Occupational Health. • Continued provision of wellbeing roadshows with a range of topics available remotely and across different locations and at range of times. • Continued campaigning to encourage relevant employees to sign up for employee updates via personal email addresses so they can access Council wide communications, Newsbeat articles and e-learning. Communications regarding completion of ongoing employee wellbeing checks will be issued via Managers' News.	Richard Carr, Interim Executive Director of Corporate Services	Katy Miller, Service Director Human Resources Mike Pinkerton, Head of Communications	30/11/2022

Finding 3 – Capacity to Focus on Employee Wellbeing

Finding Rating	Medium Priority

Survey responses from people managers and employees highlighted that capacity challenges can provide limited opportunity to focus on wellbeing and attend wellbeing initiatives, and there is a gap between manager and employee views on the adequacy of ongoing capacity planning and workload management which is impacting employee wellbeing. Specifically:

- 75% of employees who responded advised that they were not actively encouraged to use time in their working day to focus on wellbeing.

- In contrast 91% of managers who responded advised that they had highlighted wellbeing initiatives to their teams.

- 58% of managers who responded felt they were encouraged to access or were able to access wellbeing initiatives.

- 67% of furloughed employees who responded advised they were encouraged to access wellbeing initiatives during their furlough time.

- 45% of employees who responded advised that their workload is not routinely monitored or reviewed.

- In contrast, 87% of managers who responded, advised that they monitor team workloads. The survey did not request details of the tools currently used across the Council to monitor workload.

Additionally, whilst furloughed employees who responded felt that they were well supported during furlough, some highlighted limited focus on their wellbeing following their return to work.

Risks

- **Health and Safety (employee health and wellbeing) –** employees are exposed to conditions or situations that harm their health and wellbeing, including stress and trauma.

- **Workforce planning** – existing workforce capacity does not meet the requirements to deliver strategy, services, and projects; and inability to attract and retain talent.

- **Strategic delivery –** the Council may be unable to deliver the objectives of the Strategic Workforce Plan 2021 - 2024.

Recommendations and Management Action Plan – Capacity to Focus on Employee Wellbeing

Ref.	Recommendation	Management Response	Timeframe
3.1	The Corporate Leadership Team (CLT) should consider options to enable colleagues to have sufficient time in their working days to focus on their wellbeing including attending wellbeing sessions where desired, while balancing delivery of critical services and Council priorities.	Ensuring all colleagues have access to and sufficient capacity to focus on wellbeing including participation in wellbeing activities is a key priority. Enabling this is linked to the planned review of the Council Business Plan, development of a medium-term financial plan and service delivery plans to support delivery of priorities. This will be risk accepted at this time and considered as part of a planned audit of workforce capacity in 2023/24.	N/A

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 - Survey Details and Response Rates

Sample details

Directorate	Sample Base	% Sample Base	Total Surveyed
Corporate Services	650	6%	22
Place	2,375	20%	82
Education and Children's Services	7,186	62%	248
Health and Social Care Partnership	1,386	12%	48
Employees surveyed	**11,597**	**100%**	**400**
Furloughed employees surveyed	**420**	**100%**	**420**
Total sample base	**12,017**	**-**	**820**
% Of roles most significantly impacted by Covid (sample base)	11,597	-	6.8%
% Of total Council employees	22,724	-	3.6%

Response Rates

Category of employees	Population Surveyed	Number of Responses	Response Rate
Furloughed Employees	420	3	0.7%
Meetings with employees with no email addresses	46	6	4%
Employees	154	20	13%
Managers	1000+*	176	18%
Total Responses	**205**		
% Of roles most impacted by Covid (excluding furloughed employees)	11,597	202	1.75%
% Of total employees (including furloughed employees)	22,724	205	0.9%

* Manager survey was across Council and was in addition to employee sample

Internal Audit Report

CGI Performance Reporting

14 September 2022

CS103

| Overall Assessment | Some improvement required |

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Whilst some moderate and minor control weaknesses were identified in both the design of key performance indicators (KPIs) used to measure and report on CGI performance and operational performance controls, reasonable assurance can be provided that CGI's performance risks are being managed, and that the Council's objectives of confirming ongoing supplier performance effectiveness should be achieved.

Our review identified the need for CGI to improve some key operating controls to enable timely identification of instances where either Council networks or applications are not available and confirm that availability of the full population of applications is monitored in line with contractual requirements.

We also noted the need for both CGI and the Council to document and consistently apply the process supporting review of performance information prepared by CGI and provided to the Council.

Consequently, two medium and one low rated findings have been raised as detailed in section 3 below.

Audit Assessment

Audit Areas	Findings	Priority Rating
Governance	1. Network Availability	**Medium**
Performance Reporting Process	2. Application Availability	**Medium**
Issue management	3. Performance reporting review process – CGI and Digital Services	**Low**

Areas of good practice
The following areas of good practice were identified: • **Service Review Meetings** – a regular meetings have been established where KPI performance reporting is discussed, and actions taken and tracked to resolution.   • **Incident Management** – incidents relating to the production or reporting of KPI performance reporting were managed through a process that is integrated into the wider incident management process.

Background and Scope

Third party performance reporting provides the Council with a means to gain oversight and assurance over activities performed by its partners and suppliers, to ensure that services are being provided in line with contractual requirements. As these services are critical to the overall operations of the Council, and failure to meet these requirements often carries a financial penalty, it is crucial that management information (MI) underpinning the performance reporting is complete and accurate.

Effective production of MI for performance reporting depends on a mature control environment that would typically include:

- effective governance structures, including defined reporting and escalation routes;
- a robust and well documented contract agreed with all parties;
- detailed performance reporting procedures;
- controls in place to review and reconcile data produced; and
- a robust issue management process to address any identified concerns by clients or stakeholders.

It is also important that the MI is shared with the appropriate people, who understand the data and how it relates to service levels/contractual requirements as well as how it impacts on the wider organisational risk.

CGI Performance reporting at the Council

The Council currently receives performance reports from its technology partner CGI, monthly, as part of the monthly service review meetings. A reporting pack is produced and sent to the Council on the fifth working day of the month, with the service review meeting held prior to the tenth working day of the month where this data is reviewed.

This pack contains the management information relating to all the KPIs contained within the CGI contract with the Council and is the primary method by which this information is produced and shared.

In addition, updates are provided relating to actions that are on the service review action tracker, as needed.

Scope

The objective of this review was to assess the adequacy and effectiveness of controls established to ensure completeness and accuracy of CGI reporting data and confirm that appropriate governance and issue management is in place to provide oversight over the CGI reporting process.

This review was performed by exercising the 'right to audit' clause included in the CGI contract.

Risks

The main risks associated with these findings is that it is not currently possible to confirm whether network and application availability service levels specified by the Council are being consistently achieved.

Additionally, potential inaccuracies in CGI performance data may not be identified and resolved, with associated performance service credits received and paid.

Limitations of Scope

The scope of our review was limited to the production of CGI performance reporting and oversight of the performance reporting pack performed by the Council.

The supplier management processes applied when KPIs have not been achieved were specifically excluded from scope.

Reporting Date

Our audit work concluded on 27 April 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Network Availability

Finding Rating	Medium Priority

Key Performance Indicators (KPIs) 17 – 22 in the KPI annex included in the established CGI contract relate to network availability, with specific focus on the time required to restore network services from the point of unavailability for each site. For example, if a site becomes unavailable at 6:02pm and is restored at 7:15pm, the length of unavailability is 1 hour and 13 minutes.

To ensure accurate reporting on network availability, CGI has established automated monitoring that monitors real time network performance and automatically creates alerts and / or tickets in the Remedy ticketing system when specific network availability events occur.

CGI currently measures network downtime from the time recorded on Remedy tickets; however, this approach will only be effective if the automated network monitoring process and the link with the Remedy ticketing system continue to operate effectively. Review of this process established that:

1. **Automated monitoring control design and effectiveness** – CGI was unable to provide evidence of the design (for example design documentation) and ongoing assurance in relation to the effectiveness (for example outcomes of recent testing or reviews) of the established automated monitoring control, and its links to the Remedy ticketing system.

2. **Availability of logs from source systems** - Logs from source network devices could not be provided to enable validation / reconciliation of the time when networks became unavailable, and the time recorded on Remedy.

3. **Sample testing** – a review of three instances of network unavailability in the last 6 months highlighted that one Remedy ticket was raised manually. Whilst the ticket was correct, CGI could not provide a clear explanation for this exception to the automated process.

Risks

The potential risks associated with our findings are:

- **Technology and information** – network availability events are not identified and resolved in a timely manner if the automated monitoring control is not designed and / or does not operate effectively

Recommendations and Management Action Plan – Network Availability

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	The Council should request that CGI management: 1. Documents the design of the automated network monitoring process and its links to the Remedy ticketing system.	1. Risk accepted - CGI has confirmed that they will be unable to share the documented design of the network documented design of the automated network monitoring process and its links to the Remedy system as it used	Richard Carr, Interim Executive Director Corporate Services	Pete Scott, CGI Service Delivery Manager Nicola Harvey, Service Director,	30/10/2023

2. Implements ongoing assurance / system testing to confirm that both processes are operating effectively as designed, with assurance outcomes recorded. This could include (for example) a reconciliation between availability incident timeframes recorded on source network devices and times recorded on the Remedy ticketing system. 3. Investigates and resolves any issues where linkages between the automated network monitoring process and the Remedy ticketing system have not operated as designed, resulting in manual Remedy tickets, and highlight them in performance reports provided to the Council. 4. Record the rationale for manually raised Remedy tickets that record network availability events and include details in the performance reports provided to the Council.	across all client accounts managed by CGI in the UK. 2. Risk accepted – CGI has confirmed that they are unable to provide assurance to the Council on the linkages between the automated network monitoring process and the Remedy ticketing system as this is not required per the terms of the current contract. 3. Manual Remedy tickets and their supporting rationale will be recorded in Client Service Reports provided to the Council.	Mark Bulmer, Vice President Consulting Services, CGI.	Customer and Digital Services Heather Robb, Chief Digital Officer Richard Burgess, Relations and Service Manager, Digital Services Jackie Galloway, Commercial Manager, Digital Services Alison Roarty, Commercial Lead, Digital Services

Finding 2 – Application Availability

Finding Rating	Medium Priority

KPIs 5, 6 and 7 in the KPI annex included in the established CGI contract relate to application availability for the Council's 86 priority 1, 2, and 3 (P1, P2 and P3) applications. Of these, 20 have been assessed as P1 (critical) applications.

The KPIs require application availability at either 99.5% or 99.9% over the monthly period, depending on the application priority level, and specify that application availability should be measured every 15 minutes (during the required uptime period – i.e., 24/7 for some applications and 8-8 for others).

Review of this process established that:

1. Completeness of ongoing availability monitoring - availability of only 19 of the 86 applications is currently monitored, including only 11 of the 20 P1 applications. Issues with availability for the remaining 67 applications (including 9 P1 applications) would only be identified if end users escalate the issue through the CGI helpdesk.

2. Applications maintained by CGI - applications managed by CGI are based on Council specifications. Consequently, where monitoring is not consistently included as part of the requirements, monitoring is not built into management of those applications, as doing so would incur additional costs.

3. Monitoring frequency – for applications currently monitored, availability is measured once per day, which is not aligned with the 15 minutes contractual requirement and is insufficient to confirm that monthly availability targets (99.5% and 99.9%) are being achieved.

4. Additionally, established KPIs (99.5% and 99.9% availability) mean that 24 x 7 applications can only be unavailable for approximately 45 minutes over the course of a month, and even less where application availability requirements are shorter (e.g., availability between 7am and 7pm).KPI measurement - CGI is not currently measuring application availability when it is reporting on KPIs 5 – 7.

Instead, applications are treated as available until a ticket is raised highlighting that the application is not available. Unavailable time is recorded from the time the ticket was raised until it is resolved and used to calculate overall availability.

As the KPIs are designed to measure overall availability and not the response time to a ticket being raised, or time taken to restore service, CGIs current method of reporting on this KPI based on when a ticket is raised and resolved may be incorrect.

Risks

The potential risks associated with our findings are:

Technology and information

- application availability issues are not identified and resolved in a timely manner if the full population of applications is not consistently monitored

Supplier, contractor, and partnership management

- established key performance indicators are not realistic and achievable
- unclaimed service credits due to misreporting of KPI performance data

Recommendations and Management Action Plan – Application Availability

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	The Council should request that CGI management: Investigates the feasibility of implementing automated application availability monitoring across the full population (86) priority 1, 2, and 3 applications used across the Council, or at least across the full population of 20 P1 (critical applications) at 15 min intervals in line with agreed contractual requirements. 1. Where this is feasible, implements a contractual change to support implementation of ongoing application availability monitoring across the population of the Council applications. 2. Includes ongoing application monitoring as a key element of standard build for all (or at least P1) future applications designed by CGI.	To be actioned as per recommendation.	Richard Carr, Interim Executive Director Corporate Services Mark Bulmer, Vice President Consulting Services, CGI.	Pete Scott, CGI Service Delivery Manage Nicola Harvey, Service Director, Customer and Digital Services Heather Robb, Chief Digital Officer; Richard Burgess, Relations and Service Manager, Digital Services	31/03/2023
	It is recommended that Digital Services Management: 1. Reviews the appropriateness of established application availability key performance indicator (KPI) targets 5, 6 and 7 with CGI. 2. Requests that CGI investigates and implements (where feasible) alternative options for accurately identifying and recording application availability.	To be actioned as per recommendation.		Jackie Galloway, Commercial Manager, Digital Services Alison Roarty, Commercial Lead, Digital Services	31/03/2023

Finding 3 – Performance reporting review process – CGI and Digital Services

Finding Rating	Low Priority

Review of the process established to support performance reporting established that:

1. The process applied by CGI to prepare performance reporting information covers creation of the performance reporting pack but does not currently detail the review process to be applied prior to finalising the pack and sharing it with the Council.

2. The process applied by the Council to review and approve performance reports has not been documented. Digital Services management has advised that this is currently being developed.

3. There is no assurance provided by CGI to the Council to confirm that the CGI performance reporting process remains appropriate; that performance reports are complete and accurate; and that both processes effectively support confirmation of ongoing delivery of contractual requirements.

Management has advised that currently, any concerns would be highlighted and resolved through established service review meetings.

Risks

Supplier, contractor, and partnership management

- risk that inconsistent review processes adopted by both the Council and CGI do not identify inaccuracies in performance reports

Recommendations and Management Action Plan – Performance reporting review process – CGI and Digital Services

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
3.1	CGI management should define and document the process for review of performance reports to be provided to the Council to confirm their completeness and accuracy.	The high-level process detailing CGI's internal review timeframes for monthly review of client service reports by the service delivery manager and final sign off by the head of service prior to issue has been added to the client service report creation document, and a screenshot of the timeline provided to Internal Audit.	Richard Carr, Interim Executive Director Corporate Services Mark Bulmer, Vice President	Pete Scott, CGI Service Delivery Manager Nicola Harvey, Service Director, Customer and Digital Services	Now closed

| 3.2 | Digital Services management should:

• Finalise the processes currently being documented to support review and approve CGI performance reports and ensure that this is consistently applied.

• Implement an annual process to obtain assurance from CGI that the performance reporting process remains appropriate; the content of performance reports complete and accurate; and that both processes effectively support confirmation of ongoing delivery of contractual requirements.

It is recommended that this assurance is based on testing performed by CGI, with details of the work performed, and outcomes provided to Digital Services. | The first bullet point of the recommendation will be delivered as per recommendation.

Delivery of the second bullet point will be dependent upon CGI being able to perform the testing as anticipated by IA. | Consulting Services, CGI. | Heather Robb, Chief Digital Officer

Richard Burgess, Relations and Service Manager, Digital Services

Jackie Galloway, Commercial Manager, Digital Services

Alison Roarty, Commercial Lead, Digital Services | 31/03/2023 |

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Management and Allocation of Covid-19 Grant Funding

CW2104

24 May 2022

Overall Assessment	Effective

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

The control environment established to support the management and allocation of Covid-19 grant funding by the Council has been adequately designed, is operating effectively, and was consistently applied across both the discretionary business and taxi and private hire grant applications received.

This provides assurance that the Council's objectives of allocating Scottish Government funds to businesses in a timely manner, with minimum instances of fraud, have been achieved.

Our opinion is based only on a sample of discretionary business and taxi and private hire grants, as we were unable to review a sample of the 46,896 for Support for Business grants processed by the Council due to ongoing workforce and capacity challenges within Customer Services teams.

Whilst some moderate areas for improvement were identified in the grant management and allocation process for both the discretionary business and taxi and private hire grants, the potential risks that could have occurred were within management's risk appetite given the urgent need to disburse grant payments.

Consequently, one medium rated finding has been raised with the recommendation that the moderate control gaps identified are included in the Council's Covid-19 lessons learned assessment.

The audit assessment, areas of audit focus and good practice are detailed on page 4.

Audit Scotland's (Scotland's economy; Supporting businesses through the Covid-19 pandemic) report published in March 2022, notes that the Scottish Government placed reliance on councils' existing control environments and fraud arrangements, and relied on councils to ensure applicant eligibility.

The report also confirms that the Government has subsequently worked to assess fraud risks across the various support funds with work to detect fraudulent claims ongoing but estimates fraud and error in these schemes to be no more than one to two per cent of payments.

The outcomes of our review (whilst limited to only Discretionary Business and Taxi and Private Hire grants) confirm that the Council's grant allocation and management processes were applied in line with Scottish Government expectations. This should be validated by the outcomes of the next National Fraud Initiative data matching exercise (due November 2022) which will include business support funding payments

Additionally, the Government is retrospectively assessing how business support funding addressed equalities and supported specific demographic groups.

Audit Assessment

Findings summary	1. Grant Evaluation Processes	Priority Rating	Medium

Areas of audit focus	Areas of good practice
1. Grant evaluation and decision making 2. Rejections and appeals 3. Grant Disbursement 4. Citizen Engagement and Communication 5. Secure document transfer and retention 6. Oversight and Quality Assurance 7. Management Information and Reporting	• There are clear guidelines for assessors to evaluate both grants in the form of a guidance sheet and logical process steps included in spreadsheets to support the assessment. • For discretionary business grants, new assessors recruited to support the process were paired with buddies. • For discretionary business grants, grant decisions were re-evaluated where information was received following payment (for example, confirmation that the applicant had received another Covid grant), resulting in a small number of reclaims. No instances were identified where management had not attempted to retrieve funding where further information was provided. • For both grants, there was clear segregation of duty with regards to grant payment, with payment requests independently checked prior to sending to the banking team. • For both grants, there was a short turn around between application, approval, and payment. • Correspondence with applicants on any issues with the initial application were clear and precise.

4

Background and Scope

The Covid-19 pandemic resulted in the Scottish Government (SG) implementing two 'lockdowns'; new legislation; and a number of other restrictions to manage the spread of the virus that had a significant economic impact on the national and local economy and businesses.

Recognising the impacts of these restrictions on businesses, various tranches of SG funding were provided to local authorities who were requested to either allocate these funds in line with high level SG guidance, or to design an appropriate grant allocation process where no specific SG guidance was provided.

The Council was responsible for the urgent management and allocation of the following grant funding received from the SG, with the objective of mitigating short term financial challenges experienced by businesses that were adversely impacted by both lockdowns and other Covid-19 restrictions:

- **£12.3M Discretionary business grants** – the discretionary business grants process was designed and applied by the Business Growth & Inclusion team in Place.
- **£17.6M Taxi and private hire grants** – the process was designed by the Regulatory Services team within Place in line with published SG guidelines.
- **£260M Support for business grants** – the process was designed and implemented by the Customer Services team within Corporate Services who were required to develop different processes for the various scheme and iterations.

The design of each of the initial processes was reviewed by Internal Audit prior to their implementation, with feedback provided to management where opportunities to improve controls supporting administration of the grant were identified. It is acknowledged that grant allocation processes continued to evolve and change in line with SG guidance and reporting requirements.

It is expected that both the Scottish Government and external audit will request future assurance from the Council that the grant funding provided was effectively managed and allocated.

The total volume of applications awarded for each of the grants was:
- 5,960 for Discretionary business grants
- 4,398 for Taxi and private hire
- 46,896 for Support for business

Scope

This review assessed the effectiveness of the management and allocation of Covid-19 grant funding across the Council; confirmed that the processes designed were consistently applied; and that appropriate and proportionate checks were performed to identify any potential instances of fraud.

The review also provided assurance on the following Corporate Leadership Team (CLT) risks:
- Governance and Decision Making
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk
- Fraud and Serious Organised Crime

Limitations of Scope

The scope of this review was limited to confirming that the grant allocation processes were consistently and effectively applied, as the grant allocation process design was reviewed by Internal Audit prior to implementation.

Additionally, we were unable to review a sample of the 46,896 Support for Business grants processed by the Council due to ongoing workforce and capacity challenges within the Customer Services teams.

Reporting Date

Testing covered the period March 2020 to December 2021.

Our audit work concluded on 28 March 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Recommendations

Finding 1 – Grant Evaluation Processes

Finding Rating	Medium Priority

Review of a sample of 75 grant discretionary business grants and 65 taxi and private hire grants established the following:

1. **Minor grant evaluation inconsistencies**

   - two discretionary business grants had not been consistently evaluated. One applicant was rejected due to being unable to show a drop in income, whilst another was approved even though the applicant did not experience a drop in income.

   - one instance was identified with taxi and private hire grants; and one with discretionary business grants where information on bank statements did not match details included in the application form.

   - three instances were identified for taxi and private hire grants where the licence reference included in the application did not match Council records.

   - one discretionary business grant sample was identified where the address detailed on the application did not match the proof of address provided.

2. **Unclear guidance on business transactions (discretionary business grants)**

   - where no business bank statement were available, personal bank statements were accepted.

Assessors then reviewed the personal statement to identify business transactions to confirm existence of the business. Limited guidance was available to support this process, with reliance on professional judgement.

3. **Records retention**

   - for six discretionary business and one taxi and private hire grant files, e mail approval and rejections were not retained

Risks

Whilst these potential risks could have occurred, they were within management's risk appetite given the urgent need to disburse grant payments.

- **Financial and Budget Management** – the Scottish Government could potentially seek recompense from the Council for payments where applications have been assessed incorrectly.

- **Fraud and Serious Organised Crime** – inability to identify duplicate applications if details of approvals and rejections were not retained.

Recommendations – Grant Evaluation Processes

Ref.	Recommendation
1.1	The exceptions above should be considered for inclusion in the Council's Covid-19 lessons learned exercise and considered in the event that the Council is asked to manage and allocate future emergency Scottish Government grants.

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

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Governance, Risk and Best Value Committee

10.00am, Tuesday, 11 October 2022

Housing Property Services Repairs Management during Covid-19 (PL2107) – Service Area Response

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 To note the service area response and actions taken to date to address risks raised in the Internal Audit report.

Paul Lawrence

Executive Director of Place

Contact: Sarah Burns, Head of Housing Operations

E-mail: Sarah.Burns@edinburgh.gov.uk | Tel: 0131 529 7662

Housing Property Services Repairs Management during Covid-19 (PL2107) – Service Area Response

2. Executive Summary

2.1 A summary is provided below of progress made by the Housing Property Service (HPS) in relation to the internal audit into the key processes and controls supporting prioritisation of urgent repairs during Covid-19; prioritisation and resolution of non-urgent repairs that accumulated during revised safe working during covid; the health and safety of citizens, employees and contractors; and alignment with the changing Scottish Housing Regulator guidance and requirements.

3. Background

3.1 The Internal Audit team audited repairs management during covid-19 as part of their 2021/22 audit plan. Testing was undertaken on a sample basis for the period March 2020 to December 2021 and a final report was shared with service areas on 22 July 2022. This report contained five overall findings (one high-rated, one medium-rated and three low-rated) in relation to the control environment in the scope of the audit.

4. Main report

4.1 The audit identified many areas of good practice, evidencing the commitment shown by the Housing Property team to continuing to provide a service throughout the pandemic that prioritised the safety and wellbeing of staff and tenants.

4.2 The areas for improvement relating to supplier performance and complaints management highlighted through the audit had been identified by the service in advance of the audit being carried out and actions were underway to address these.

Progress with Management Actions

4.3 The audit report contained five findings (one high, one medium and three low) in total. Across four of the findings was a recommendation that detail was included in the Council's Covid-19 lessons learned exercise and applied in the event of a similar future scenario. These have been incorporated into the exercise.

4.4 A further two actions were agreed for service areas and their status is outlined below:

Action	Summary	Status
1.2: Supplier Performance Monitoring	To provide existing action plan and evidence of consideration at supplier meetings to show evidence of proactive work in this area.	Actioned
2.1: Complaint Resolution	Develop and implement a plan to support the improvement of end to end complaints management across HPS.	Ongoing – due on 30/11/2022

5.   Next Steps

5.1 The supplier performance monitoring action plan and outstanding complaint resolution audit action will continue to be progressed according to agreed timescales.

6.   Financial impact

6.1 No financial impact identified as a result of this report.

7.   Stakeholder/Community Impact

7.1 There is a regular programme of tenant engagement and customer insight. This includes regular satisfaction surveys, focus groups, tenant panels, tenant led service inspections and scrutiny, resident and community meetings.

7.2 The improvement actions identified through the audit will result in improved service delivery and a better customer experience for Council tenants.

8.   Background reading/external references

8.1 HPS Repairs Management during Covid-19 – Internal Audit Report.

9.   Appendices

9.1 Appendix 1 – Internal Audit report, Housing Property Services Repairs Management during Covid-19 220722

Internal Audit Report

Housing Property Services Repairs Management during Covid-19

22 July 2022

PL2107

Overall Assessment	Some improvement required

Contents

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Whilst significant; moderate; and minor control weaknesses were identified in the design and effectiveness of the Housing Property Services control environment established to support prioritisation and completion of essential repairs during Covid-19; the controls applied provide reasonable assurance that risks were managed, and the Council's objectives to ensure the health and safety of citizens, employees and contractors was achieved.

Five findings (1 high; 1 medium; and 3 low) have been raised highlighting the need to:

- confirm the adequacy of contractor health and safety arrangements,
- monitor ongoing supplier performance,
- resolve citizen complaints effectively within regulatory response timeframes,
- complete individual risk assessments for employees,
- ensure that all tenants have been contacted to advise that non-essential repairs have been cancelled, and
- retain evidence supporting changes to operational resilience plans

It is important to acknowledge that HPS and Repairs Direct contact centre management were already aware of the need to develop end to end key performance indicators across the service to monitor ongoing performance (including supplier performance), and the need to address current challenges with timeliness of complaints resolution.

Recognising that some of the findings included in this report relate to activities that were unique to the HPS Covid-19 resilience response, internal audit has recommended that (where appropriate) HPS records these as lessons learned for subsequent inclusion in the Council-wide Covid-19 lessons learned exercise.

Consequently, management responses have only been provided for recommendations that can be incorporated into future service delivery activities.

Housing Property Services Management Response

The many areas of good practice identified during the audit are welcomed and are evidence of the commitment and dedication shown by the Housing Property team to continuing to provide a service throughout the pandemic that prioritised the safety and wellbeing of our staff and tenants.

The recommendations that relate to supplier performance and complaints management are both areas for improvement that had previously been identified by the service and plans are already underway to address these as priority.

3

Audit Assessment

Audit Areas	Findings	Priority Rating		Areas of good practice
• Health and Safety (including public safety) • Supplier, Contractor, and Partnership Management • Service Delivery and Workforce • Regulatory and Legislative Compliance • Reputational Risk	1. Contractor Health and Safety and Performance Monitoring 2. Complaint Resolution 3. Employee Covid-19 Risk Assessments 4. Repairs Cancellation – Customer Contact 5. Business Continuity Plans	**High** **Medium** **Low** **Low** **Low**		1. Management of PPE throughout the pandemic was effective. HPS had determined what PPE was required for each colleague, and this was monitored in a tracker. 2. Working practices were regularly updated in response to external regulatory and legislative changes and public health guidance. 3. Call scripts were clear and were used effectively to identify potential challenges including identifying shielding tenants and ensuring essential repairs were only completed during lockdown. Call scripts were simple to use and provided a consistent response to tenants. 4. There was an established process in place for employees to call in sick, enabling effective monitoring of workforce capacity and ability to understand the impact on sickness absence on scheduled repairs. 5. Virtual meetings were held with suppliers which reduced contact risk. 6. There was a clear definition of what repairs would be completed, and this was clearly communicated to both employees and citizens. 7. The business continuity plan / operating model which was regularly refreshed; covered clearly defined time periods; and highlighted operational processes that should be applied. 8. The Annual Assurance Statement and Charter was provided to the Scottish Housing Regulator (SHR) on time.

Background and Scope

Housing Property Services (HPS) is responsible for the ongoing maintenance of circa 20,000 Council owned homes.

This involves completion of both internal and external repairs; providing emergency out of hours repairs; and repairing empty homes to a lettable standard. Further details on types of repairs that the Council is responsible for are included in the 2018 Council Housing Repairs Policy.

Repairs are requested through either the Council's website or the Repairs Direct contact centre team, who pass the details across to HPS through the Northgate system. This results in creation of a unique job reference number and an electronic appointment in HPS tradesmen diaries.

Housing repair services are provided by a combination of Council employees and contractors, and should be delivered in line with the requirements of the Scottish Government's refreshed 2017 Scottish Social Housing Charter. The Charter is designed to describe the results that social landlords should achieve to meet their legal duties as outlined in section 31 of the Housing (Scotland) Act 2010; and to help improve the quality and value of services provided by social landlords by focusing their efforts on achieving outcomes that matter to customers.

The Charter includes 16 outcomes and standards, and the Scottish Housing Regulator (SHR) is responsible for monitoring; assessing; and reporting on how well social landlords (individually and collectively) achieve the Charter's outcomes. This is achieved through the submission of an annual landlord report. In response to the Covid-19 pandemic, the SHR made temporary changes to the regulatory framework.

The 2020/21 landlord report for the City of Edinburgh Council highlighted that some improvement is required based on comparison between the Council's performance indicators and the Scottish average for other social landlords. This work is being taken forward as part of the Housing Service Improvement Plan, which is reported to Housing, Homelessness and Fair Work Committee every six months.

The Council's Housing Strategy and Development team is responsible for ongoing relationship with the SHR for the Council.

Covid-19 Regulatory Impacts and Response

The Council's Housing Strategy and Development team is responsible for submitting the Council's annual landlord report to the Scottish Housing Regulator.

The report is prepared based on information sourced from relevant Heads of Service and collated with support from the Strategic Change and Delivery Team within Corporate Services.

Throughout Covid-19 the SHR issued a significant volume of guidance for social landlords as the restrictions changed and learning has continued to advance during the ongoing pandemic. The most relevant guidance and changes to the regulatory framework were that:

- Business continuity / resilience plans should be up to date and accessible to all who may need them.
- Records of instances where tenants could not provide access to their homes as they were self-isolating should be prepared and maintained.
- The SHR should be notified of significant service disruption or financial impact due to Covid-19.
- Landlords should continue to use the notifiable events process to inform the SHR about the impact of Covid-19 on service reduction; ineffective governance contingency arrangements; and reduction in capacity of senior leadership teams.
- A shortly monthly Covid-19 return was initially introduced for all social landlords. These were then replaced by quarterly returns in July 2021
- that formed the basis of ongoing quarterly returns provided to the Social Housing Resilience Group and Scottish Government.
- Gas safety checks should be completed (where possible) with documentation retained to confirm that reasonable steps were taken to achieve this in line with Health and Safety Executive guidance.

Covid-19 Council Impacts and Response

In response to the initial Covid-19 emergency, and the ongoing pandemic, HPS implemented a range of actions to ensure the continued safety of both citizens and Council employees. These included:

During lockdown:

- Establishing a list of essential repairs that would continue to be performed (where possible) during lockdown.
- Advising citizens via text, the Council's website, and via social media that HPS was moving to delivery of essential services.
- Cancelling all live non-essential appointments at the start of lockdown.
- Updated contact centre scripts to support identification of high risk and shielding tenants.
- Maintained circa 100 employees and some contractors to support completion of essential repairs and established safe working practices supported by appropriate training; together with refreshed risk assessments that reflected (for example) the need to maintain safe distances when completing repairs. This also included guidance for Council employees on how to respond in situations where they felt unsafe.
- Assurance was obtained from third parties in relation to their refreshed Covid working practices, and Council team leaders also performed spot checks on contractors who were completing repairs.
- Establishing 'drive in' processes to support safe discussions with employees to assess their wellbeing and provide details of refreshed safe working practices.
- Arranging procurement and allocation of personal protective equipment for employees.
- Providing assurance to tenants prior to entry on safe working practices.
- Reducing volumes of quality assurance checks performed by team leaders.
- Holding monthly contractor meetings via MS Teams.

Post lockdown

Tenants with cancelled (non-essential) jobs were contacted a week prior to the service reopening and their repairs were prioritised.

Following the rapid increase in transmission of the Omicron variant, HPS continued to operate a restricted service, with details of how to request a repair included on the Council's website.

Scope

This review assessed the design and effectiveness of processes and key controls applied by HPS to support:

- prioritisation of urgent repairs during Covid-19;
- prioritisation and resolution of non-urgent repairs that accumulated during revised safe working during lockdown;
- the health and safety of citizens, employees and contractors; and
- alignment with the changing SHR guidance and requirements.

Risks

The review also aimed to provide assurance on the following CLT risks:

- Health and Safety (including public safety)
- Workforce
- Supplier, Contractor, and Partnership Management
- Governance and Decision Making
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk

Limitations of Scope

The scope of this review was limited to the HPS service response during the Covid-19 pandemic.

Reporting Date

Testing was performed across the period March 2020 to December 2021.

Our audit work concluded on 11 July 2022, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Contractor Health and Safety and Performance Monitoring

Finding Rating	High Priority

During the March 2020 and January 2021 Covid-19 lockdowns, Housing Property Services (HPS) completed essential repairs using available Council employees and circa 30 contractors (as required).

We confirmed that:

1. Supplier Health and Safety Arrangements – 9 of the 30 suppliers were contacted during the first lockdown to confirm whether their employees had been issued with suitable personal protective equipment (PPE); that appropriate risk assessments were completed; and safe working practices communicated and established.

   Of the 9 suppliers contacted, only 3 responses were received, and no further follow-up was performed.

   Supplier Performance Monitoring – HPS currently has no established key performance indicators to confirm the timeliness and quality of repairs completed by third party contractors. This was also highlighted in an internal HPS compliance audit completed in March 2021.

Management has confirmed that KPIs have been established for the Repairs Direct contact centre team, and that work is underway to develop comprehensive end to end KPIs for the service.

Risks

The potential risks associated with our findings are:

- **Health and Safety (including public safety)** - contractors and / or citizens may have been exposed to risk of infection as appropriateness of supplier health and safety arrangements were not confirmed.
- **Supplier, Contractor, and Partnership Management** – poor quality or late completion of essential repairs completed by contractors during lockdown may not have been identified.

Recommendations and Management Action Plan – Contractor Health and Safety and Performance Monitoring

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	The need to confirm appropriateness of contractor health and safety arrangements to support completion of essential Council housing repairs, and protect the health and safety of both contractors and citizens, should be recorded as part of the Council's Covid-19 lessons	To note the recommendations, and to advise that these are covered the Housing	Paul Lawrence, Executive	Nicky Brown, Interim Service Director for Housing, Family	31/08/2022

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
	learned exercise and applied in the event of a similar future scenario.	Property Compliance Team Audit Action Plan (actions K1 to K6). This has been confirmed by the Chief Internal Auditor.	Director of Place	Support and Fair Work	
1.2	1. The comprehensive end to end key performance indicators (KPIs) for Housing Property Services that are currently being developed should be implemented and consistently applied. 2. KPIs should be communicated to contractors and reflected in contracts (where possible). 3. Performance (including supplier performance) against KPIs should be monitored (at an appropriate frequency), with significant issues communicated to management. 4. Supplier performance should be routinely discussed at ongoing supplier relationship management meetings.	The action plan is updated on a regular basis and reviewed at monthly meetings. Fortnightly action updates are circulated to action owners. To agree to provide the action tracker following review meetings in June and July.		Sarah Burns, Head of Housing Operations Willy Gilhooly, Operations Manager, Housing Property Services Carol Reid, Operations Manager, Housing Property Services Alistair Latona, Senior Repairs & Materials Officer, Housing Property Services Ross Murray, Operations Manager, Place	

Finding 2 – Complaint Resolution

Finding Rating	Medium Priority

A total of 450 Housing Property Services (HPS) complaints were received in 2020, and this increased to 1,416 complaints in 2021.

1. Increased complaints volumes - review of 2021 HPS complaints confirmed that 62% of the 1,416 complaints received related to repairs that were delayed or not completed, with 18% highlighting tenant dissatisfaction.

    There were no significant increases in the proportion of similar complaints received during the March 2020 lockdown. Management has advised that tenants generally understood the rationale supporting completion of only essential repairs during the first lockdown.

    The high proportion of delayed or not completed repairs complaints in 2021 is potentially a citizen response to the January 2021 lockdown when HPS reverted to completing only essential repairs, however it has not been possible to confirm this.

2. Complaint resolution timeframes – review of a sample of 25 complaints received between March 2020 and December 2021 confirmed that 80% were not resolved within the timeframes specified in the Council's Complaints policy.

It has not been possible to confirm whether delayed response time were attributable to Covid (for example, where tenants complained that repairs were not completed during lockdown, or that they had no indicative repair completion timeframes).

The need to improve complaint resolution timeframes was also highlighted in the Scottish Housing Regulator's 2020/21 landlord report for the City of Edinburgh Council.

Management has advised that work is ongoing to address known challenges with the complaints process, with the objective of identifying thematic root causes analysis and implementing solutions.

Risks

The potential risks associated with our findings are:

*   **Service Delivery** - Inability to deliver quality services that meets citizen needs effectively if thematic complaint root causes are not identified and resolved.
*   **Regulatory and Legislative Compliance** – Complaints are not managed in line with legislative requirements detailed in the Scottish Public Services Ombudsman Act 2002.
*   **Reputational Risk** - Adverse publicity due to complaint response timeframes

Recommendations and Management Action Plan – Complaint Resolution

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	A clear plan should be developed and implemented to support improvement of end-to-end complaints management across Housing Property Services. This should include (but not be limited) to: • Review of complaint volumes to confirm adequacy of resources to manage and respond to complaints within regulatory timeframes. • Appropriate classification and analysis of complaints to enable identification of thematic root causes. • Identification and implementation of solutions to address the most significant and thematic root causes of complaints. • Appropriate processes for dealing with complaints that relate to work completed by third party contractors.	Plans are currently being developed for the transition of the Resolution Team from the contact centre into Housing Property Services, therefore, a phased implementation approach will be adopted to enable implementation of these changes and development of an action plan to support improvement of end-to-end complaints management. The plan will be shared with internal audit to confirm that appropriate actions have been defined, or risks accepted (where appropriate), and management actions will then be agreed based on the content of the plan, with their implementation progress monitored through the established IA follow-up process.	Paul Lawrence, Executive Director of Place	Nicky Brown, Interim Service Director for Housing, Family Support and Fair Work Sarah Burns, Head of Housing Operations Willy Gilhooly, Operations Manager, Housing Property Services Carol Reid, Operations Manager, Housing Property Services Ross Murray, Operations Manager, Place	30/11/2022

Finding 3 – Employee Covid-19 Risk Assessments

Finding Rating	Low Priority

Review of Housing Property Services (HPS) risk assessments completed in response to the emergence of Covid-19 in March 2020 confirmed that:

no employee specific risk assessments were completed that considered the risks that could affect individual employees.

a generic risk assessment was completed in April 2020, and formally approved in February 2022

Though there were safe working practices, management confirm that there was risk assessment (RA).

It is important to note that a number of compensating controls were implemented to support employee safety and wellbeing. These included implementation and communication of safe working practices to all employees; and drive through arrangements that enabled all employees to have safely distanced in person communications with their managers. The need to improve complaint resolution timeframes was also highlighted in the Scottish Housing Regulator's 2020/21 landlord report for the City of Edinburgh Council

Management has advised that work is ongoing to address known challenges with the complaints process, with the objective of identifying thematic root causes analysis and implementing solutions.

Risks

The potential risks associated with our findings are:

- **Health and Safety (including public safety)** – employees may have been exposed to increased risk of infection as individual risk assessments were not performed.
- **Regulatory and Legislative Compliance** – potential non-compliance with Covid-19 regulations and health guidance.

Recommendations and Management Action Plan – Employee Covid-19 Risk Assessments

Ref.	Recommendation	Agreed Management Action
3.1	The need to complete individual employee risk assessments to support completion of essential Council housing repairs to protect the health and safety of employees should be recorded as part of the Council's Covid-19 lessons learned exercise and applied in the event of a similar future scenario.	Recognising that some of the findings included in this report relate to activities that were unique to the HPS Covid-19 resilience response, internal audit has recommended that (where appropriate) HPS records these as lessons learned for subsequent inclusion in the Council-wide Covid-19 lessons learned exercise. Consequently, management responses have only been provided for recommendations that can be incorporated into future service delivery activities.

Finding 4 – Repairs Cancellation – Customer Contact

Finding Rating	**Low Priority**

During lockdown, Housing Property Services completed only essential repairs, with all other repairs cancelled and tenants notified by email; text; or letter.

Review of a sample of 25 cancelled repairs to confirm whether customers were contacted established:

- 19 customers (76%) were contacted, and
- 6 customers (24%) were not contacted, with no supporting rationale provided.

Management is currently reviewing the 6 citizens who were not contacted to understand whether this could have been due to inaccurate contact information.

Risks

The potential risks associated with our findings are:

- **Reputational Risk** - Adverse publicity due to complaint response timeframes

Recommendations and Management Action Plan – Repairs Cancellation – Customer Contact

Ref.	Recommendation	Agreed Management Action
4	The need to ensure that all customers should be contacted to advised of repairs cancellations, or document rationale confirming why contact has not been possible, should be recorded as part of the Council's Covid-19 lessons learned exercise and applied in the event of a similar future scenario.	Recognising that some of the findings included in this report relate to activities that were unique to the HPS Covid-19 resilience response, internal audit has recommended that (where appropriate) HPS records these as lessons learned for subsequent inclusion in the Council-wide Covid-19 lessons learned exercise. Consequently, management responses have only been provided for recommendations that can be incorporated into future service delivery activities.

Finding 5 – Business Continuity Plans

Finding Rating	Low Priority

The established Housing Property Services (HPS) business continuity plan was scheduled for review in February 2020 but was replaced by an HPS Covid-19 operating model in May 2020.

The operating model was maintained by the HPS Operational Support team and covers repairs; operations; training; wellbeing; logistics; communications; business support and audit; with a dedicated HPS lead allocated to each area.

The model was initially reviewed every two months at the start of the pandemic to reflect relevant regulatory and legislative changes and public health guidance, with longer review periods applied as the Covid situation stabilised. Operating model updates coordinated by the Operational Support team.

This involved sending relevant slides to each lead requesting their updates based on current restrictions and workforce capacity, prior to sharing the refreshed model across HPS.

Review of the process for updating the operating model confirmed that documentation had not been retained to support model changes and distribution. Specifically:

- Only 50% of e-mail responses from leads with operating model updates could be provided, and
- There was evidence to support distribution of only 2 of the 5 model updates between December 2020 and May 2021 across HPS.

HPS management has confirmed that information supporting model refreshes was provided by all leads, and that refreshed models were shared and discussed with all HPS managers.

Risks

The potential risks associated with our findings are:

- **Resilience** - HPS employees may not have been fully aware of the services operational resilience arrangements detailed in the Operating Model
- **Regulatory and Legislative Compliance** – HPS services may not have been delivered in line with applicable legislation, regulations, and public health guidance.

Recommendations and Management Action Plan – Business Continuity Plans

Ref.	Recommendation	Agreed Management Action
5.1	• The need to ensure that documentation is retained to support changes to business continuity arrangements / operating models in an ongoing resilience situation should be recorded as part of the Council's Covid-19 lessons learned exercise and applied in the event of a similar future scenario.	Recognising that some of the findings included in this report relate to activities that were unique to the HPS Covid-19 resilience response, internal audit has recommended that (where appropriate) HPS records these as lessons learned for subsequent inclusion in the Council-wide Covid-19 lessons learned exercise. Consequently, management responses have only been provided for recommendations that can be incorporated into future service delivery activities.

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

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Governance, Risk and Best Value

10.00am, Tuesday, 11 October 2022

Parking and Traffic Regulation (PL2002) – Service Area Response

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 To note the service area response and actions taken to date to address risks raised in the Internal Audit report.

Paul Lawrence

Executive Director of Place

Contact: Gavin Sheriff, Senior Transport Team Leader - Parking

E-mail: Gavin.Sherriff@edinburgh.gov.uk | Tel: 0131 469 3616

Report

Parking and Traffic Regulation (PL2002) – Service Area Response

2. Executive Summary

2.1 A summary is provided below of progress made by the Parking and Traffic Regulation and Customer teams in relation to the internal audit into the key processes and controls supporting the enforcement of parking regulations, including ongoing supplier management arrangements for the NSL contract.

2.2 Only one Action remains outstanding (1.1), and this regards the annual contract review which can only begin at the end of the contract year after 31 September. The other eleven recommended Actions have already been implemented.

3. Background

3.1 The Internal Audit team audited parking and traffic regulation as part of their 21/22 audit plan. Testing was undertaken on a sample basis for the period 1 January to 31 December 2020 and a final report was shared with service areas on 21 April 2022. This report contained three overall findings (two high-rated and one medium-rated) in relation to the control environment in the scope of the audit.

4. Main report

4.1 The service areas accepted on receipt of the report that improvements could and would be made in the monitoring and recording of management information in the areas that were identified. Recommendations were welcomed and used to encourage continuous improvement and delivery of best value.

4.2 In the period between audit sampling and publishing of the report, improvements were proactively made to existing processes and this has been supplemented with additional checks and balances in order to aid transparency and avoid confusion.

4.3 The following additional context was provided as a management response upon publication of the audit report:

4.3.1 The supplier management arrangements for the NSL contract were reviewed and approved by the Contract and Grants Management team in January

2021. The CAGM team were satisfied that, due to the age of the contract, it need not follow the tier-1 contract management arrangements, however many of the best practice approaches they recommended have been adopted.

4.3.2 It is acknowledged that the measures for two of the original KPIs have remained as 'TBC' since the NSL contract commenced as a result of financial constraints. The contract documentation will be amended to reflect the formal removal of these two KPIs. However, all the current KPIs remain relevant to the value and importance of the services that are being provided and all are being monitored in line with their service priority. A recent contract review in 2019 led to the addition of a new KPI.

4.3.3 It is also acknowledged that improvements can be made to the record keeping for KPI monitoring, particularly in relation to the non-critical KPIs. However, recent verification checks have confirmed KPIs to have been accurately monitored and performance payments correctly awarded throughout the audit period.

4.3.4 The risks that have been identified within the audit report can be accepted and treated by the service and have no significant effect on the service's ability to achieve its objectives and perform effectively.

Progress with Management Actions

4.4 The audit report contained 12 recommended actions across three findings. Significant progress has been made with the implementation of these actions. This is detailed below.

Action	Summary	Status
1.1: Contract Refresh	Conduct annual review of the contract including KPIs.	In Progress - Annual review started following the end of contract year on 31 September.
1.2: Ongoing Supplier Management	Review supplier management arrangements against the Council CAGM Framework.	Actioned
1.3: Supplier Performance	Regularly monitor KPIs and retain evidence supporting achievement. Performance related pay decisions should be documented.	Actioned
2.1: User Access	Undertake system role mapping exercise and ensure that access privileges align with roles. Update process for	Actioned

	adding and removing users from system.	
2.2: Systems Assurance	Assurance on compliance of contractor with Council protocol to be gained and built into contract arrangements going forward.	Actioned
3.1: Ticket Progression	Review open tickets, continue to perform regular check on long-term hold tickets and explore internal recharging for outstanding unpaid penalties.	Actioned
3.2: Vehicles Driven Away	Reword the removal priority list to reflect actual practices where vehicles are driven away to avoid parking tickets.	Actioned
3.3: Employee Delegated Authorities	Gain assurance from NSL that authorisation levels around cancellation and write-off have been added to training materials.	Actioned
3.4: Parking Rulebook Review	Review Parking Rulebook annually.	Actioned
3.5: Debt Write Off	Update the Council's Corporate Debt Policy to ensure that it is aligned with the longstanding Parking Services procedures.	Actioned
3.6: Payments and Reconciliations	Ensure that arrangements are in place to deal with incoming mail and any cash that may be received.	Actioned
3.7 Quality Assurance	Introduce quality assurance controls to confirm the completeness and accuracy of key transactions.	Actioned

Additional Context

4.5 Had the contract year ended prior to September, it's possible all the Actions could have been completed by now. This is the main reason for this Action still being outstanding.

5. Next Steps

5.1 Following the completion of Contract Year 8 on 31 September 2022, the annual contract review began.

5.2 This process has been revised to include recommendations from Internal Audit and adopt the Council's approach to best practice contract management.

5.3 Part of this process will include a review of:

5.3.1 Contract costs;

5.3.2 KPIs;

5.3.3 Contractor training and qualifications;

5.3.4 Joiners, Movers and Leavers;

5.3.5 Cloud & Web Services Protocols;

5.3.6 Website Accessibility Statements; and

5.3.7 Any other relevant contract processes or procedures.

5.4 This Action is expected to be complete by the 16 December deadline.

6. Financial impact

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

7. Background reading/external references

7.1 None.

8. Appendices

8.1 Appendix 1 – Internal Audit report: Parking and Traffic Regulation.

Internal Audit Report

Parking and Traffic Regulation

21 April 2022

PL2002

Overall Assessment	Significant improvement required

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2021/22 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2021. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall opinion and summary of findings

Our review identified some significant and moderate control weaknesses in both the design and effectiveness of the control environment and supplier management arrangements established to support the parking enforcement process.

Consequently, only limited assurance can be provided that risks are being managed, and that the Council's objectives of consistently and effectively enforcing parking regulations through their established contract with NSL will be achieved. Two high and one medium rated findings have been raised.

We confirmed that existing supplier management arrangements are not fully aligned with the tier 1 contract management arrangements detailed in the Council's established contract and grants management framework. Our main concern is that the contract has not been recently reviewed and includes a number of key performance indicators (KPIs) that no longer reflect the changes in citizen behaviour and changes in services provided (for example, the move away from payment by coins in parking machines to online payment). Additionally, monthly contractual performance related payments have been consistently paid at the highest possible level (on average £40k per month in 2020) and are based on a number of KPIs, some of which cannot be monitored. Consequently, there is a risk that these performance related payments could be overstated.

We also noted that the parking enforcement changes implemented in response to Covid-19 whilst discussed and communicated with the supplier, were not recorded in a central log for documenting and monitoring purposes.

We also established that the cloud based Taranto parking administration system is not currently managed in line with the Council's Externally Hosted "Cloud & Web" Services Protocol, and that no assurance is provided by the supplier on the security; data protection; change management controls applied to the system; or the adequacy of system resilience arrangements.

Review of Taranto system access controls confirmed that the Council does not have a full understanding of who can access the system (including NSL employees); what activities their current user profiles enable them to perform in the system; whether these are aligned with operational roles and responsibilities; or whether there is appropriate segregation of duties.

The outcomes of sample testing also highlighted a number of operational areas where improvements are required to confirm the completeness and accuracy of the parking enforcement process and receipts.

Management response:

It is fully accepted that improvements can (and will) be made in the monitoring and recording of management information in the areas that have been identified within this audit report. We welcome the recommendations made and will use them to encourage continuous improvement and delivery of best value from the service. Several improvements have already been made to existing processes which have been supplemented with additional checks and balances in order to aid transparency and avoid confusion. Place and Customer teams have been working closely together to ensure that the many recommendations of this audit report are met.

However, there are a few points worth noting:

- The supplier management arrangements for this contract were reviewed and approved by the Contract and Grants Management team in January 2021. The CAGM team were satisfied that, due to the age of the contract, it need not follow the tier 1 contract management arrangements, however many of the best practice approaches they recommended have been adopted.

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- It is acknowledged that the measures for two of the original KPIs have remained as 'TBC' since the contract commenced as a result of financial constraints and the contract documentation will be amended to reflect the formal removal of these two KPIs. However, all the current KPIs remain relevant to the value and importance of the services that are being provided and all are being monitored in line with their service priority. A recent contract review in 2019 led to the addition of a new KPI.

- It is also acknowledged that improvements can be made to the record keeping for KPI monitoring, particularly in relation to the non-critical KPIs. However, recent verification checks have confirmed KPIs to have been accurately monitored and performance payments correctly awarded throughout the audit period.

- The risks that have been identified within this report can be accepted and treated by the service and have no significant effect on the service's ability to achieve its objectives and perform effectively.

Audit Assessment

Audit Areas	Findings	Priority Rating
• Parking and Bus Lane Violations Enforcement	1. Supplier Management	**High**
• Covid-19 Impact	2. System Access and Assurance	**High**
• Data Analysis		
• Data systems management	3. Transaction Processing	**Medium**
• Supplier Management		

Areas of good practice
We noted that effective reconciliation procedures have been established to confirm the completeness and accuracy of both web and telephone payments.

Background and Scope

The Road Traffic Act 1991 grants Decriminalised Parking Enforcement (DPE) powers to the City of Edinburgh Council (the Council) to enforce parking policies within the Council's geographical area through Council employed parking attendants or outsourced third party arrangements, and retain the income generated.

Outsourced Parking Enforcement Arrangements

Parking enforcement generates circa £7.7M (191,479 parking tickets and 54,586 bus lane notices in 2019/20) of income per annum for the Council. In 2020/21 this reduced to circa £4M due to the suspension of parking charges between April and June 2020 in response to Covid-19, with 80,482 parking tickets and 26,932 bus lane notices issued between April and December 2020.

The service is delivered with support from NSL Limited (NSL) on a Tier 1 contract (a high value contract that presents high risk to the Council) that is valued at circa £6M per annum. The services provided by NSL include on-street parking and bus lane enforcement; car pound; pay and display and cashless parking; suspension and dispensation; lines and signs maintenance; permit management; and back office support which includes provision of the web based parking administration system; online services; and notice processing.

NSL is required to perform its duties in accordance with the Council's parking enforcement protocol that details parking enforcement procedures and acts as a single point of reference for Council and NSL employees, as well as members of the public.

The parking services contract with NSL also provides the Council with access to NSL's subcontracted integrated parking technology systems to support transaction processing. This includes document scanning; workflow management; notice processing; and electronic parking permits.

It is important to ensure that the NSL relationship is managed in line with the Council's established contract and grants management framework.

NSL contractual payment arrangements include Performance Related Payments as detailed in contract schedules D (Payment Mechanism) and E, which outlines 15 Key Performance Indicators (KPIs). As per the contract, the following basic rules are applied to Performance Related Payments:

- 80% KPIs must be met in each calendar month to maintain Performance Payment Level;

- 90% KPIs must be met in each calendar month for an increase in the Performance Payment Level; and

- 6 KPIs are considered essential for the service quality and should be achieved each month, failing which the Performance Payment Level must decrease.

Penalty Charge Notices (PCNs) and Bus Lane Notices

Where vehicles are parked in contravention of parking protocol, NSL parking attendants issue a Parking Charge Notice (PCN) and place it on the vehicle. Vehicle owners then have 28 days from the issue of a PCN to either pay the fine or make representations to the Council. An initial charge of £30 is applied for early settlement within 14 days, after which time the charge increases to a full £60. If no contact is made by the vehicle owner after 28 days, the Council performs a DVLA check on the vehicle and issues a Notice to Owner (NTO) to the registered keeper of the vehicle.

For bus lane violations, surveillance cameras capture the contravention including the vehicle's registration number, which allows the Council to perform a DVLA check and issue the NTO to the vehicle owner's registered address. Early payment within 14 days of issue of NTO again attracts the same 50% discount as PCN's.

If the Council has not received any payment or challenge after 28 days from date of the NTO issue date, a Charge Certificate (CC) is issued notifying the

registered keeper that the fine is increased to £90. The Council has the authority to instruct Sheriff Officers to recover the charge if no payment has been received 14 days after the issue of CC.

The cloud-based Taranto application automatically progresses tickets through the various stages of recovery until the time for referral to the Sheriff Officer, when a manual weekly referral is provided from tickets identified by the system. Where tickets are being appealed or reviewed, they are placed on hold to prevent progression through this process. 'Cases on hold' and 'Non-progression' reports are run periodically by Senior Transaction Officers to identify and review tickets that have not progressed as expected and identify any necessary action to ensure tickets do not remain on hold in perpetuity.

Payment for PCNs and bus lane notices can be made online via the Council website, by phone, by post, or in person at the City Chambers office.

Vehicle Clamping and Impounding

The Council has the power to clamp and impound vehicles that are parked in contravention of parking regulations and meet the criteria set out in the Vehicle Removal Priorities list. The list prioritises criteria for vehicle removal, including high and medium priority for persistent evaders and persistent offenders respectively. Other criteria include parked vehicles presenting a safety risk or obstructing traffic flow; vehicles parked in disabled bays without displaying a blue badge; and unauthorised vehicles parked in motorcycle or car club bays.

During 2019/20, the Council impounded 1,731 vehicles generating removal revenue of £250k and storage charges of £13k. As a result of changes to parking enforcement during the Covid-19 pandemic and subsequent national lockdown, only 240 vehicles were impounded from April to December 2021.

Impounded vehicle owners/keepers are required to pay a vehicle release fee of £150; a storage fee of £20 for each full day after the impound date that the vehicle is held; and the relevant PCN charge for the original contravention. When impounded vehicles are not claimed, two reminder letters are sent to the registered owner, one after 28 days, and then after an additional 28 days. Where pound employees confirm that the car tax on the vehicle has expired by 3 months, the vehicle is finally scrapped.

Challenge and appeals process

Vehicle owners/keepers can formally challenge a PCN or NTO online; by post; or in person at the City Chambers. System enforced ticket progression is manually placed on hold until the challenge has been assessed and either an acceptance or rejection letter issued.

The Council reviews the information and evidence provided to assess the validity of the challenge. Notices are cancelled for valid challenges, with an acceptance letter issued together with a refund of charges paid (where applicable). For unsuccessful challenges a rejection letter is issued confirming that outstanding payments remain due, before the ticket hold status is removed and progression reinstated.

Where challenges are rejected by the Council, the vehicle owner/keeper can appeal to the Scottish Parking Appeals Service, where an independent Parking Adjudicator makes the final decision. Formal appeals cannot be made once a Charge Certificate has been issued. The 'Parking Rulebook' spreadsheet documents the action to be taken by Officers when processing appeals and outlines the criteria to accept or reject generic or common cases.

Debt management

The Council transfers tickets that remain unpaid after 14 days following issue of a Charge Certificate to the Sheriff Officer. Any debt considered irrecoverable is written off in line with authority granted by the Council's Corporate Debt Policy.

Parking Enforcement Systems

The parking enforcement process is managed through a number of different systems, including:

- Taranto: administration of all issued tickets, NTOs, CCs and referrals to the Sheriff Officer, including audit trail of ticket progression and decisions made. Taranto is an externally hosted cloud and web based software solution provided by NSL and should comply with the Council's [Externally Hosted "Cloud & Web" Services Protocol for Procurement & Adoption](#);
- Parseq: scanning system used to scan hardcopy mail correspondence and process payments received by mail (e.g. cheque); and
- Cobalt: used to manage payments received via telephone and Council's website.

A robust interface between these different systems is important to ensure accurate and complete enforcement of parking enforcement policies and procedures.

Covid-19 impact on Parking Enforcement

All parking, clamping, and impound charges were suspended from the end of March 2020 to support essential workers operating during initial Covid-19 lockdown, with restrictions gradually lifted from June 2020.

Considering the impact of the reduction in parking enforcement activities, the Council entered into negotiations with NSL that resulted in 72% of NSL's workforce being placed on the UK Government furlough scheme between 1 May and 15 June 2020, with employees gradually phased back to work as the service was gradually reinstated to full capacity (1 August 2020).

No PCNs were issued between 23 March and 22 May 2020, with no vehicle removals from 16 March to 7 September 2020. On street enforcement was gradually increased as the restrictions on parking were eased. Key dates for changes to parking enforcement were:

- 01/05/2020 - PCNs, Warning Notices and Warning Flyers were only issued with the explicit written consent of the Council or the Police. No clamping or disposal of vehicles was performed, and vehicles were only removed or relocated only with the explicit written consent of the Council;

- 15/06/2020 - PCNs, Warning Notices and Warning Flyers were issued, with vehicles removed or relocated only within the written guidelines provided by the Council;
- 29/06/2020 – Issue of PCNs, Warning Notices and Warning Flyers were resumed as normal.

Further changes to enforcement procedures due to COVID-19 were experienced in the second 2021 lockdown, which was outside the scope of this review.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key processes and controls established to support enforcement of parking regulations, including ongoing NSL supplier management arrangements. Testing was undertaken on a sample basis for the period 1 January to 31 December 2020.

Risks

- Supplier, Contractor, and Partnership Management
- Health and Safety (including Public Safety
- Financial and Budget Management

Limitations of Scope

The review did not consider the controls supporting delivery of parking enforcement services provided to East Lothian, Midlothian and other local authorities. Additionally, collection and management of car park parking charges (from pay and display ticket machines) and income from parking permits was specifically excluded, as these areas were covered in the 2018/19 Payments and Charges audit.

Reporting Date

Our audit work concluded on 29 July 2021, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Supplier Management

Finding Rating	High Priority

1. Supplier Meetings and Record Keeping

Whilst monthly strategic supplier meetings with NSL were paused following the emergence of the Covid-19 pandemic, the frequency of weekly operational and ad-hoc meetings was increased in response to the changing environment.

As meeting minutes were not maintained, it was not possible to confirm whether appropriate actions were implemented by the supplier and monitored by the Council to address decisions taken during these meetings.

Monthly supplier meetings were reinstated from September 2020 with minutes recorded. Review of the minutes for meetings held between September to December 2020 highlighted:

a) Health and Safety was not included as standing agenda item, as stated in the Contract Specification Schedule A paragraph 2.5.8. Management advised that Health and Safety is discussed in relation to all decisions made.

b) While meeting actions are recorded, there is no follow up in subsequent meetings to determine progress with implementation and completion.

2. Covid-19 Guidance

Enforcement changes were not recorded in a central log for monitoring to ensure that they were aware of and would apply the parking enforcement changes implemented in response to Covid-19 issuing of PCNs.

As the details of these changes were not formally recorded, it has not been possible to confirm whether the 3,504 tickets issued in May and June 2020 were in line with these changes to Council policy.

3. Supplier Performance

Management has advised that some of the supplier Key Performance Indicators (KPIs) noted in the contract are no longer relevant or cannot be monitored.

We confirmed that monthly supplier performance related payments based on achieving contractual KPIs have remained at the highest level possible throughout contract (circa £40k per month), with the exception of one occasion.

Review of monthly supplier performance Key Performance Indicator (KPI) reports for February and November 2020 highlighted that out of 15 contractual KPIs:

a) 2 KPIs had targets of 'TBC'. These KPI's should have been set after 12 months of the commencement of contract but have not yet been established. One of these KPIs is also noted as an 'essential' performance indicator in the contract that must be achieved each calendar month, otherwise Performance Related Payments (PRP's) should be reduced;

b) 2 KPIs relate to Ticket Issuing Machine (TIM) availability and maintenance, with one of these also an 'essential' performance indicator to be achieved monthly for PRPs. Both KPIs had been assessed as achieved for PRP, however comparison with TIM repair reports for the same months indicated that these KPI's may not have been achieved as TIM repair reports are incomplete;

c) The KPI relating to customer helpdesk calls was classified as achieved, however discussions with management confirmed that management

information supporting this conclusion has not been available since February 2019; and

d) As a result of the above findings, the KPI relating to timely provision of management information may also not have been achieved, however the contract does not specify which MI this KPI specifically relates to.

Management has advised that although some of the existing KPI's cannot be monitored, they are confident that an adequate level of service has been provided, and performance expectations achieved.

4. <u>Contract Compliance</u>

The following additional areas were also identified where the Council is currently unable to confirm the supplier's contractual compliance:

a) Internal Audit requested a report of all tickets raised for a specified period together with their key progression dates. This report could not be provided at no additional cost in line with contractual requirements (Schedule A paragraph 3.8.8 states that 'the Service Provider shall write up to ten new bespoke system reports in each Contract Year at no additional cost to the Council').

b) The Council currently receives no assurance in relation to the following supplier employee training and qualifications that are detailed in the contract, but not covered by specific KPIs:

- the requirement for all public facing staff to complete certified customer care, conflict management, and tourist industry workers training; and

- the requirement for all managers/supervisors to hold or be working towards a recognised relevant management qualification relevant to their roles.

Risks

The potential risks associated with our findings are:

- **Supplier, Contractor, and Partnership Management** – contractual requirements and key performance indicators no longer reflect the services provided to the Council.

- Supplier, Contractor, and Partnership Management – the contract is not managed in line with the Council's established <u>contracts and grants management framework.</u>

- **Health and Safety (including Public Safety)** - risk of liability if Health and Safety decisions and responsibilities and decisions are not recorded and monitored.

- **Financial and Budget Management** – performance related pay is overstated and contract discounts for poor performance and/or best value may not be achieved.

Recommendations and Management Action Plan – Supplier Management

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
1.1	The NSL contract should be reviewed and refreshed to reflect the services required by the Council. This should include (but not be limited to): 1. Review and refresh of contractual arrangements supporting performance related pay; 2. Review and refresh of all key performance indicators (KPIs) supporting performance related pay; 3. Identification and inclusion of any new KPIs to support the services delivered (for example, health and safety; and employee training and qualifications).; 4. Details of the management information (MI) required to support effective ongoing performance monitoring; and 5. Ongoing review of KPIs at appropriate intervals (for example, every six months or annually) to ensure that changes to enforcement policy or operational processes are reflected and can be supported by relevant and timely MI.	1. As per Clause 15 of the contract, contractual arrangements supporting performance related pay will be reviewed on an annual basis as part of the annual contract review. 2. As per Clause 15 of the contract All KPIs will be reviewed on an annual basis as part of the annual contract review, this includes management information (MI), it will be determined at this stage if additional KPIs are required. 3. All KPIs will be formally reviewed on an annual basis as part of the annual contract review. KPIs are also reviewed dynamically whenever there is a change to contractual delivery, as was the case during the pandemic. These processes will continue, must be formally recorded, and must ensure that changes to enforcement policy or operational processes are reflected and can be supported by relevant and timely MI.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	16/12/2022
1.2	1. A review of existing supplier management arrangements should be completed in comparison to the Council's established contracts and grants management framework; and 2. Where gaps are identified, these should be	1. We will contact the CAGM Team to seek further assurance on supplier management. 2. The team's approach to minute taking and follow-up will be amended to take onboard the comments made and to better comply	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager	30/09/2022

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
	recorded, and actions implemented to ensure that they are addressed. These should include, but should not be limited to: a) Documenting all supplier meetings including decisions taken and actions arising, with supporting rationale provided when meetings are not held; b) Follow-up of all agreed actions at subsequent meetings to confirm that they have been completed effectively and within agreed timeframes; and c) All enforcement policy changes should be logged by the Council and compared with 'Change Log' maintained by NSL in line with contractual requirements (refer 51083) during supplier management meetings to confirm that all changes requested by the Council have been implemented.	with best practice across the Council. 3. This risk has been accepted. The 'Change Log', as detailed within the Council's initial contract specification, was discontinued shortly after the start of the contract. All formal enforcement policy changes are now communicated in writing to the supplier or managed via formal contract variation or change control procedures.		Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	
1.3	1. Key Performance Indicators (KPIs) should be regularly monitored with evidence retained to support their achievement, or reasons provided where expected performance targets have not been achieved; and 2. Decisions to either increase, maintain, or decrease monthly performance related payments following review of KPI's should be documented together with supporting rationale, and monthly payments adjusted in line with contractual requirements.	1. Evidence will be provided that KPIs are regularly monitored, and recent extensive checks have verified that performance related payments have been correctly applied. 2. Specific reference to the contracted performance related payment level will now be included in all future monthly contract reports.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	30/09/2022

Finding 2 – System Access and Assurance

Finding Rating	High Priority

1. User Access

Review of the report of all active Taranto system users highlighted that:

a) Council leaver accounts are not removed from the system. Instead, user passwords are changed and their system 'roles' changed to restricted access. This is not considered a good practice and does not support regular review of active users to ensure that no toxic user profiles exist, and that user access levels remain appropriate;

b) NSL administer their own staff access to the system, and Council's management is currently not aware of, and receives no assurance on, the contractor's established user access management processes. Council management is also not clear on whether the roles or privileges assigned to contractor user accounts are appropriate;

c) 'Roles' within the parking system are not aligned with user's roles and responsibilities, and the privileges attached to each role are not known. Additionally, new user role profiles are currently replicated from other active users; and

d) All users, including leavers who have no roles attached to their accounts, appear to be assigned several 'default' privileges on the system, including 'Balance Write Off' and 'Toggle the super hold status of a ticket'.

2. Systems Assurance

The Taranto system meets the criteria of an externally hosted cloud (or shadow) IT solution as defined in the Externally Hosted "Cloud & Web" Services Protocol.

Discussions with management to ascertain the extent of compliance with the protocol confirmed that no assurance is currently received on the adequacy and effectiveness of technology security; data protection; and change management controls and resilience arrangements applied to the system.

Therefore, no independent assurance can be provided on the Taranto software system's technological resilience controls such as physical security of hosting sites; operations security; personnel security; penetration tests and ICT health checks; GDPR compliance; compliance with the Information Security and Records Management policies; business continuity and IT disaster recovery arrangements; or compliance with Scottish Governments or other relevant legislation and guidance.

Risks

- **Technology and Information** – inappropriate and potentially toxic user profiles are not identified and addressed and potential failure of cyber defences and application security.

- **Resilience** - Inadequate disaster recovery arrangements leading to loss of income.

- **Service Delivery** - increased risk of fraud or error.

- **Regulatory and Legislative Compliance** – potential non-compliance with relevant legislation, regulations, and guidance.

Recommendations and Management Action Plan – System Access and Assurance

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
2.1	1. An appropriate solution should be established to deactivate or remove leavers from the system. 2. A role mapping exercise should be undertaken to understand the roles set up on the system, and their associated privileges; 3. System roles should be cross referenced to, and aligned with, employee operational responsibilities for both the Council and contractor, and should permit adequate but restricted access (where appropriate) to ensure effective segregation of duties; 4. Confirmation of the system access associated with 'default' privileges identified in the 'User Privileges Report' should be obtained, and these should be removed or restricted where applicable; and 5. Once fully understood, new user profiles should be tested, allocated, and applied in practice. This should include implementation of refreshed procedures for the immediate removal of leavers; changes to user profiles for internal transfers; and allocation of appropriate profiles for new starts; 6. A review of all system users should be completed at appropriate intervals (for example, quarterly or six monthly). The outcomes of this review should be documented, with any anomalies identified investigated and addressed; and 7. Appropriate segregation of duties for user access management should be implemented between the	1. Unfortunately, it is not possible to remove user profiles from the system database. However, improvements have been made to the process for deactivating user accounts and additional checks have now been introduced. 2. Evidence that a role mapping exercise has been undertaken, including a check and verification of all user roles and privileges, will be provided. 3. All system roles and privileges will be aligned with employee operational responsibilities for both the Council and contractor. 4. There are no default privileges for any user profiles, however some erroneously assigned individual privileges have been identified which were not correctly removed when the associated user accounts were deactivated. There is no risk of these accounts being incorrectly used, however all such anomalies will be corrected. 5. All processes for adding and removing users from the system will be reviewed and updated. 6. Appropriate reviews of all system	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	30/09/2022

	Council and the contractor. Where responsibility for administering user access lies with the contractor, compliance with agreed procedures should be regularly monitored, with user accounts reconciled to staff movements on a regular basis. Management should also consider including this as a contractual key performance indicator.	users have been introduced as part of the contract monitoring duties. 7. As the provider and administrator of the back-office system, the contractor is required to manage all user accounts in line with the requirements of the contract. It will be verified that all of the contractor's user accounts remain aligned with employee operational responsibilities. Appropriate reviews of all system users will be introduced as part of the overall contract monitoring however this is not considered appropriate for KPI.			
2.2	1. A review of Taranto (and any other cloud based software packages relevant to the Parking Enforcement contract) should be undertaken to assess the extent of compliance with the Council's Externally Hosted "Cloud & Web" Services Protocol; 2. This supplier should be requested to provide at least annual assurance on the areas detailed in the protocol, including the ongoing effectiveness of security; data protection; change management controls, and resilience arrangements. These arrangements should be included in contractual requirements and key performance indicators. 3. Where weaknesses are identified in the assurance provided, this should be discussed with the supplier, with actions implemented to address weaknesses, or the risks accepted where aligned with management's risk appetite.	1. Evidence of compliance with the protocol will be sought from the contractor. 2. An annual review of the Taranto system and a requirement to provide the associated contractor assurances have now been incorporated into the annual contract review process, however this is not considered appropriate for a KPI. 3. Should any weaknesses be identified then these would be discussed with the supplier and appropriate mitigation measures would be introduced where possible.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	16/12/2022

Finding 3 – Transaction Processing

1. Ticket progression

Review of 'Non-progression' reports run as at July 2021 for the period January 2020 – December 2020 to detect tickets where action is required identified 63 unresolved tickets on the non-progression report and a further 32 unresolved tickets on the cases on hold report.

Further review of these reports highlighted:

- that 31 out of 32 tickets 'on hold' had not been allocated an 'on hold' end date. Consequently, the tickets will remain on hold indefinitely without manual intervention;

- that 23 tickets issued to Council vehicles for both on street and bus lane contraventions between 3 January 2020 and 7 December 2020 remain open on the system;

- 4 instances where vehicles had been disposed by the Pound, with tickets still open on the system. Daily storage fees totalling £17,830 had accrued for these vehicles, however these fees are no longer recoverable;

- 9 tickets of an unknown nature, showing no balance outstanding and no progression through the system; and

- that 12 tickets referred to the Sheriff Officer were over-recovered due to customers continuing to pay instalments after relevant fines had been fully recovered as standing orders had not been cancelled.

2. Vehicles Driven Away to Avoid Parking Tickets

There are currently no established controls to identify occasions where vehicles have recorded three instances of 'vehicles driven away' (VDA's) within the last three calendar months and escalate these for removal to the pound as described in the Vehicle Removal Priorities list.

Management has advised that there are likely to be few vehicles (if any) that meet the criteria.

3. Employee Delegated Authorities

There are currently no established procedures or employee authorisation levels supporting appeals; decisions; and general transaction processing.

A total of 34 users who had processed cancellations during the year were identified, and it was not possible to confirm whether these users had the relevant authorisation to process these transactions.

4. Parking Rulebook, appeals, and cancellations

Review of the Parking Rulebook (used to make appeals and cancellation decisions) identified policies that are either outdated or no longer applicable.

Management confirmed that a review of the Parking Rulebook commenced prior to the Covid-19 lockdown and has not yet been completed.

Review of a sample of 35 tickets cancelled during 2020 highlighted that:

- 6 cancelled tickets had been assigned an incorrect cancellation code;

- 1 ticket was cancelled as it had not been progressed in line with applicable timeframes and was no longer considered enforceable. There was no evidence of manual intervention, and it was unclear whether the ticket was identified by review of the 'non-progression' report (refer finding 1); and

- 2 tickets were cancelled in error and subsequently reopened, when enforcement was no longer considered appropriate

5. Debt write-off

The Council's Corporate Debt Policy delegates authority to Parking Services Senior Transactions Officers and the Parking Services Manager to write off debt under a list of specific circumstances.

Additionally, the Parking and Traffic Regulations Manager; Planning Transport Specialist Service Manager; and Head of Place Development have authority to write off any unenforceable debt.

Review of a report showing all parking debt write offs during 2020 established that 27 separate users had written off parking debt during the period. Instances where NSL employees had written off debt were also identified.

Management has confirmed that this is due to lack of alignment between the Corporate Debt Policy and parking services procedures.

6. Payments and Reconciliations

Review of the processes established to support payment of parking tickets in person established that:

a) The Council's website states that for security reasons, cash should not be sent by post to settle parking tickets, however 2 instances of cash payments received via post payments were identified in November 2020. There are currently no policies or procedures in place detailing how to deal with cash receipts via post;

b) Management is not aware of the processes that should be applied to reconcile income received from the Pound to the Taranto system. Management confirmed that the Pound reconciles income daily to the Taranto system, however these reconciliations are not obtained or reviewed by the Council.

7. Quality assurance

Management has advised that whilst there are no established second level authorisation or other quality assurance controls to confirm the completeness and accuracy of transactions processed, checks would be performed for new employees or where specific issues were identified.

Additionally, whilst an annual report of parking write-off volumes and values is presented to the Council's Performance and Sustainability Committee, no management information is produced in relation to other transactions, notably the volume and value of cancellations.

Risks

The potential risks associated with our findings are:

- **Financial and Budget Management** - loss of income due to unenforceable or irrecoverable tickets; tickets on hold with no defined end date; and undetected persistent vehicles driven away.
- **Service Delivery** - increased risk of fraud and/or error; and inaccurate transaction processes based on out-of-date policies.
- **Reputational risk** – unpaid parking fines for Council owned vehicles in contravention of parking rules.
- **Service Delivery** - increased risk of error or fraud associated with receipt of cash via post.
- **Governance and Decision Making** - associated with limited quality assurance and production of transactional management information.

Recommendations and Management Action Plan – Transaction Processing

Ref.	Recommendation	Agreed Management Action	Action Owner	Contributors	Timeframe
3.1	1. A review of all open tickets should be undertaken to determine their relevant non-progression/hold rationale and decisions taken to either progress the tickets or cancel them in line with policy; 2. The outcomes of this review and the rationale supporting decisions should be documented; 3. Following the full review, non-progression and cases on hold reports should be run fortnightly, with all tickets actioned within an appropriate timeframe. The outcomes of this review and rationale for any decisions should be documented; 4. The feasibility of including a mandatory completion 'end date' field on the Taranto system for tickets placed on hold should be considered. Alternatively, procedures should be updated and communicated to confirm that an end date for all on hold tickets should be recorded in the system; and 5. Procedures should be designed and implemented to ensure that all tickets issued to Council vehicles are reported, investigated, and settled in a timely manner by the relevant departments.	1. A review of all open tickets has been undertaken and all holds have been correctly applied in accordance with the status of the tickets. 2. The outcome of the above review will be documented and provided. 3. Parking Services will continue to perform regular checks on any tickets that are on long-term hold and appropriate record keeping has now been introduced to document these checks. 4. It is not feasible or desirable to introduce a mandatory end date field and the importance of using indefinite hold periods to allow for long term investigations to be conducted cannot be understated. 5. Work will continue with Fleet Services and Finance to identify responsible departments and seek to put in place an appropriate process that recharges departmental budgets for any outstanding penalties where it has not been possible to identify the driver.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	30/09/2022
3.2	1. Procedures should be designed and implemented to identify and monitor instances where vehicles are driven away to	1. The Removal Priority List will be reworded to reflect the correct practices that should be applied where vehicles are driven away	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management &	31/05/2022

	avoid parking tickets as outlined in the Parking Removal Priority list. Alternatively, the Parking Removal Priority list should be updated to reflect actual practices.	on more than three occasions to avoid parking tickets.		Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader – Parking	
3.3	1. Employee authorisation levels should be defined for all key parking transactions, with specific focus on cancellations; write-off's; appeals; and decisions. 2. Authorisation levels should be communicated to all employees and consistently applied.	1. All Parking Services staff are given the same system authorisation levels and are permitted to cancel and write-off parking tickets in line with service requirements and longstanding practices. 2. We will gain assurance from NSL that authorisation levels around cancellation and write-off have been added to their training materials.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	31/10/2022
3.4	1. A full review of the Parking Rulebook should be undertaken to ensure that policies and procedures for making appeals decisions and cancelling tickets are complete and accurate; and 2. The Parking Rulebook should be reviewed at least annually, with changes documented in	1. A review of the Parking Rulebook has recently been started to incorporate some recent changes to parking enforcement. This exercise will now be updated to incorporate a full review of the Parking Rulebook. 2. Although further reviews will continue to be undertaken as required in order to	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager	16/12/2022

	a change log and signed off by an appropriate Officer.	accommodate future service changes, an annual review of the Parking Rulebook will also be undertaken and documented by Parking Services.		Gavin Sherriff, Senior Transport Team Leader - Parking	
3.5	1. Communications should be issued to all employees reminding them that parking debt write offs should only be processed by appropriately authorised Officers of the Council, in line with the Council's Corporate Debt Policy. Alternatively, the Corporate Debt Policy should be updated to align with parking services procedures.	1. The Council's Corporate Debt Policy will be updated so it can be aligned with the longstanding Parking Services procedures.	Richard Carr, Interim Executive Director of Corporate Services	Nicola Harvey, Service Director, Customer and Digital Services Neil Jamieson, Head of Customer Services Cheryl Hynd, Customer Manager, Transactions	31/10/2022
3.6	1. Daily reconciliations performed by the Pound team should be obtained and reviewed and retained with reconciliations performed for other income streams; and 2. The Council's policy on cash should be confirmed and existing procedures either refreshed or new procedures implemented to ensure that employees know how to deal with any cash payments received by post.	1. Evidence of the daily reconciliations performed by the Car Pound team are already provided to both the operations team and the Council's Finance team on a daily basis. 2. Parking Services will ensure that only adequately trained employees are able to open incoming mail and that such staff are aware of how to deal with any cash that may be received.	Paul Lawrence, Executive Director of Place	Gavin Brown; Network Management & Enforcement Manager Gavin Graham, Parking and Traffic Regulation Manager Gavin Sherriff, Senior Transport Team Leader - Parking	30/09/2022

| 3.7 | 1. Adequate and relevant management information should be produced at appropriate intervals to monitor volumes and values of higher risk parking transactions (for example, cancellations; write offs; and refunds). The management information should be designed to detect errors and potentially fraudulent actions for further investigation, and highlight any thematic errors;

2. Ongoing quality assurance checks should be designed and implemented to confirm completeness and accuracy of transactions processed by staff; and

3. The outcomes of review of management information and quality assurance checks should be used to inform training needs and drive changes to operational processes (where applicable). | 1. Additional MI has now been requested on a monthly basis and will be incorporated into the monthly contract reporting and monitoring.

2. Whilst quality assurance checks have always been undertaken by Parking Services, these checks have not been formally recorded. These checks are now being formally recorded and further system reports will be identified to provide greater assurance and reduce the risk of errors or fraudulent activity.

3. The outcomes of any reviews of management information and quality assurance checks will be used to inform training needs and drive changes to operational processes (where applicable). | Richard Carr, Interim Executive Director of Corporate Services | Nicola Harvey, Service Director, Customer and Digital Services

Neil Jamieson, Head of Customer Services

Cheryl Hynd, Customer Manager, Transactions | 29/07/2022 |

Appendix 1 – Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

by virtue of paragraph(s) 12 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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Governance, Risk and Best Value Committee

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10.00am, Tuesday, 11 October 2022

Corporate Leadership Team Risk Report as at 29 August 2022

Item number	
Executive/routine	Executive
Wards	All
Council Commitments	

1.   Recommendations

1.1   It is recommended that the Committee notes:

1.1.1   The Council's current risk profile;

1.1.2   The ongoing impacts of risks associated with public sector budget reductions, the Council's response to the Ukraine crisis and the current economic and cost of living crisis; and

1.1.3   Progress with the risk management framework.

Andrew Kerr
Chief Executive

Contact: Chris Lawson, Head of Health and Safety and (Interim) Risk
Legal and Assurance Division, Corporate Services Directorate
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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Corporate Leadership Team Risk Report as at 29 August 2022

2. Executive Summary

2.1 The purpose of this paper is to present the Council's current risk profile, as at 29 August 2022, and to highlight changes in the period in relation to the most significant risks facing the Council, along with the key actions being undertaken to reduce the level of risk to within the Council's agreed risk appetite.

2.2 During this risk reporting period, a new risk reporting process was implemented across all four directorates to improve the flow of key risks from services to divisions, to directorates and then to CLT. This report contains the most significant risks reported through this process.

2.3 The current risk assessments are based on management's view of the internal and external environments within which we operate.

2.4 It is worth highlighting that the Council has been dealing with a number of high profile and complex events which have impacted the Council's limited resources. The Covid epidemic, the response to the Ukraine crisis and the general health and social care pressures have necessitated particularly challenging and sustained responses from the Council. In addition to this, the Council has recently had to respond at very short notice to the sad passing of Her Majesty The Queen and will also require to face into the impacts of wider public sector budget reductions and the cost of living crisis. Whilst the Council has, and continues, to respond to these concurrent events and pressures, these matters have had and will continue to have a direct impact on the long term resilience of staff being able to sustain such high levels of delivery over the medium and longer term. Put simply, without extra resource and/or recovery time, workforce capacity and energy reserves are depleted and this will have a detrimental impact on business as usual activity. This operating context potentially impacts the Council's ability to deliver our business plan and strategy commitments. This reinforces the importance of a greater focus on a more limited number of priorities, which will underpin the approach to a revised Council Business Plan.

2.5 Three risks increased in the period from Moderate to High, for Strategic Delivery, Finance and Budget Management and Technology and Information.

2.6 Two risks reduced in the period (1) from High to Moderate for Supplier, Contractor, and Partnership Management; and (2) from Moderate to Low for Fraud and Serious Organised Crime.

2.7 There are no risks assessed as Critical. There are six High risks, six Moderate risks and one Low rated risk.

2.8 Eight risks currently exceed the Council's risk appetite which are Strategic Risk; Finance and Budget Management; Resilience; Technology and Information and Workforce; Health and Safety; Governance and Decision Making; and Legal and Regulatory Compliance.

2.9 The risk management framework is currently being reviewed taking account of further stakeholder feedback.

3. Background

Risk Reporting

3.1 The purpose of this report is to provide the Governance, Risk and Best Value Committee with an update on the most significant risks the City of Edinburgh Council has identified and assessed during Quarter 2 2022.

4. Main report

Quarter 2 2022 Current Risk Profile (as at 29 August 2022)

4.1 This report contains the most significant risks discussed at the CLT risk committee and the revised risk assessment for the Council's thirteen enterprise risks. This is based on the aggregated risk scores from divisions up, with any overlay of CLT level risks.

4.2 Details of enterprise risk descriptions and their potential impacts are included in Appendix 1, and a summary of the Council's current enterprise risk profile and its movement across the last five quarters is included at Appendix 2.

4.3 The current risk assessments are based on management's view of the internal and external environments in which we operate and known controls weaknesses in relation to the risks we manage.

4.4 There were five changes in the level of risk ratings in the period:

4.4.1 Three risks increased from Moderate to High, for Strategic Delivery, Finance and Budget Management and Technology and Information.

4.4.2 Two risks reduced (1) from High to Moderate for Supplier, Contractor, and Partnership Management; and (2) from Moderate to Low for Fraud and Serious Organised Crime.

4.5 The level of risk for eight enterprise risks currently exceeds the Council's agreed risk appetite:

4.5.1 Five High risks which include, Strategic Risk; Finance and Budget Management; Resilience; Technology and Information and Workforce.

4.5.2 Three Moderate risks which include, Health and Safety, Governance and Decision Making and Legal and Regulatory Compliance.

4.6 There are no enterprise risks assessed as Critical. There are six High rated risks, which include Service Delivery (where the rating remains the same in the period), as well as those listed in the previous paragraph, six Moderate risks and one Low rated risk.

4.7 For the most significant risks, information is provided below which details the rationale supporting the risk assessment changes and why risks exceed risk appetite.

Strategic Delivery

4.8 The current risk increased from Moderate to High in the period and it is now outwith the agreed risk appetite range.

4.9 Since the issue of the Business Plan, Our Future Council, Our Future City, and the various priorities strategies and plans, including, but not limited to, the Council's Emissions Reduction Plan, the Poverty Prevention Programme, City Plan 2030, Corporate Asset Strategy, City Mobility Plan and the 20 Minute Neighbourhood Plan, the Council has been facing a challenging financial outlook, with reducing budgets, economic impacts and rising costs, at the same time as reduced capacity, due to the loss of, or ability to retain, key staff.

4.10 The Council Business Plan and related strategies, service and implementation plans are being reviewed and prioritisation frameworks developed to ensure that available resources and funding are focused on the areas which will have the greatest positive impact on expected agreed priority outcomes. Timelines may need to be adjusted or decisions made to reduce scope and deliverables.

4.11 Programme management resources needs to be recruited in a current challenging employment market for the Council's 2030 Climate Strategy, the Council's Emission Reduction Plan and the Poverty Prevention Programme, and budget funding secured for permanent team structures.

4.12   Council asset management strategies and service plans are being aligned to the Council's priorities and updated to cater for innovation, future strategy changes and growth, with unfunded capital and revenue gaps being identified and submitted for budget considerations.

Financial and Budget Management

4.13   The current risk increased from Moderate to High in the period and it is now outwith the agreed risk appetite range.

4.14   The Council is facing public sector budget reductions, a challenging economic environment with rising inflation and costs, (particularly with utility, fuel, and construction costs), and revenue pressures from citizens and businesses with income and cost of living constraints. These are at a time when the demand for Council services is increasing, Council finances have not recovered from the impacts of Covid, and the Council is responding to the current and future support needs of Ukrainian refugees.

4.15   The Council is developing its medium-term revenue and capital financial plans to align with sustainable service plans, with a key focus on the identification of revenue savings and efficiencies which (if not identified and successfully delivered) could create future pressures.

4.16   Changes to the business plan, strategies, service, and implementation plans will be reviewed in line with the financial planning and budget process. It is acknowledged that there are plans and project funding gaps that need to be considered. In particular, the corporate plans for poverty, climate change and zero emissions currently do not have bespoke financial strategy and budgets to ensure delivery. The programme management teams will engage with key stakeholders to focus on their development and report to the relevant executive committees.

4.17   Due to the current economic climate, inflation and the significant increases in construction costs, many capital projects are seeing increased financial pressures. The annual capital budget needs to be reviewed and managed dynamically, with downstream impacts and strategy changes considered in the longer term (ten year) capital forecast.

4.18   In addition to the pressures above, the Health and Social Care Partnership is experiencing financial pressures. Savings proposals and their potential impacts on services and quality of services are being considered as part of the financial planning process and will be reported to the relevant executive committees.

Health and Safety (including Public Safety)

4.19   The current risk remains unchanged at Moderate which is outwith the agreed risk appetite range.

4.20 The number of positive COVID cases being reported has seen a sustained reduction during this period. COVID workplace controls continue at this time in line with Scottish Government Guidance and Health and Safety Executive Guidance. The guidance on appropriate workplace controls continues to be monitored.

4.21 Control weakness were identified in the management of fire safety which required a review of the regulatory fire risk assessment process. Quotes to appoint competent suppliers to undertake the initial risk assessments, along with proposed implementation plan and revised operating procedures, are being prepared for the appropriate executive committee.

Resilience

4.22 The current risk remained at High, which is outwith the agreed risk appetite range.

4.23 This assessment reflects the long term stress on operational capacity from dealing with one external crisis event after another or concurrently. This includes the start of the Covid pandemic in early 2020, to the response on the Ukraine crisis and now with the economic, inflation and cost of living pressures on the public sector and on businesses and citizens within the City of Edinburgh. The reallocation of resources and capacity to deal with these events impacts normal service delivery and may adversely imnpact the achievement of our strategic plans and priorities, given current workforce and funding challenges.

4.24 The Health and Social Care Partnership is preparing plans to manage significant winter pressures placed on its services, considering current resources and capacity and demand on services that may result from the cost of living impacts on citizens.

Supplier, Contractor, and Partnership Management

4.25 The current risk reduced in the period from High to Moderate and remains within the risk appetite range.

4.26 The Uranian war, the economic climate and inflation are causing supply chain challenges. Price increases are being closely monitored to identify significant budget pressures, with Commercial and Procurement Services monitoring supplier sustainability and adjusting procurement frameworks to manage risks.

Technology and Information

4.27 The current risk increased from Moderate to High in the period and is now outwith the agreed risk appetite range.

4.28 The Ukrainian war and home working has heightened the threat of cyber-attacks globally, along with cyber-attacks becoming more sophisticated with relevant online information being used. The results from a recent Council phishing exercise

identified the need to improve awareness of cyber risks through increasing the uptake of cyber security training.

4.29   Two key systems, iTrent (HR System) and SWIFT (holds personal records used by social work and other services), are both end-of-life systems which are showing signs of systematic issues. The suppliers are no longer supporting or developing the software as these have been replaced by a newer generation of products. Services are in the process of reviewing alternative systems available in the market and will be developing business cases for replacements.

4.30   The Council may be exposed to security threats from the use of Shadow IT (third party applications and systems, not supported by Digital Services) which are either cloud based or are on servers connected to the Council networks. A detailed cloud based / shadow IT framework has been designed, implemented, and communicated across the Council and is supported by Digital Services and Procurement reviewing requests and the onboarding process of new shadow IT. Enhanced non-compliance reporting to senior management will be developed and embedded to provide visibility of risk exposures.

Governance and Decision Making

4.31   This current risk remains Moderate and outwith the agreed risk appetite range.

4.32   This risk reflects the appointment of a new administration where it will take time to embed the new political management arrangements; support new elected members in familiarising themselves with Council strategies, policies, and plans, allowing time for any realignment of priorities. During this period, it may be possible that routine decisions, that cannot be delegated to Council officers, may be delayed.

4.33   This assessment also reflects the risks associated with the implementation of the refreshed risk management framework that supports strategy, planning and decision making, and the implementation of the new governance and assurance model, to support both service delivery and assurance outcomes.

Service delivery

4.34   This current risk remains High and within the agreed risk appetite ranges.

4.35   There are ongoing critical service delivery challenges within the Health and Social Care Partnership, reflecting ongoing pressure from the NHS to support timely hospital discharges; challenges with third party service providers who continue to transfer care packages back to the Partnership; and a general increase in demand for adult social care services. This combined demand for services significantly exceeds the Partnership's current delivery capacity given ongoing workforce supply challenges across the care sector. Although the risk remains stable, there is concern that any new resilience event or change in the economic situation could create additional pressures, resulting in critical services not being delivered. It

remains likely that a number of 'business as usual' service delivery operational controls are not being consistently and effectively applied.

4.36 There are several activities in place to manage these pressures. including recruitment of additional staff to fill vacancies and a review of operating procedures to improve flow, such as the Discharge to Access and Home First initiatives, and to make best use of capacity, such as One Edinburgh.

4.37 The response to the Ukrainian refugee crisis is ongoing and continues to place particular pressures on a number of council services including housing, homelessness, schools, trauma and mental health, social work and GP services. Current pressures include limited school accommodation space, current and future, and impact on workforce resources. Teams are engaged in forward planning in collaboration with corporate support teams, based on information received from the Scottish Government which considers future scenarios of refugee numbers and their impact on services, resources and capacity.

4.38 A number of service reviews and improvement plans are being undertaken and implemented to address quality and performance, and to produce required savings. These places pressures on existing teams to continue to deliver services during a period of change, whilst transitioning to new ways of working. Improvement plans include, but are not limited to, the Housing Services Review and Improvement Plan, Mixed Tenure Improvement Plan and the Homelessness Transforamtion Project.

Workforce

4.39 This current risk remains High and outwith the agreed risk appetite range.

4.40 Workforce challenges, although stable, remain a significant pressure for the Council, most notably in the Health and Social Care Partnership. There are recruitment pressures across all divisions impacting the Council's ability to attract and retain talent, attributable to the current employment market conditions, competitive market pay packages, post pandemic increase in the workforce considering changing careers or moving on, the impact of recent negative media coverage and cost of living increases.

4.41 In addition, to the long-term operational resilience pressures on colleagues, the impact of efficiency and savings requirements within the medium-term financial planning may create a level of uncertainty with colleagues which can de-stabilise the workforce, resulting in further layers of workforce pressures.

4.42 Services across the Council are implementing several measures to try to address these risks, including expanding and maximising recruitment channels and promotion of roles, embedding the new recruitment approval process, workforce planning and identification of skill shortages with contingency plans, backfill with

agency staff, senior management townhall sessions, and the development and implementation of succession planning.

4.43   The significant increase in inflation and cost of living pressures on the workforce, resulted in pay award challenges by trade unions and strike action by Waste and Cleansing staff, with potential strike action from other teams. With the uncertain economic outlook, there remains the potential risk of further strike action, when the Council will continue to work with the trade unions and COSLA.

Regulatory and Legislative Compliance

4.44   This current risk remains Moderate and outwith the agreed risk appetite range.

4.45   The Health and Social Care Partnership continues to be concerned with its capacity to meet statutory obligations given the workforce and service delivery challenges highlighted above, with waiting lists and demand for services, which continues to be closely managed.

4.46   The Council has taken on additional temporary accommodation to meet demand in response to the Ukraine crisis, with one accommodation service being classed as unsuitable (bed and breakfast type accommodation) under the Unsuitable Accommodation Order. There may be a requirement to take on more of this type of unsuitable classed accommodation to meet future demand. The Council continues to seek to transform the mix of suitable accommodation as part of its rapid rehousing transition plan to increase the stock of accommodation classed as suitable under the Unsuitable Accommodation Order.

Risk Management Framework

4.47   During this risk reporting period, a new risk reporting process was implemented across all four directorates to improve the flow of key risks from services to divisions, then to directorates and CLT. The process involved each service identifying their top risks and then divisional management agreeing the top risks for inclusion in the divisional risk reports presentation at the directorate risk committees. At the directorate risk committees each divisional report was reviewed, and agreement reached on the top risk to be included in the directorate risk reports presented at the CLT risk committee.

4.48   In addition to the new risk reporting process, initial work has begun on the collation of Key Risk Indicators to support the enterprise risk assessments and to provide early warnings signs of potential risk exposures. These indicators are already monitored by teams and will continue to be developed over the next few reporting periods. Examples of risk indicators include, for the finance and budget management risk; the percentage of sustainable savings achieved against plan and level of 10 Year capital investment programme not funded, and for service delivery;

suitable temporary accommodation and number of waiting lists for social care assessments.

4.49 Following the roll out of the above risk reporting process and further feedback on the risk management framework from stakeholders, the framework will be reviewed to consider the means and methods which best support risk recording and inform future decision making. Any changes arising from this review will be presented to the Corporate Leadership Team.

5.   Next Steps

5.1 Once developed, progress implementation of the revised framework across the Council.

6.   Financial impact

6.1 There are no direct financial impacts directly arising from this report, although effective management of risks is part of good financial management and failure to manage them appropriately may have financial consequences.

7.   Stakeholder/Community Impact

7.1 Effective risk management will support achievement of strategic and project objectives; effective service delivery; and appropriate responses to resilience events.

8.   Background reading/external references

8.1 Enterprise Risk Management Policy – Policy and Sustainability Committee November 2021 – item 7.17

8.2 Risk Appetite Statement - Policy and Sustainability Committee November 2021 – item 7.18

9.   Appendices

9.1 Appendix 1   Enterprise Risk Descriptions and Impact Statements

9.2 Appendix 2   Current Enterprise Risk Summary and Trends

Appendix 1: Enterprise Risk Descriptions and Impact Statements

Ref	Risk	Risk Description	Impact Statement
R1	Strategic Delivery	Inability to design and / or implement a strategic plan for the Council.	Lack of clarity regarding future direction and structure of the Council impacting quality and alignment of strategic decisions
R2	Financial and Budget Management	Inability to perform financial planning; deliver an annual balanced budget; manage cash flows; and confirm ongoing adequacy of reserves	Council is unable to continue to deliver services and implement change in line with strategic objectives; inability to meet EIJB financial directions; adverse external audit opinion; adverse reputational consequences
R3	Programme and Project Delivery	Inability to deliver major projects and programmes effectively, on time and within budget	Inability to deliver Council strategy; achieve service delivery improvements; and deliver savings targets
R4	Health and Safety (including public safety)	Employees and / or citizens (including those in the Council's care) suffer unnecessary injury and / or harm	Legal; financial; and reputational consequences
R5	Resilience	Inability to respond to a sudden high impact event or major incident	Disruption across the City; to service delivery; and serious injury or harm to employees and / or citizens.
R6	Supplier, Contractor, and Partnership Management	Inability to effectively manage the Council's most significant supplier and partnership relationships	Inability to deliver services and major projects within budget and achieve best value
R7	Technology and Information	Potential failure of cyber defences; network security; application security; and physical security and operational arrangements	Inability to use systems to deliver services; loss of data and information; regulatory and legislative breaches; and reputational consequences
R8	Governance and Decision Making	Inability of management and elected members to effectively manage and scrutinise performance, and take appropriate strategic and operational decisions	Poor performance is not identified, and decisions are not aligned with strategic direction
R9	Service Delivery	Inability to deliver quality services that meet citizen needs effectively and in line with statutory requirements	Censure from national government and regulatory bodies; and adverse reputational impacts
R10	Workforce	Insufficient resources to support delivery of quality services that meet citizen needs effectively and in line with statutory requirements	Ongoing employee health and wellbeing; increased trade union concerns; censure from national government and regulatory bodies; and adverse reputational impacts
R11	Regulatory and Legislative Compliance	Delivery of Council services and decisions are not aligned with applicable legal and regulatory requirements	Regulatory censure and penalties; legal claims; financial consequences
R12	Reputational Risk	Adverse publicity as a result of decisions taken and / or inappropriate provision of sensitive strategic, commercial and / or operational information to external parties	Significant adverse impact to the Council's reputation in the public domain
R13	Fraud and Serious Organised Crime	Isolated or systemic instances of internal and / or external fraud and / or serious organised crime	Financial consequences; loss of systems; loss of data; inability to deliver services; regulatory censure and penalties; and adverse reputational impacts

Appendix 2: Current Enterprise Risk Summary and Trends

	Critical
	Critical (black)
	High (red)
	Moderate (orange)
	Low (green)

CEC Risk Profile	CLT overall risk trending					Current CLT risk ratings	
	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Maximum risk appetite
01 Strategic Delivery	High	High	Moderate	Moderate	Moderate	High	Moderate
02 Financial and Budget Management	Moderate	Moderate	Moderate	Moderate	Moderate	High	Moderate
03 Programme and Project Delivery	High	High	High	Moderate	Moderate	Moderate	High
04 Health & Safety	Critical	High	High	High	Moderate	Moderate	Low
05 Resilience	Moderate	High	High	High	High	High	Moderate
06 Supplier, Contractor, and Partnerships Management	High	High	High	High	Moderate	Moderate	High
07 Technology and Information	High	High	Moderate	Moderate	Moderate	High	Moderate
08 Governance and Decision Making	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low
09 Service Delivery	High	High	High	High	High	High	High
10 Workforce	n/a	n/a	High	Critical	High	High	Moderate
11 Regulatory and Legislative Compliance	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low
12 Reputational Risk	Moderate	High	High	Moderate	Moderate	Moderate	Moderate
13 Fraud and Serious Organised Crime	n/a	n/a	Moderate	Moderate	Moderate	Low	Moderate

Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

Revenue Monitoring 2021/22 – outturn report – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Revenue Monitoring 2021/22 – outturn report to the Governance, Risk and Best Value Committee as part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

Revenue Monitoring 2021/22 – outturn report – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 8 September 2022, the Finance and Resources Committee considered the Revenue Monitoring 2021/22 – outturn report. The report set out the provisional 2021/22 revenue outturn position for the Council based on the unaudited annual accounts.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note that the provisional outturn position for 2021/22 showed an overall underspend of £3.878m and that this sum had been set aside in reserves, with £2.628m previously approved as a contribution towards balancing 2022/23 budget and the remaining available sum now earmarked to support the Council's response to the cost of living crisis.

2.2.2 To note the contributions to and from the General Fund in 2021/22 as detailed in the report.

2.2.3 To note that the Housing Revenue Account was balanced after making a contribution of £8.653m towards in-year and future capital investment.

2.2.4 To note the intention to submit the audited annual accounts and annual auditor's report initially to the Governance, Risk and Best Value Committee and thereafter to the Finance and Resources Committee in October 2022, for approval.

2.2.5 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

3. Background Reading

3.1 [Finance and Resources Committee – 8 September 2022 - Webcast](#)

3.2 Minute of the Finance and Resources Committee – 8 September 2022

4. Appendices

4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Revenue Monitoring 2021/22 – outturn report

Executive/routine	Executive
Wards	
Council Commitments	

1.   Recommendations

1.1   Members of the Finance and Resources Committee are asked to:

1.1.1   note that the provisional outturn position for 2021/22 shows an overall underspend of £3.878m and that this sum has been set aside in reserves, with £2.628m previously approved as a contribution towards balancing 2022/23's budget and the remaining available sum now earmarked to support the Council's response to the cost of living crisis;

1.1.2   note the contributions to and from the General Fund in 2021/22 as detailed in the report;

1.1.3   note that the Housing Revenue Account was balanced after making a contribution of £8.653m towards in-year and future capital investment;

1.1.4   note the intention to submit the audited annual accounts and annual auditor's report initially to the Governance, Risk and Best Value Committee and thereafter to the Finance and Resources Committee in October 2022, for approval; and

1.1.5   refer this report to the Governance, Risk and Best Value Committee as part of its workplan.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Report

Revenue Monitoring 2021/22 – outturn report

2.   Executive Summary

2.1   The report sets out the provisional 2021/22 revenue outturn position for the Council based on the unaudited annual accounts. This position indicates an overall in-year underspend of £3.878m, with £2.628m of this sum previously approved in setting a balanced budget for 2022/23 and the remaining available sum now earmarked to provide targeted one-off cost of living crisis support to affected households within the city.

3.   Background

3.1   The Council's statement of accounts for 2021/22 was passed to the external auditor by the statutory deadline of 30 June. This report sets out the provisional outturn position for the revenue budget as detailed therein.

3.2   The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 amend the date by which local authorities must approve the audited 2021/22 annual accounts from 30 September to 30 November 2022. It is anticipated at this stage that the audited accounts will be considered initially by the Governance, Risk and Best Value Committee (and subsequently presented to the Finance and Resources Committee for approval) in October 2022.

3.3   The unaudited annual accounts required to be published on the Council's website by no later than 30 June 2022 and thereafter made available for public inspection for a period of 15 working days. These requirements were met, with the inspection period running from Friday 1 July to Thursday 21 July 2022 inclusive. As permitted by relevant regulations, this year's inspection process was again undertaken largely by electronic means.

3.4   Correspondence was received from one individual during this period, resulting in the lodging of one objection, the outcome of which will be reported at the conclusion of the audit process.

4.   Main report

Overall position

4.1   The unaudited outturn position for 2021/22 shows an overall underspend of £3.878m, equating to 0.34% of the Council's total net expenditure. Table 1 below summarises the outturn, with further details provided in Appendix 1. Members should note, however, that £0.037m of this total relates to unrealised IFRS 9-related gains and is thus not available to fund additional investment in services.

Table 1 – Summarised Unaudited Outturn Statement, 2021/22

	Revised Budget	Outturn	Outturn variance (favourable)/ unfavourable
	£000	**£000**	**£000**
Directorate-specific budgets	1,035,425	1,030,377	(5,048)
Non-directorate specific budgets	128,228	115,294	(12,934)
Transfers to / (from) reserves	(10,245)	6,130	16,375
Sources of funding	(1,153,408)	(1,155,679)	(2,271)
In-year (surplus) / deficit		**(3,878)**	**(3,878)**

4.2   As approved by Council on 24 February 2022, £2.628m of the available sum of £3.841m was assumed as a one-off funding contribution in setting the 2022/23 revenue budget. Subject to confirmation of the outturn as part of the audit process, members then agreed on 25 August to allocate the remaining unallocated sum to support targeted one-off payments as part of the Council's wider response to the cost of living crisis.

4.3   The revenue monitoring update considered by the Finance and Resources Committee on 3 February 2022 pointed to a projected overall underspend of £2.628m and, as such, the outturn represents a further improvement of £1.250m from the position forecast as of that time.

4.4   In addition, the provisional outturn position reflects an underspend of £13.5m against the £39m set aside in 2021/22 to address the in-year income and expenditure impacts of the pandemic.   This lower requirement was offset by a corresponding reduction in sums drawn down from reserves for this purpose, however and, as such, does not affect the net outturn noted in the table above.

Directorate variances

4.5   As noted in Table 1, the Council's main Directorates showed an overall underspend of £5.048m (0.49%) during the year. Commentaries on the main factors comprising these variances are included in Appendix 2. Additional detail will be reported as appropriate to relevant Executive Committees.

4.6   Members should note that these variances relate to core activities and approved member investment, with full provision incorporated within revised Directorate budgets for COVID-related impacts.

Impact of COVID-19

4.7   While the financial effects of the pandemic lessened somewhat relative to the previous year, these impacts continued to be significant in 2021/22. The net cost to the Council during the year, including exposure through its Arm's-Length External Organisations (ALEOs), was some £25.5m, the composition of which is shown in Appendix 3.

4.8   The largest single contributors were a reduction in parking income, net of enforcement costs, of £6.8m, the loss of the Lothian Buses dividend of £6m, additional homelessness expenditure of £5.2m and further support for Edinburgh Leisure of £5m. Given the approved budget framework provision of £39m, the reduced required level of in-year drawdown (due, in the main, to reduced parking and commercial rental income losses and savings in rates and utilities costs) provides an additional contingency against the on-going expenditure and income impacts of the pandemic.

Edinburgh Integration Joint Board (EIJB)

4.9   The EIJB is reporting a provisional overall surplus of £3.2m on delegated services for the year. This sum is stated after the application of £42.3m to meet the additional in-year costs of COVID-19, with the main categories of associated expenditure being sustainability payments made to support providers during the pandemic; purchase of additional capacity; additional staffing; reimbursement of independent contractors; increased prescribing costs; and slippage in the delivery of the savings and recovery programme. As in 2021/22, these related costs were met in full by the Scottish Government via the mobilisation planning process.

Other non-service areas

4.10 Given the extent of projected pressures within, in particular, Homelessness Services, projected savings in non-service budgets had been identified during the year as part of ensuring overall financial balance while, where possible, also identifying potential sums to contribute towards addressing the 2022/23 revenue budget gap. The main elements of these favourable variances were as follows:

(i) **Loans charge expenditure (£8.665m underspend)**

The saving in this area resulted primarily from the enforced deferral of significant levels of planned capital expenditure in both 2020/21 and 2021/22, continuing low interest rates and proactive treasury management activity in addressing the Council's overall funding requirements.

(ii) **Other non-service specific costs (£4.093m underspend)**

The in-year underspend comprised a combination of a number of inflationary provisions not required in full, a reduction in total required bad debt provision in light of analysis of actual payment levels and savings relative to budget in staff release costs.

(iii) **Council Tax (£2.271m of additional income)**

Changes in the size and profile of the Council Tax base, in-year collection rates and the level of consequent required bad debt provision resulted in additional income relative to budgeted assumptions.

4.11 Taken alongside savings in Directorates, these sums allowed the net drawdown from reserves in respect of COVID-related pressures and member-approved investment to be reduced by a further £16.3m beyond the £13.5m noted in Paragraph 4.4.

Approved savings delivery

4.12   In total, the approved budget assumed the delivery of some £31.1m of directorate-specific and corporate savings, as well as the in-year management of risks and pressures. As shown in Exhibit 1 below, the final outturn position for 2021/22 indicates that 89% of approved savings by value were delivered. This continues the improving trend apparent in recent years, although it should be recognised that the majority of approved savings for 2021/22 were in corporate areas where delivery has historically been significantly stronger than within, or across, services.

Exhibit 1 – Delivery of approved budget savings, 2021/22

	Education and Children's Services	Place	Resources	Corporate savings	Council-wide savings	All services
Delivered (£m)	2.929	4.346	1.487	18.158	0.809	27.729
Not delivered (£m)	1.313	0.000	0.050	0.000	1.995	3.358
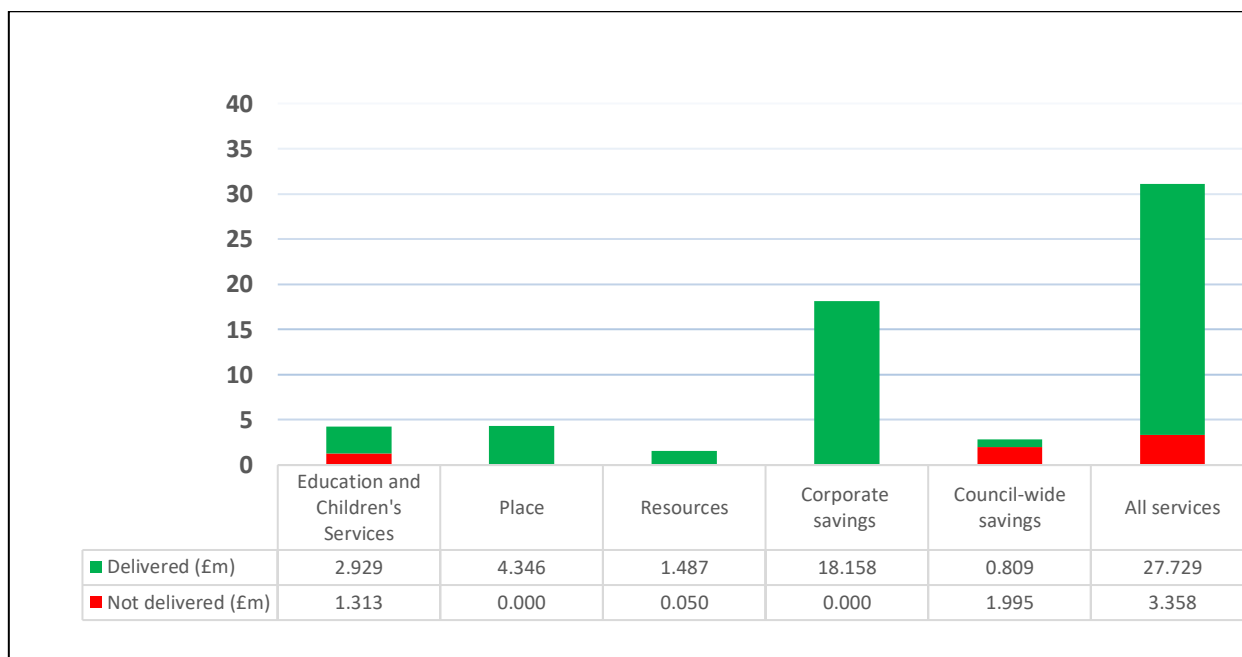
4.13   The principal areas of non-delivery were:

(i)   a £1.995m shortfall against the assumed level of savings generated from the programme of **senior leadership restructuring and efficiency-driven staff release**; and

(ii)   £1.3m of **service-specific savings within Education and Children's Services**, an element of which was linked to delayed implementation of planned staffing reviews as a result of the pandemic.

4.14   In setting the 2022/23 revenue budget, full provision was made on a recurring basis for the impact on the budget framework of the reduced level of savings delivered through staff release noted above.

Member-approved investment

4.15   In setting the Council's budget for 2021/22 on 18 February 2021, members approved £14.2m of additional service investment. Following the receipt of significant additional revenue funding late in 2020/21 and after taking account of estimated COVID-related financial impacts over the next two financial years,

members then allocated a further £21m of investment to address budget pressures, anticipated shortfalls in savings delivery and other member priorities in 2021/22.

4.16 Progress in the application of this funding and the associated outcomes achieved is included as Appendix 4.

Spend to Save Fund

4.17 As part of the 2018/19 and 2019/20 revenue outturn reports, members of the Committee considered a short summary of progress in taking forward projects supported through the Spend to Save Fund. As was the case in 2020/21, however, due to continuing necessary prioritisation of other activity, no new projects were approved during the year. Contributions of £0.297m received in respect of previously-supported projects increased the year-end fund balance to £3.267m.

Housing Revenue Account (HRA)

4.18 The approved HRA budget for 2021/22 was derived from the longer-term strategy approved by Council in February 2020. The budget assumed revenue income of £102.699m and costs of £92.758m, enabling a planned contribution of £9.941m to the Strategic Housing Investment Fund (SHIF) in accordance with the finance strategy for the capital investment programme.

4.19 The unaudited outturn shows a slightly-reduced contribution of £8.653m to the SHIF. The £1.288m variance can be attributed in the main to a slight reduction in income and increased repairs and maintenance costs arising from growth in non-urgent repairs undertaken following the relaxation of public health measures.

Reserves

4.20 As of 31 March 2022, the General Fund reserves had increased to £257.205m, a movement of £36.172m from the preceding year. This sum reflects the net in-year application of COVID-related funds of £14.518m, offset by increases in sums set aside for specific investments of £31.680m and various, primarily statutory, other funds (including the Council Tax Discount Fund, Devolved School Management Fund and the Council's General Fund) of £19.010m.

4.21 The unallocated General Fund stood at £28.981m as of 31 March 2022, an increase of £3.956m relative to the balance the previous year. This increase primarily reflects the planned in-year transfer of £2.743m to the Fund and the unallocated element of the 2021/22 underspend (although the latter sum has subsequently been earmarked to support the Council's response to the cost of living crisis).

4.22 The remaining balance of £228.224m is earmarked for specific purposes, these being:

(i) **Balances set aside to manage financial risks and for specific investment which are likely to arise in the medium-term future**, including maintenance of an insurance fund, dilapidations and workforce transformation. The Council holds £170.980m against these future risks,

including £71.178m of COVID-related funding to be applied against expenditure and income losses in future years, recognising the on-going financial impacts of the pandemic;

(ii) **Balances set aside from income received in advance**, including the Council Tax Discount Fund (used to support the supply of new housing) and City Strategic Investment Fund. The Council holds £45.791m of such income, including £15.159m of service-specific COVID-related funding carried forward to be offset against relevant expenditure in 2022/23;

(iii) **Balances set aside to support investment in specific projects**, such as Spend to Save, which will deliver savings in future years. The Council holds £4.207m for such projects; and

(iv) **Balances held under the Devolved School Management Scheme and unallocated Pupil Equity Funding**. The Council holds £7.246m of these funds.

4.23 Further details of these earmarked balances are shown in Appendix 5.

Common Good

4.24 The unaudited Common Good Fund position for 2021/22 indicates an overall deficit of £0.012m. A more detailed commentary on the outturn and related current financial and other issues will be included within the Common Good Annual Performance Report, anticipated to be considered by the Committee in November.

5. Next Steps

5.1 The Unaudited Accounts are currently the subject of consideration by the Council's external auditor. The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 amend the date by which local authorities must approve the audited 2021/22 annual accounts from 30 September to 30 November 2022. It is anticipated at this stage that the audited accounts will be considered initially by the Governance, Risk and Best Value Committee and subsequently presented to the Finance and Resources Committee for approval in October 2022.

6. Financial impact

6.1 The report identifies a provisional surplus for the year of £3.878m. Members should note, however, that £0.037m of this total relates to unrealised IFRS 9-related gains and is thus not available to fund additional investment in services.

6.2 This net surplus has been set aside in reserves. As approved by Council on 24 February 2022, £2.628m of this remaining sum was applied in setting the Council's budget for 2022/23. The remaining balance, subject to the outcome of the audit process, was earmarked by Council on 25 August 2022 to support the Council's response to the cost of living crisis.

7. Stakeholder/Community Impact

7.1 There is no direct relevance of the report's contents, although the Council's wider approach to community engagement and empowerment will be specifically considered as part of both the wider scope aspects of this year's external audit process and progress in implementing the recommendations contained within the Council's Best Value Assurance Report (BVAR).

8. Background reading/external references

8.1 [Cost of Living Support – response to a motion from Councillor Biagi](), The City of Edinburgh Council, 25 August 2022

8.2 [Unaudited Annual Accounts 2021/22](), The City of Edinburgh Council, 30 June 2022

8.3 [Revenue Budget Framework 2022/27 – progress update](), Finance and Resources Committee, 3 February 2022

8.4 [Revenue Budget Monitoring 2021/22 – month six position](), Finance and Resources Committee, 9 December 2021

8.5 [Revenue Monitoring 2021/22 – Month Three Position](), Finance and Resources Committee, 12 August 2021

8.6 [Revenue Budget Framework 2021/26 Update – referral from the Finance and Resources Committee](), The City of Edinburgh Council, 27 May 2021

8.7 [Coalition Budget Motion](), The City of Edinburgh Council, 18 February 2021

9. Appendices

9.1 Appendix 1 - Unaudited Revenue Budget outturn statement, 2021/22
9.2 Appendix 2 - Service outturn commentaries, 2021/22
9.3 Appendix 3 - COVID-related expenditure and income impacts, 2021/22
9.4 Appendix 4 – Member-approved service and other investments, 2021/22
9.5 Appendix 5 – Reserve balances, 2021/22

Unaudited Revenue Budget outturn statement, 2021/22

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
Directorates (Note 1)	**£000**	**£000**	**£000**
Corporate Services (including Chief Executive's Office)	89,459	87,136	(2,323)
Education and Children's Services	451,090	444,004	(7,086)
Health and Social Care	252,677	252,661	(16)
Place	191,714	190,153	(1,561)
Homelessness Services	46,652	52,590	5,938
Lothian Valuation Joint Board	3,833	3,833	-
Directorate totals	**1,035,425**	**1,030,377**	**(5,048)**
Non-directorate specific areas			
Loan Charges	85,438	76,773	(8,665)
Other non-service specific costs	16,757	12,664	(4,093)
Council Tax Reduction Scheme (Note 2)	26,605	26,124	(481)
Net Cost of Benefits	(127)	(349)	(222)
Interest and investment income	(445)	82	527
Non-directorate specific areas total	**128,228**	**115,294**	**(12,934)**
Movements in reserves			
Net contribution to / (from) earmarked funds	(10,219)	6,156	16,375
Contribution to / (from) Capital Fund	(26)	(26)	-
Movements to/ (from) reserves total	**(10,245)**	**6,130**	**16,375**
Sources of funding			
General Revenue Grant	(653,272)	(653,272)	-
Non-Domestic Rates	(188,796)	(188,796)	-
Council Tax	(311,340)	(313,611)	(2,271)
Sources of funding total	**(1,153,408)**	**(1,155,679)**	**(2,271)**
In-year (surplus) / deficit	**-**	**(3,878)**	**(3,878)**

Note 1 – Directorate budgets have been adjusted to reflect the net impact of the pandemic on their expenditure and income, meaning that the outturn variance shown relates to "core" activities but includes variances against member-approved investment. All figures shown are subject to rounding differences.

Note 2 – uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £0.481m were transferred to an earmarked reserve and are included in the balance shown within the "Movements in reserves" section.

Directorate/service outturn commentaries

Education and Children's Services (£7.086m underspend, representing 1.7% of net service budget)

The overall service outturn for the year was materially affected by a number of one-off, primarily timing-related factors including (i) prior-year accounting adjustments, (ii) underspends against COVID-related and other service investment and (iii) receipt of one-off funding.

A significant further element of the underspend comprised various staffing underspends linked to initial delays in planned recruitment activity and filling of vacancies. This recruitment has now been undertaken and, as such, the underspends are similarly not anticipated to recur.

Place (£1.561m underspend, representing 0.93% of net budget)

The overall service underspend comprised two key elements: £0.628m in respect of core activity (once adjusted for COVID-19 impacts) and a £0.933m underspend against member-approved investment.

The small favourable variance in core activity was attributable, in the main, to one-off, timing-related employee cost savings not expected to recur in 2022/23.

A significant element of the latter sum reflected an underspend in respect of the Edinburgh Bike Scheme following the scheme's closure in September 2021.

Corporate Services (£2.323m underspend, representing 1.4% of net budget)

As with the Place Directorate, the overall variance comprised a combination of a £1.5m favourable variance in respect of core activity and an £0.8m underspend against member-approved investment.

Of the savings in core budgetary provision, around £1.1m was attributable to timing-related underspends in employee costs linked to delays in recruitment. The remainder mainly represented the net impact of additional service and central support income.

Of approved member investment, the majority of the underspend related to delays in planned work in respect of embedding prevention and community engagement but with full spend of the approved sums for 2022/23 anticipated.

Homelessness Services (£5.938m overspend, representing 12.7% of net budget)

In-year monitoring reports highlighted continuing demand within homelessness services. The total number of households accommodated during the year increased from 4,431 to 4,722, resulting in a gross pressure of £2.9m once higher-than-forecast unit costs were also reflected.

As part of the year-end closure process, a reassessment of the level of outstanding Housing Benefit income as of 31 March 2021 was undertaken, resulting in an adverse movement of £3m relative to the previously assumed level.

COVID-related expenditure and income impacts, 2021/22

	£m
Reductions in parking income, net of enforcement costs	6.8
Loss of Lothian buses dividend	6.0
Additional homelessness-related expenditure relative to approved budget	5.2
Additional support for Edinburgh Leisure	5.0
Waste services - increase in residual waste volumes, additional vehicles/fuel	1.3
Commercial rentals - net loss of income	1.2
Cultural venues - net loss of income	0.8
Outdoor Centres - net loss of income	0.8
Housing Property Services - net loss of income	0.6
Parks and greenspace - additional vehicles and income loss	0.5
Licensing and registration - net loss of income	0.5
Loss of bus station income	0.4
Community Access to Schools - net loss of income	0.4
Other net expenditure (various)	1.8
Offsetting underspends relative to core budgetary provision:	
Non-Domestic Rates	(2.0)
Energy	(0.6)
Reduction in bad debt provision - commercial rentals	(3.2)
Total net impacts	**25.5**

Member-approved service and other investments, 2021/22

Appendix 4

Investment	Approved spend £m	Investment/ Pressure	Current Directorate	Actual spend £m	Comments on outturn and associated outcomes achieved
Roads, Carriageways and Pavements - additional investment	6.000	Investment	Place	6.000	Funds were split between large patching areas on carriageways and footways and capitalised into roads infrastructure budgets for prioritised schemes.
Council Tax freeze - net loss of income	5.200	Investment	Corporate	5.200	The funding was used to reduce the planned level of Council Tax increase from 4.79% to 3%.
Contribution to reserves	2.743	Investment	Corporate	2.743	The funding was transferred to the unallocated reserve in line with the decision of Council and then applied as part of setting a balanced budget for 2022/23.
Edinburgh Integration Joint Board	2.500	Investment	Corporate	2.500	The funding formed part of the Council's overall "offer" to the EIJB for 2021/22.
1-to-1 Digital Learning	2.000	Investment	Education and Children's Services	2.000	The funding has been used to support the roll-out of the One to One Digital investment across the school estate.
Homelessness	2.000	Offsetting Pressure	Education and Children's Services	2.000	The funding was applied in full against demand-led pressures within the service.
Looked after children	1.500	Offsetting Pressure	Education and Children's Services	1.500	The funding was applied in full against demand-led pressures within the service.
Communal Bins	1.100	Investment	Place	0.369	Phased roll-out of communal bin review is on-going.
Maximising income and meeting crisis needs	1.050	Investment	Corporate Services	1.050	Funds were fully utilised for a range of income maximisation and advice-related projects.
Accelerating decarbonisation of the Council's estate	1.000	Investment	Place	0.703	An EnerPHit Business Case has been produced and a report recommending commencement of tranche 1 of the project was considered by the Policy and Sustainability Committee on 30 August 2022.
Edinburgh Bike Scheme	0.800	Investment	Place	0.113	Funding was provided to community initiatives such as Brake the Cycle and University-based projects.
Early commitments to support a city-wide 2030 Net Zero Strategy	0.700	Investment	Corporate Services	0.509	Investment used to (i) strengthen co-production approach and citizen capacity building to deliver net-zero agenda, (ii) model net-zero community action with open source data and open source technical solutions for wider adoption and (iii) provide a scalable financial model to support the financial route map to net-zero.
Embedding prevention and community engagement	0.600	Investment	Corporate Services	0.050	Slippage in implementation - work is being progressed with the Housing, Family Support and Fair Work Service to progress investment in 2022/23.
Home to school transport	0.600	Offsetting Pressure	Education and Children's Services	0.600	The funding was applied in full against demand-led pressures within the service.
Place - fees and charges reduced income	0.559	Offsetting Pressure	Place	0.559	The funding was applied in full against pressures within the service.
Tram Concessions – free under-19 travel	0.500	Investment	Place	0.000	Following the decision of Council not to extend the Under 22 free travel concession to trams without the provision of additional external funding, no expenditure was incurred in-year.
Smart Cities	0.500	Investment	Place	0.005	Sums were carried forward into the Smart Cities programme as per the funding strategy which utilises ERDF and Council funding.
20 minute neighbourhood strategy – enabling works	0.500	Investment	Place	0.060	Funding utilised for additional staffing costs to support delivery and one-off feasibility/design work.

Investment	Approved spend £m	Investment/ Pressure	Current Directorate	Actual spend £m	Comments on outturn and associated outcomes achieved
Parks & Greenspace one-off	0.500	Investment	Place	0.500	Funds were used to deliver on investment priorities as set out in the Parks and Greenspaces Investment Priorities report as presented to Culture and Communities Committee 15 June 2021 on a capital funded from current revenue basis.
Public Conveniences	0.450	Offsetting Pressure	Place	0.450	Preparatory work was carried out to allow public toilets, forced to close due to Covid-19 restrictions, to be reopened. Temporary toilets were placed in hotspots and areas with high footfall such as The Meadows and Leith Links.
Independent Inquiry/Review	0.400	Investment	Corporate	0.400	Sums were utilised in full to meet relevant costs.
Homelessness support and advice	0.400	Investment	Education and Children's Services	0.275	Investment was made in temporary accommodation to meet the increased demand for this service and the Homelessness Transformational Prevention Programme. This funded additional posts in preventative work and to support people to move out of temporary accommodation and into settled accommodation more quickly.
Increased foot and cycleway gritting and cleaning	0.300	Investment	Place	0.300	Funds were used to allow leasing of additional compact street sweepers (with the ability to operate as mini-gritters through the winter) and the recruitment of staff to operate. This allowed for increased coverage of the cycleway and footway network, more efficient and effective operations and improved street cleanliness.
Sustainability	0.300	Investment	Corporate Services	0.086	Slippage in implementation - funding carried forward to progress investment in 2022/23.
Edinburgh's Summer Festivals	0.300	Investment	Place	0.300	Funding supported a range of small, medium and large-scale events during Edinburgh's 2021 summer festivals. This was focused on Edinburgh-based fringe producers and venues.
Carers' Recovery Fund	0.250	Investment	Health and Social Care	0.250	The Carers' Recovery Fund has been fully allocated and spent, as per agreement signed between CEC and VOCAL. Applications were open to all carers and VOCAL took measures to reach carers in greatest need of a break or of financial support. This definition includes those carers at risk of isolation, exclusion or disadvantage, whose caring role and lack of support impact on their physical, emotional and mental health and wellbeing, their ability to balance the caring role with a life of their own and financial wellbeing and ability to afford basic necessities. The Fund was spent primarily in the form of micro-grants to carers which often included a combination of food vouchers, utility payments and costs for specific items, or to enable provision of supports offered by other third sector organisations. We are pleased to report a total of 650 carer beneficiaries, exceeding the agreed target of 450 beneficiaries.
Electric Vehicle Infrastructure	0.250	Investment	Place	0.250	EV charging infrastructure installed to support electric vans assisting in the transitioning of the fleet to electric.
Short Term Lets regulation set-up costs	0.250	Investment	Place	0.000	Not spent – met from existing resources.
Investment in Parks, Greenspace and Cemetery Infrastructure	0.250	Investment	Place	0.250	£4m prioritised programme of capital works (the recurring loans charge cost of which is £0.250m) approved by Culture and Communities Committee on 15 June 2021.

Investment	Approved spend £m	Investment/ Pressure	Current Directorate	Actual spend £m	Comments on outturn and associated outcomes achieved
Energy and Waste actions and Net Zero Strategy	0.200	Investment	Place	0.100	Recycling resources have been procured and rolled out for use in schools. A clear and consistent communications plan has also been developed.
Development and Business Services Operating Model - reduced income	0.187	Savings Shortfall	Place	0.187	The funding was applied in full against the relevant service pressure.
Edinburgh Guarantee for All	0.175	Investment	Place	0.008	Other Scottish Government funding was secured, reducing call on approved monies.
Discretionary fees and charges	0.170	Investment	Corporate	0.170	Freezing of school meal, garden aid, library and home care charges approved as part of 2021/22 budget motion.
Nursery deferrals	0.169	Investment	Education and Children's Services	0.169	The funding has been used to offset the financial cost of providing deferred places to children who would have otherwise progressed to Primary School.
Taxi and Licence Enforcement	0.160	Investment	Place	0.000	Not spent – met from existing resources.
Food Growing	0.130	Investment	Corporate Services	0.098	A detailed commentary on the use of these funds was considered by the Policy and Sustainability Committee on 30 August 2022.
Positive Destination and Holiday Programme Officers	0.124	Investment	Education and Children's Services	0.031	While there was a COVID-related delay in recruitment, relevant officers were in post by January 2022.
Corporate Parenting	0.110	Investment	Education and Children's Services	0.110	Whilst there was a COVID-related delay in recruitment, relevant officers were in place by the end of the year and the service is operating at capacity.
Diversity Training	0.100	Investment	Corporate Services	0.100	Funds were utilised for provision of one-off support to accelerate activities of the Council's Diversity and Inclusion Strategy and the Equalities and Human Rights Framework.
All Ability Bikes	0.071	Investment	Place	0.071	A grant award was made to the Thistle Foundation in August 2021 to support the delivery of a service to allow adaptive cycles to be available for disabled people across the city.
Gaelic Development Officer	0.052	Investment	Corporate Services	0.052	The Council's dedicated officer remains in post.
Library Books	0.050	Investment	Education and Children's Services	0.050	The funding was fully utilised on agreed initiatives.
Total	**35.200**			**30.168**	

Reserve balances, 31 March 2022

	Balance at 31-Mar-21 £000	Inter-Fund Transfers 2021/22 £000	Transfers Out 2021/22 £000	Transfers In 2021/22 £000	Balance at 31-Mar-22 £000
Balances Set Aside to Manage Financial Risks and for Specific Investment					
Balances set aside for specific inv.	28,005	(45)	(1,244)	32,969	59,685
Workforce management	10,858	0	0	0	10,858
Council Priorities Fund	0	0	0	2,628	2,628
IFRS9 Gains	379	0	0	37	416
Dilapidations fund	4,000	0	(43)	0	3,957
Insurance funds	19,580	0	(3,012)	5,690	22,258
Covid Contingency	78,473	45	(11,867)	4,527	71,178
	141,295	0	(16,166)	45,851	170,980
Balances Set Aside from Income Received in Advance					
Licensing and Registration income	3,973	0	(66)	1,805	5,712
Pre-paid PPP monies	3,669	0	0	329	3,998
Unspent grants	8,009	0	(5,206)	5,584	8,387
Council Tax Discount Fund	6,063	0	0	5,242	11,305
Other minor funds	175	0	0	0	175
City Strategic Investment Fund	2,034	0	(1,124)	145	1,055
Covid Fund	22,382	0	(14,284)	7,061	15,159
	46,305	0	(20,680)	20,166	45,791
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings					
Energy efficiency	311	0	0	23	334
Salix / CEEF	438	0	(102)	269	605
Spend to save	2,971	0	0	297	3,268
	3,720	0	(102)	589	4,207
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund					
Devolved School Management	4,688	0	(4,688)	7,246	7,246
Unallocated General Reserve (Note 1)	25,025	0	0	3,956	28,981
Total General Reserve	**221,033**	**0**	**(41,636)**	**77,808**	**257,205**

Note 1 - in addition to the in-year underspend, sums transferred in during 2021/22 included a planned repayment from a project benefiting from City Strategic Investment Fund support.

Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

Treasury Management: Annual Report 2021/22 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred the Treasury Management: Annual Report 2021/22 to the Governance, Risk and Best Value Committee for scrutiny.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

Treasury Management: Annual Report 2021/22 – referral from the Finance and Resources Committee

2.   Terms of Referral

2.1   On 8 September 2022, the Finance and Resources Committee considered the Treasury Management: Annual Report 2021/22. The report provided updates on Treasury Management activity in 2021/22.

2.2   The Finance and Resources Committee agreed:

2.2.1   To note the Annual Report on Treasury Management for 2021/22.

2.2.2   To remit the report to Council for approval.

2.2.3   To refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

3.   Background Reading

3.1   [Finance and Resources Committee – 8 September 2022 - Webcast](#)

3.2   Minute of the Finance and Resources Committee – 8 September 2022

4.   Appendices

4.1   Appendix 1 – report by the Interim Executive Director of Corporate Services

10:00am, Thursday, 8th September 2022

Treasury Management: Annual Report 2021/22

Executive/routine	Executive
Wards	
Council Commitments	

1.   Recommendations

1.1   It is recommended that the Committee:

(i) Notes the Annual Report on Treasury Management for 2021/22;

(ii) Remits the report to Council for approval; and,

(iii) Refers the report to the Governance, Risk and Best Value Committee for their scrutiny.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Innes Edwards, Principal Treasury and Banking Manager,

Finance and Procurement Division, Corporate Services Directorate

E-mail: innes.edwards@edinburgh.gov.uk | Tel: 0131 469 6291

Report

Treasury Management: Annual Report 2021/22

2.   Executive Summary

2.1   The purpose of this report is to give an update on Treasury Management activity in 2021/22.

3.   Background

3.1   The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management must be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year.

4.   Main report

Prudential Indicators

4.1   Treasury Management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and CIPFA's Prudential Code. Appendix 1 contains Prudential Indicators showing the actual out-turn for 2020/21. The Council operated within both the Authorised Limit and the Operational Boundary at all times during the year and there were no breaches of the Council's Treasury Management Policy

Borrowing Out-turn

4.2   Appendix 2 gives a short economic review of the year, including a commentary from the Council's Treasury Advisors.

4.3   Appendix 3 gives an overview of the Council's borrowing for 2021/22. The process of locking out the Council's interest rate risk was accelerated, with the Council borrowing £206m long term from the PWLB at an average interest rate of 1.86% during the financial year.

4.4 That took the total of the Council's new borrowing in the last three years to slightly under £0.5 billion securing long term funding at historically low interest rates. A list of the Council's borrowing at 31 March 2022 is included in Appendix 5.

Investment Out-turn

4.5 Appendix 4 shows the Investment Out-turn for 2021/22.

4.6 The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued monthly, and performance is evaluated against a benchmark of 7-day compounded SONIA (sterling overnight index average) less 6.25 basis points.

4.7 The average interest rate on the fund for the year was 0.11%. This continued to show outperformance against the benchmark which was 0.06% for the year.

Conclusions

4.8 The Council undertook £206m borrowing from the PWLB repaying just under £52m.

4.9 The investment return for 2021/22 continued to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments.

5. Next Steps

5.1 The Treasury team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark of 7-day compounded SONIA less 6.25 basis points and manage the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

6.1 The Treasury Cash Fund has generated significant additional income for the Council.

7. Stakeholder/Community Impact

7.1 There are no adverse stakeholder/community impacts arising from this report.

8. Background reading/external references

8.1 None

9.   Appendices

9.1   Appendix 1: Prudential Indicators Out-turn

9.2   Appendix 2: Economic Review of 2021/22

9.3   Appendix 3: Borrowing Out-turn 2021/22

9.4   Appendix 4: Investment Out-turn 2021/22

9.5   Appendix 5: Outstanding Debt as at 31st March 2022

Appendix 1

Prudential Indicators

Prudential Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2021/22 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Education and Children's Services	95,726	25,342	71,215	103,555	83,314	31,563
Place	176,181	101,212	133,294	79,075	76,013	20,239
Place - Lending	4,167	20,029	62,413	70,500	41,793	10,804
Place - Trams to Newhaven	68,486	54,700	3,507	0	0	0
Place - Asset Management Works	23,236	22,102	26,441	33,677	31,484	20,473
Corporate Services	3,155	1,276	4,091	1,597	669	678
Edinburgh Health and Social Care Partnership	164	284	0	0	0	0
Contingency	0	0	0	0	5,000	5,000
General Slippage in Programme	0	-21,694	-18,660	-5,573	4,574	17,928
Total General Services Capital Expenditure	**371,115**	**203,251**	**282,300**	**282,830**	**242,847**	**106,685**

Table A1.1 – Capital Expenditure 2021/22 – General Services

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2022-2027 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	64,850	118,755	174,587	266,705	512,713	515,030

Table A1.2 – Capital Expenditure 2021/22– Housing Revenue Account

Note: Figures for 2023/24 onwards are indicative at this stage 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. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 2 February 2021.

Prudential 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 2021/22 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
General Services	6.8%	7.3%	8.1%	8.1%	8.2%	8.2%
Housing Revenue Account (HRA)	32.0%	35.7%	37.7%	40.5%	44.2%	47.9%

Table A1.3 – Ratio of Financing Costs to Net Revenue Stream

Note: Figures for 2023/24 onwards are indicative at this stage 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. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 2 February 2021.

Prudential Indicator 3 - Capital Financing Requirement (CFR)

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 31 March 2022 are:

	Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
General Services (including Finance Leases)	1,411	1,448	1,502	1,547	1,580	1,547
Housing Revenue Account (HRA)	394	458	542	646	788	941
NHT LLPs	56	32	15	15	0	0
Edinburgh Living LLPs	42	61	123	192	234	244
Total Capital Financing Requirement	**1,903**	**2,000**	**2,181**	**2,401**	**2,602**	**2,732**

Table A1.4 – Capital Financing Requirement

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. 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.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however four have repaid their loans in full.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence. In order to ensure that over 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					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Gross Debt	1,780	1,720	1,670	1,622	1,548	1,474
Capital Financing Requirements	1,903	2,000	2,181	2,401	2,602	2,732
(Over) / under limit by:	**123**	**280**	**511**	**779**	**1,053**	**1,258**

Table A1.5 – Gross Debt v. Capital Financing Requirement

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

In 2022/23, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR

in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt.

Prudential 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. "Credit Arrangements" as defined by Financial Regulations, 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. In respect of its external debt, the following authorised limits for its total external debt gross of investments for the next four financial years was approved in February 2022. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council has approved these limits and to delegate authority to the Service Director for Finance and Procurement, 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					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
Borrowing	1,640	1,983	2,333	2,798	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Authorised Limit for External Debt	**1,929**	**2,267**	**2,612**	**3,072**	**3,528**	**3,975**

Table A1.6 – Authorised Limit for External Debt

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 (but not worst case) scenario with sufficient headroom to allow for operational treasury management. 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.

The Council operated within both the Authorised Limit and the Operational Boundary at all times during the year and there were no breaches of the Council's Treasury Management Policy.

Prudential Indicator 5 – Operational Boundary for External Debt

The Council has also approved, in February 2022, the following operational boundary for external debt for the same 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 directly reflects 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 has also delegated authority to the Service Director for Finance and Procurement, 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					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
Borrowing	1,640	1,933	2,283	2,748	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Operational Boundary for External Debt	**1,929**	**2,217**	**2,562**	**3,022**	**3,528**	**3,975**

<div align="center">**Table A1.7 – Operational Boundary for External Debt**</div>

The Council's actual external borrowing at 31 March 2022 was £1,499m (including sums repayable within 12 months).

Prudential Indicator 5 – Operational Boundary for External Debt

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2022/23 and for future years will be considered as part of the longer-term financial frameworks.

	Loans Charges Liability					
	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £001
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	147,789	33,525	104,556	109,420	104,671	41,993
Year 1 - Interest Only	2,997	680	2,120	2,219	2,122	851
Year 2 - Interest and Principal Repayment	8,597	1,950	6,082	6,365	6,089	2,443
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	35,364	82,330	104,216	127,158	167,115	182,537
Year 1 - Interest Only	761	1,772	2,243	2,737	3,597	3,929
Year 2 - Interest and Principal Repayment	2,120	4,935	6,247	7,622	10,017	10,941

<div align="center">**Table A1.8 – Operational Boundary for External Debt**</div>

The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA or General Services revenue budget. Tram repayments are based on the income model and will commence in 2023/24 when the line to Newhaven becomes operational.

Appendix 2

Economic Review of 2021/22

The Council's treasury advisor, Arlingclose, has provided the following economic review of the year:

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Figure A2.1 below shows PWLB borrowing rates since 2005. This clearly shows an increase in borrowing rates mainly due to the Economic effect of the Russian invasion of Ukraine, increase in inflation and subsequent increases in UK Bank Rate.

Figure A2.1 – PWLB Rates from April 2008 to Date

Source: DMO
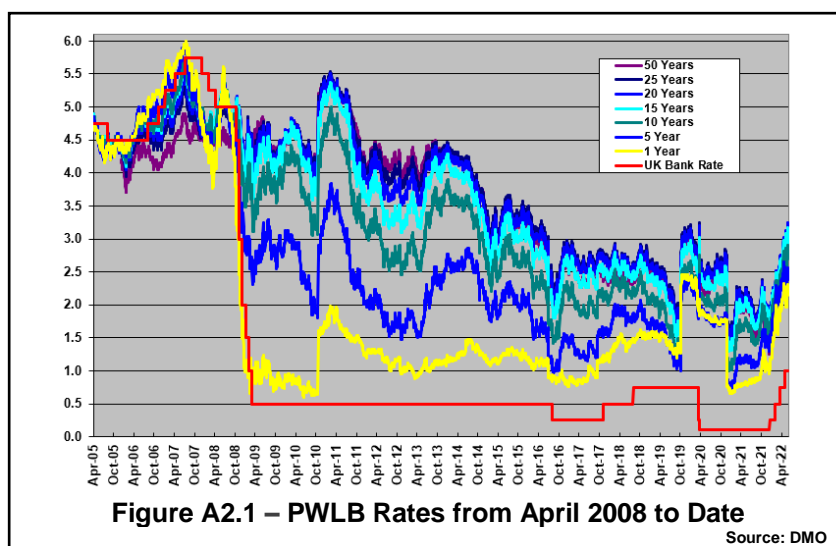
Borrowing Out-turn 2021/22

Background to 2021/22 Borrowing

Treasury Management is a long-term strategic activity. There are a significant number of new Elected Members so before reviewing the 2021/22 activity it might be helpful to put it in the context of the strategy which the Council has adopted over the last decade.

The Interest Rate on borrowing from the Public Works Loans Board (PWLB) is linked to the yield on UK Gilt edged Securities (Gilts). Figure A3.1 shows nominal yield on Gilts up to 10-year maturity along with UK Bank Rate. This shows how much yields had fallen even before the Global Financial Crisis. In the 2000s, gilts yields remained in a fairly narrow range compared to their previous levels, and the Council generally borrowed in year to meet its borrowing requirement depending on the outlook for Gilts over the next year. However, in 2012 the view was taken that interest rates would trend down over the next few years and no new borrowing from the PWLB was taken from 2012 until 2019. This created a significant interest rate risk at times, deliberately by design. Appendix 3 of the mid-year report taken to the Finance and Resources Committee in December 2021 explains how this was done with the borrowing for the purchase of the Council headquarters at Waverley Court. Large infrastructure projects by their nature are interest rate sensitive.
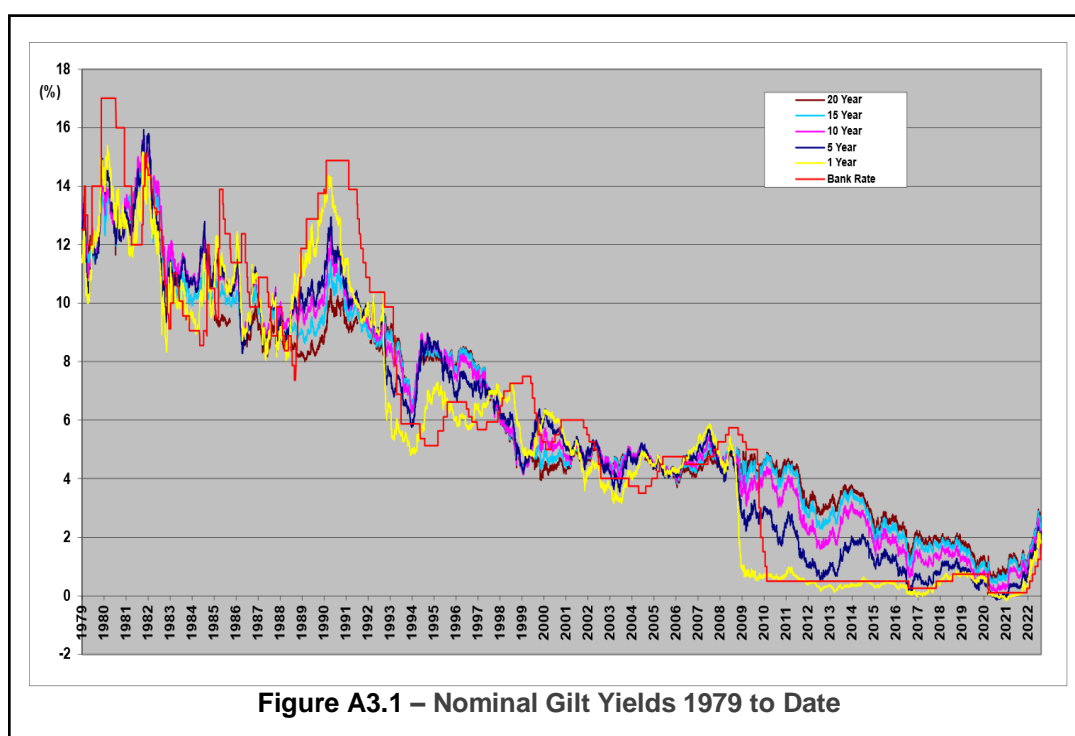
Figure A3.1 – Nominal Gilt Yields 1979 to Date

Some of the interest rate risk was locked out in 2019/20, but it was complicated by the UK Government's decision to increase PWLB Borrowing rates while they undertook a consultation on borrowing for investment in commercial property south of the border.

Finance and Resources Committee – Thursday 8th September 2022

The Council still has significant cash balances, particularly in its earmarked reserves. Locking out the interest rate risk is therefore a balance between borrowing funds that the Council doesn't need for a year or two and incurring a cost of carry in the meantime and locking in historically low interest rates for long term benefit. It is further complicated by uncertainty in the delivery of the capital programme and hence the need to borrow to fund that capital expenditure. As the pandemic showed, external factors can substantially change the delivery of the programme. However, as our concerns over inflation and interest rates increased, the process of locking out interest rate risk was accelerated.

Table A3.1 below summarises the movements in the Council's borrowing during 2021/22.

Type of Loan	Balance 01.04.2021 £m	Borrowing Raised £m	Borrowing Repaid £m	Balance 31.03.2022 £m
PWLB - fixed	1,051.40	206.26	-51.93	1205.73
Salix Finance Ltd	0.74		-0.28	0.46
Market	294.90		-1.73	293.17
	1,347.04	206.26	-53.94	1,499.36
Capital Advances	1,480.80			1,622.96
Under-borrowed	133.76	Under-borrowed		123.60

Table A3.1 – Outstanding Debt Portfolio 2021/22

During 2021/22, the Council borrowed £206m at an average interest rate of 1.86%. that brings the total of the new borrowing from the PWLB over the last three financial years to £437m at an average interest rate of 2.02%. A further £60m was drawn down in that period in a forward starting deal with a German bank which locked out the interest rate risk on the St. James Centre Growth Accelerator Model (GAM) capital expenditure. However, £54m in previous loans were repaid during the year, meaning that the Council's net borrowing increased by £152m during the year. There was a significant increase in the Council's net advances from the Loans Fund during the year, resulting in the Council's external debt still being below its Capital Financing Requirement (the Council's underlying need to borrow before taking cash balances into consideration) at year end.

Figure A3.2 below shows the timing of the PWLB borrowing since 2019.

Figure A3.2 – CEC's Recent PWLB Borrowing
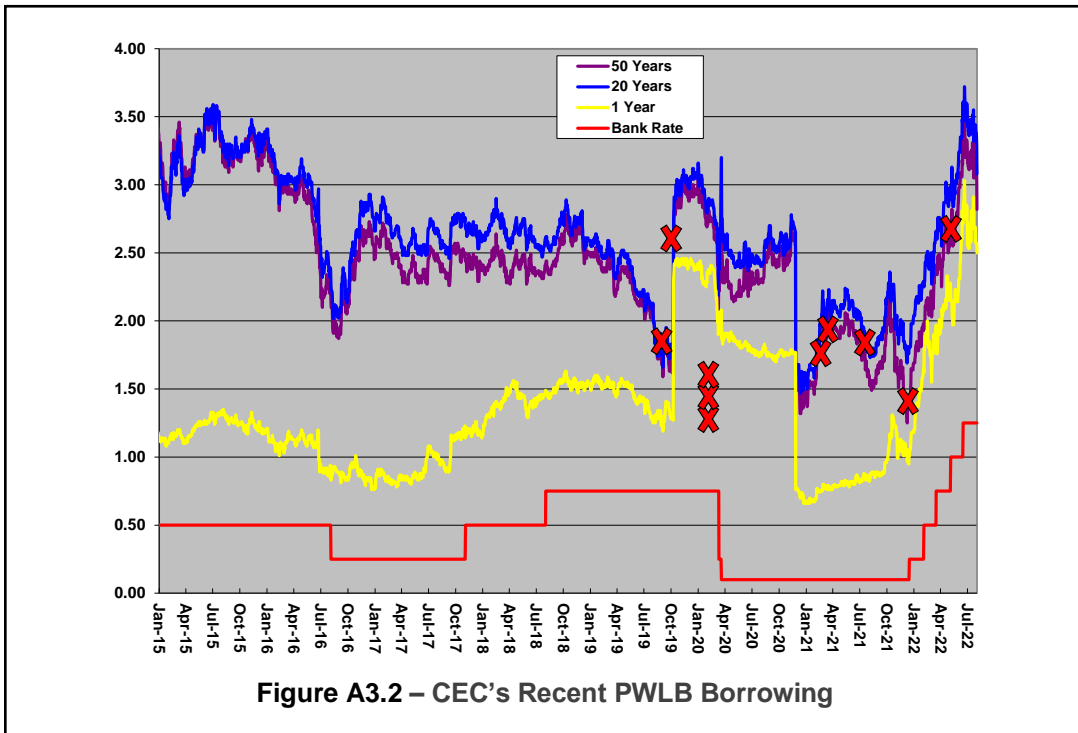
The effect of the increase in PWLB Rates when Gilt Yields were at their lowest is clear from the chart. While not at the absolute low points, the borrowing represents very good long term interest rates funding the Council's capital programme.

The following chart gives the following sources of the Council's borrowing at the end of the financial year:

Figure A3.3 – CEC Debt Portfolio (31 March 2022)
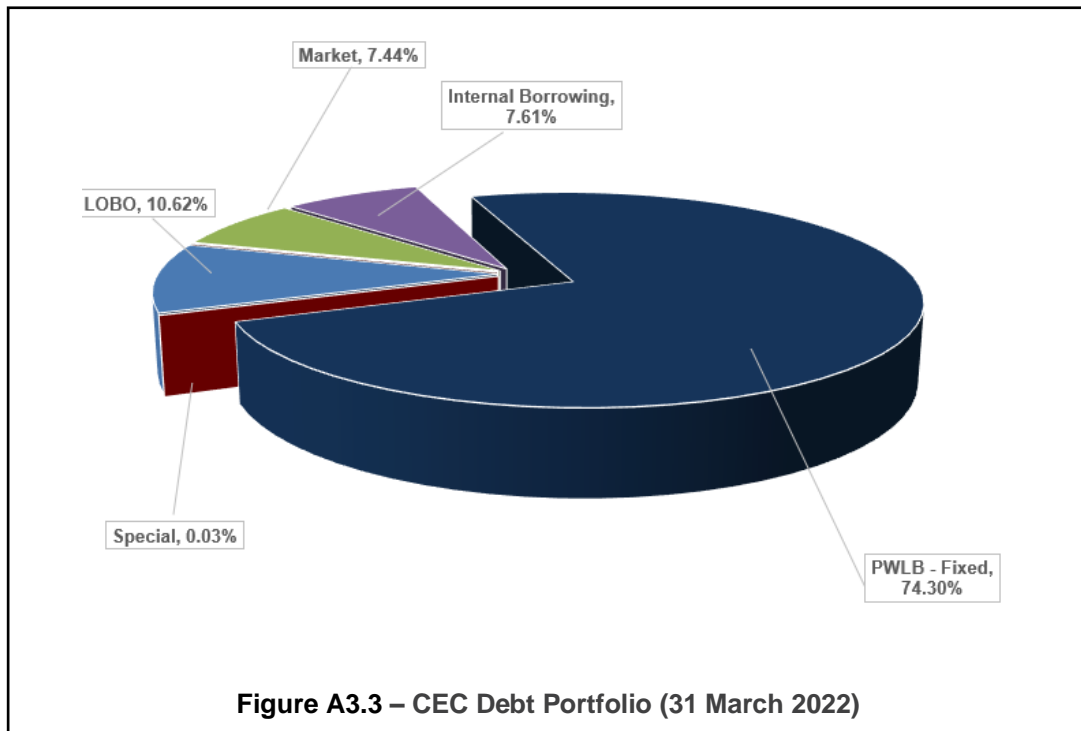
All the Council's external borrowing is therefore fixed rate, which is advantageous in a rising interest rate environment. The internal borrowing is where the Council has used its cash balances to fund the capital programme, so this does reflect an interest rate risk. The Council also has a substantial capital programme going forward so has significant financing risk on that programme.

Figure A3.4 below shows the Council's borrowing and the annual interest cost of that borrowing. The cost of borrowing has edged down slightly. However, as the full year cost of the 2021/22 borrowing feeds through, it is likely to increase. Since 2001/02, the Council has substantially more external debt but at a lower annual interest cost.

Figure A3.4 – CEC Debt and its Annual Cost
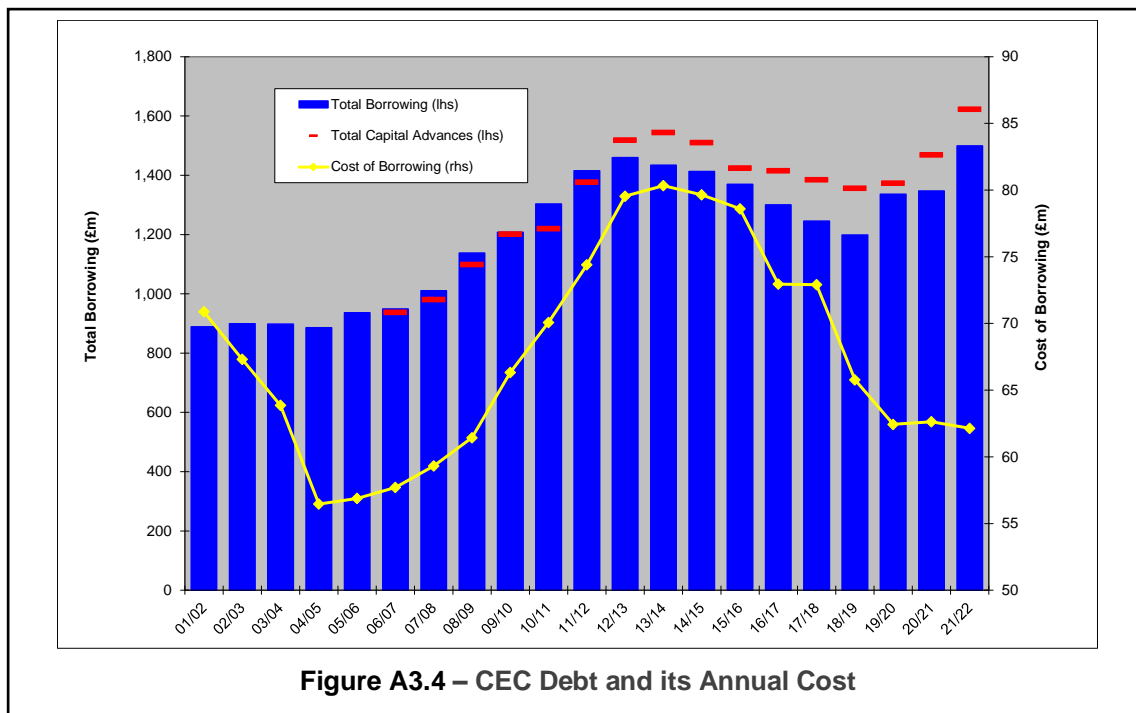
Finally, Figure A3.5 below shows the Retail Prices Index since 1948. Inflation has not been this high since 1990, when UK Bank Rate was over 14%. While that will not happen this time, there is some upside risk to interest rates which we consider has justified the borrowing undertaken where over a third of the Council's total external debt has been borrowed in the last three years.

Figure A3.5 – Retail Prices Index
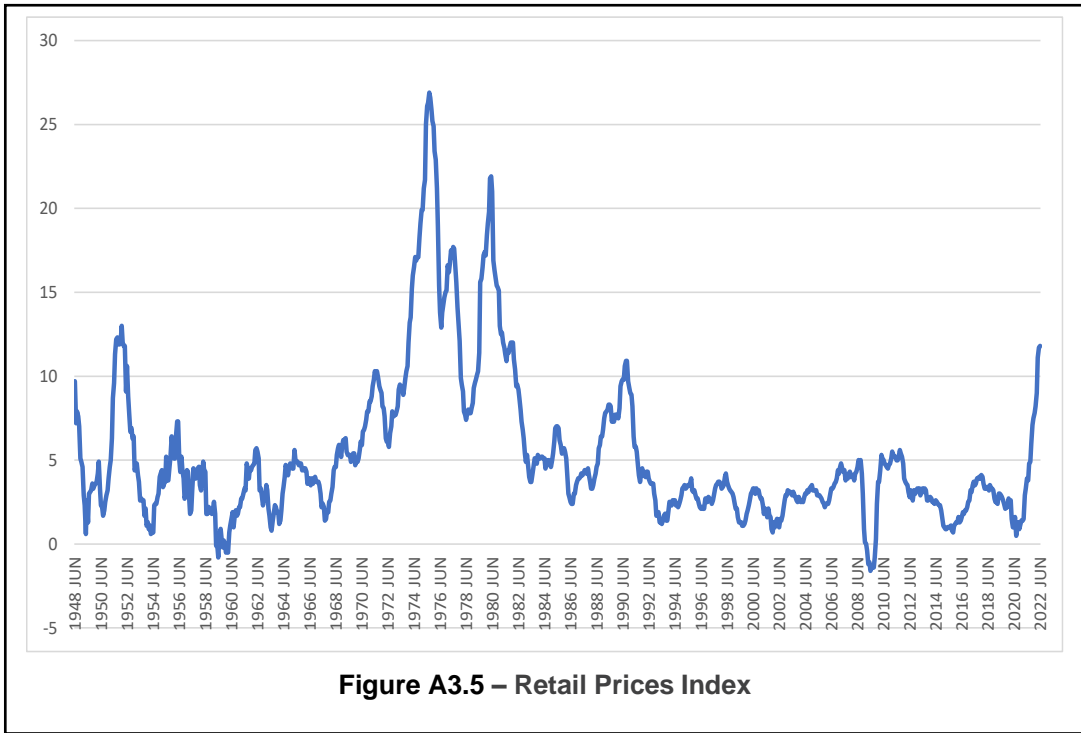
Appendix 4

Investment Out-turn 2021/22

The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued monthly, and performance is evaluated against a benchmark, which is 7-day compounded SONIA less 6.25 basis points.

The major issues to the economy over the last quarter were the continuing economic recovery from the coronavirus pandemic and the invasion of Ukraine by Russia, these have contributed to higher inflation and higher interest rates. The Bank of England's Monetary Policy Committee (MPC) has increased UK Bank Rate three times already in 2022, at the time of drafting this report. After increases in February, March then May UK Bank Rate is currently 1%.

Figure A4.1 below shows investment performance since April 2011.
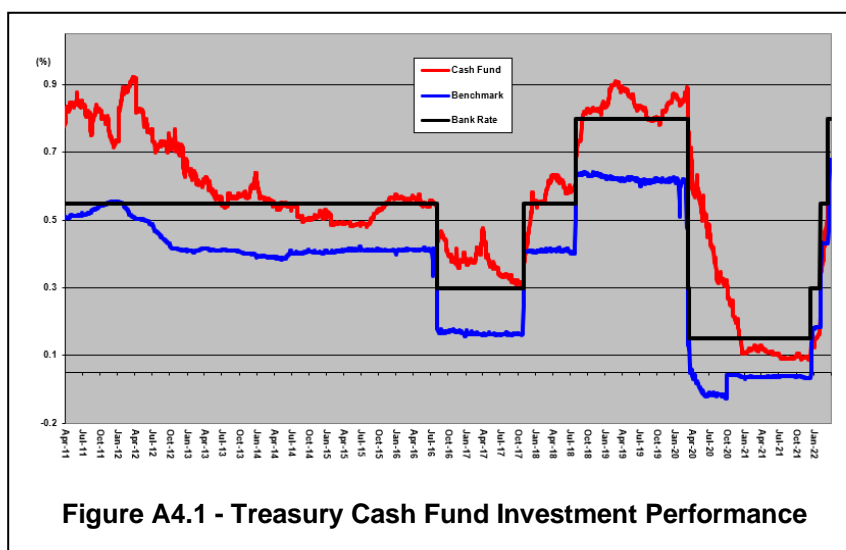
Figure A4.1 - Treasury Cash Fund Investment Performance

The average interest rate on the Cash Fund for the year was 0.11%, which continued to outperform the benchmark of 0.06%. The fund generated income of £323k for the financial year to CEC.

The emphasis remained on security during the financial year with the return of the principal sum being the main concern. With the Strategy being around the security of the investments, Cash Fund money has been invested with banking institutions which was held on instant access call and a 31-day notice account with a highly credit rated institution, money market funds, supranational commercial paper, UK gilts, UK treasury bills, DMADF and other Local Authorities on short term fixed deposits. Figure A4.2 below shows the distribution of the Cash Fund investments since April 2007.

Figure A4.2 – Cash Fund Investments since inception
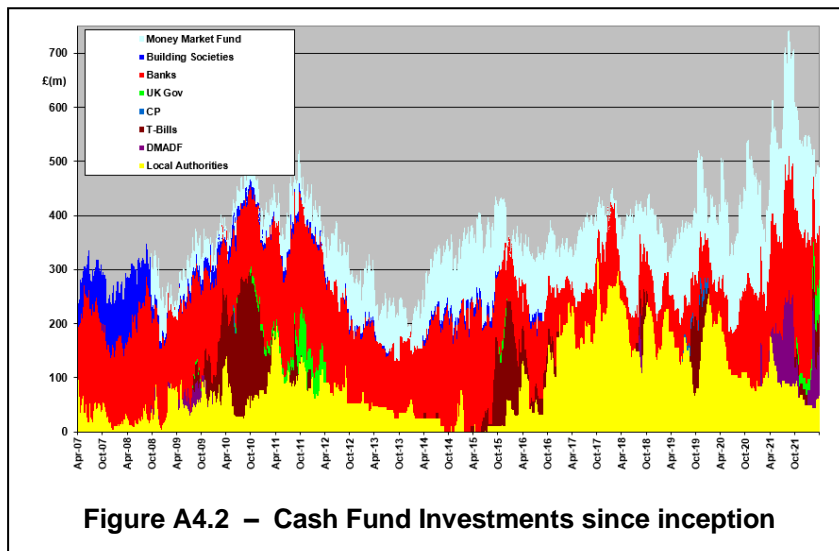
The strategy remains to seek trades which add value relative to MMF/Bank rates and make a positive contribution towards out-performance while maintaining the security of funds.

Figure A4.3 - Cash Fund Weighted Average Life
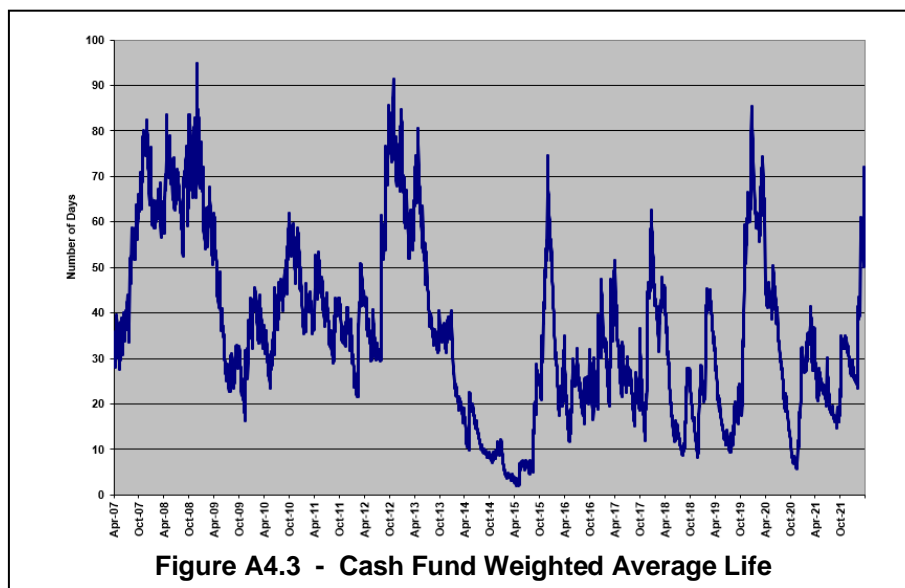
As can be seen in Figure A4.3 the weighted average life of the fund was just above 28 days at the end of the financial year. The purchase of Supranational commercial paper, UK Gilts and Treasury Bills lengthened the weighted average life towards the financial year end.

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Appendix 5

Outstanding Debt as at 31st March 2022

PWLB PROFILE	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
M	23/04/2009	23/04/2022	5,000,000.00	3.76	188,000.00
M	12/06/1995	15/05/2022	10,200,000.00	8	816,000.00
M	14/06/2010	14/06/2022	10,000,000.00	3.95	395,000.00
M	31/03/1995	25/09/2022	6,206,000.00	8.625	535,267.50
M	16/02/1995	03/02/2023	2,997,451.21	8.625	258,530.17
M	24/04/1995	25/03/2023	10,000,000.00	8.5	850,000.00
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	2,457,029.78	3.66	110,890.07
M	17/10/1996	25/03/2025	10,000,000.00	7.875	787,500.00
M	10/05/2010	10/05/2025	5,000,000.00	4.37	218,500.00
M	16/11/2012	16/05/2025	20,000,000.00	2.88	576,000.00
M	13/02/1997	18/05/2025	10,000,000.00	7.375	737,500.00
M	20/02/1997	15/11/2025	20,000,000.00	7.375	1,475,000.00
A	01/12/2009	01/12/2025	4,596,145.15	3.64	176,932.55
M	21/12/1995	21/12/2025	2,397,960.97	7.875	188,839.43
M	21/05/1997	15/05/2026	10,000,000.00	7.125	712,500.00
M	28/05/1997	15/05/2026	10,000,000.00	7.25	725,000.00
M	29/08/1997	15/11/2026	5,000,000.00	7	350,000.00
M	24/06/1997	15/11/2026	5,328,077.00	7.125	379,625.49
M	07/08/1997	15/11/2026	15,000,000.00	6.875	1,031,250.00
M	13/10/1997	25/03/2027	10,000,000.00	6.375	637,500.00
M	22/10/1997	25/03/2027	5,000,000.00	6.5	325,000.00
M	13/11/1997	15/05/2027	3,649,966.00	6.5	237,247.79
M	17/11/1997	15/05/2027	5,000,000.00	6.5	325,000.00
M	13/12/2012	13/06/2027	20,000,000.00	3.18	636,000.00
M	12/03/1998	15/11/2027	8,677,693.00	5.875	509,814.46
M	06/09/2010	06/09/2028	10,000,000.00	3.85	385,000.00
M	14/07/2011	14/07/2029	10,000,000.00	4.9	490,000.00
E	14/07/1950	03/03/2030	2,022.03	3	66.35
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	2,226.31	3	68.54
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00

M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00
M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
A	24/03/2020	24/03/2050	14,212,272.65	1.64	237,972.00
A	26/03/2020	26/03/2050	4,731,432.36	1.49	72,011.97
A	26/03/2021	26/03/2051	9,744,006.91	1.75	173,884.91
A	12/07/2021	12/07/2051	39,492,672.93	1.78	707,484.79
M	27/01/2006	27/07/2051	1,250,000.00	3.7	46,250.00
M	16/01/2007	16/07/2052	40,000,000.00	4.25	1,700,000.00
M	30/01/2007	30/07/2052	10,000,000.00	4.35	435,000.00
M	13/02/2007	13/08/2052	20,000,000.00	4.35	870,000.00
M	20/02/2007	20/08/2052	70,000,000.00	4.35	3,045,000.00
M	22/02/2007	22/08/2052	50,000,000.00	4.35	2,175,000.00
M	08/03/2007	08/09/2052	5,000,000.00	4.25	212,500.00
M	30/05/2007	30/11/2052	10,000,000.00	4.6	460,000.00
M	11/06/2007	11/12/2052	15,000,000.00	4.7	705,000.00
M	12/06/2007	12/12/2052	25,000,000.00	4.75	1,187,500.00
M	05/07/2007	05/01/2053	12,000,000.00	4.8	576,000.00
M	25/07/2007	25/01/2053	5,000,000.00	4.65	232,500.00
M	10/08/2007	10/02/2053	5,000,000.00	4.55	227,500.00
M	24/08/2007	24/02/2053	7,500,000.00	4.5	337,500.00
M	13/09/2007	13/03/2053	5,000,000.00	4.5	225,000.00
A	14/10/2019	10/04/2053	105,828,884.87	2.69	2,861,104.69
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
A	01/07/2021	01/07/2053	49,436,552.38	1.98	984,421.87
M	05/11/2007	05/05/2057	5,000,000.00	4.6	230,000.00
M	15/08/2008	15/02/2058	5,000,000.00	4.39	219,500.00
A	25/01/2019	25/01/2059	2,614,087.71	2.65	70,093.91
A	11/06/2019	11/06/2059	1,233,043.54	2.23	27,846.24
A	01/10/2019	01/10/2059	1,296,172.61	1.74	22,657.81
A	02/10/2019	02/10/2059	38,607,063.32	1.8	698,103.49
A	05/11/2019	05/11/2059	6,950,202.78	2.96	206,456.25
A	28/11/2019	28/11/2059	1,271,596.52	3.03	38,664.01
A	02/12/2019	02/12/2059	2,737,548.31	3.03	83,237.57
A	20/01/2020	20/01/2060	1,929,909.74	1.77	34,629.41
A	20/01/2020	20/01/2060	445,956.16	2.97	13,384.94
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
A	07/12/2021	07/12/2060	19,099,634.00	1.8	342,263.87

M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
A	07/12/2021	07/12/2061	4,164,448.00	1.79	74,222.78
A	24/03/2022	24/03/2063	18,000,000.00	2.65	475,373.43
M	26/03/2020	26/03/2070	10,000,000.00	1.29	129,000.00
M	12/07/2021	12/07/2071	50,000,000.00	1.74	870,000.00
M	23/12/2021	23/12/2071	25,000,000.00	1.45	362,500.00
			1,205,737,516.53		

Non-LOBO Profile	Start Date	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
M	30/06/2005	30/06/2065	5,000,000.00	4.40	220,000.00
M	07/07/2005	07/07/2065	5,000,000.00	4.40	220,000.00
M	21/12/2005	21/12/2065	5,000,000.00	4.99	249,500.00
M	28/12/2005	24/12/2065	12,500,000.00	4.99	623,750.00
M	14/03/2006	15/03/2066	15,000,000.00	5.00	750,000.00
M	18/08/2006	18/08/2066	10,000,000.00	5.25	525,000.00
M	01/02/2008	01/02/2078	10,000,000.00	3.95	395,000.00
M	08/10/2020	08/10/2045	58,272,841.48	2.613	1,534,025.23
			120,772,841.48		

LOBO Profile	Start Date	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
M	12/11/1998	13/11/2028	3,000,000.00	4.75	142,500.00
M	15/12/2003	15/12/2053	10,000,000.00	5.25	525,000.00
M	18/02/2004	18/02/2054	10,000,000.00	4.54	454,000.00
M	28/04/2005	28/04/2055	12,900,000.00	4.75	612,750.00
M	01/07/2005	01/07/2065	10,000,000.00	3.86	386,000.00
M	24/08/2005	24/08/2065	5,000,000.00	4.40	220,000.00
M	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			172,400,000.00		

SPECIAL FIXED/ VAR	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
F	31/03/2015	01/04/2023	270,434.61	0	0
F	22/09/2015	01/10/2023	87,919.88	0	0
F	29/03/2019	01/04/2029	104,983.95	0	0
			463,338.44		

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Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

Accounts Commission: Local Government in Scotland – Financial Overview 2020/21 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Accounts Commission: Local Government in Scotland – Financial Overview 2020/21 to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

Accounts Commission: Local Government in Scotland – Financial Overview 2020/21– referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 8 September 2022, the Finance and Resources Committee considered the Accounts Commission: Local Government in Scotland – Financial Overview 2020/21 report. The report provided a summary of the main issues and themes identified within the Accounts Commission's recently published Financial Overview 2020/21 and how these related to the local context within Edinburgh.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the report.

2.2.2 To refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

3. Background Reading

3.1 [Finance and Resources Committee – 8 September 2022 - Webcast](#)

3.2 Minute of the Finance and Resources Committee – 8 September 2022

4. Appendices

4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Accounts Commission: Local Government in Scotland – Financial Overview 2020/21

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the contents of the report; and

1.1.2 refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Report

Accounts Commission: Local Government in Scotland – Financial Overview 2020/21

2.   Executive Summary

2.1   The report provides a summary of the main issues and themes identified within the Accounts Commission's recently-published *Financial Overview 2020/21* and how these relate to the local context within Edinburgh.

3.   Background

3.1   On 10 March 2022, the Accounts Commission published its annual *Financial Overview* report. The report is an independent high-level analysis of the financial performance of councils during the preceding year (2020/21), their financial standing entering 2021/22 and associated longer-term financial outlook.

3.2   As in previous years, the overview is complemented by the publication of the *Performance Overview* report in May 2022. Both reports are, however, specifically couched within the context of the pandemic, with the Financial Overview including analysis of its full-year financial impacts and the Performance Overview considering councils' responses to, and recovery from, COVID-19. A report on the Performance Overview will be considered by the Policy and Sustainability Committee in due course.

3.3   The report's contents and main conclusions are primarily drawn from councils' audited accounts and associated external audit reports, supplemented by a separate data request issued in April 2021 to which the Council responded.

4.   Main report

Overview of report and key messages

4.1   The report's format largely follows that adopted in previous years, with respective sections on income, financial standing and financial outlook. A series of key messages is also set out on pages 5 and 6 of the report, drawing specific attention to the following:

(i)   The COVID-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.

(ii)   When COVID-19 funding is excluded, there has been a real-terms underlying reduction of 4.2% in local government funding since 2013/14.

(iii)   The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1% in real terms but over half of this increase is due to specific grants.

(iv)   Councils' income from customers and clients was affected by COVID-19 restrictions and fell by £0.5 billion.

(v)   In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46%). This increase was mainly due to late COVID-19 funding, which was unspent at 31 March 2021.

(vi)   Councils administered a further £1.4 billion of COVID-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

(vii)   Capital expenditure reduced by more than 20% in 2020/21 because of COVID-19.

(viii) COVID-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts.

(ix)   Scottish Government capital funding to councils is expected to fall again in 2021/22.

(x)   Uncertainty over the amount of funding available for COVID-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated COVID-19 budgets in autumn 2021.

(xi)   COVID-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as COVID-19 uncertainty diminishes.

4.2   Given the report's Scotland-wide coverage, not all of its recommendations are of direct relevance to Edinburgh but much of the content nonetheless resonates with the Council's own circumstances.

Specific references or areas of particular relevance to Edinburgh

4.3   **Paragraph 9** of the report details the extent to which councils' income was affected by the pandemic during 2020/21. The majority of the Council's total net COVID-19 impact of £69m similarly represented the direct, or indirect, loss of income to the Council and/or its Arm's-Length External Organisations (ALEOs), with the largest contributors being:

(i) the loss of parking income, net of reduced enforcement costs, of £13.4m;

(ii) loss of commercial rental income of £7.1m;

(iii) loss of £6m of dividend income from Lothian Buses;

(iv) £6m of additional required financial support for Edinburgh Trams (due to drastically reduced farebox income);

(v) reduced income from the Council's cultural venues of £3.9m; and

(vi) £3m of additional financial support for Edinburgh Leisure due to reduced patronage.

4.4 **Paragraph 11 and Exhibit 2** show in-year provisional collection rates for Council Tax. While the Council's confirmed rate for 2020/21 showed a year-on-year reduction of 1%, it comfortably remained the highest rate of Scotland's four main cities.

4.5 The Council's budget for 2020/21 was underpinned by budgeted service-specific and corporate savings of £35.8m. Of these, 82% by value were delivered, close to the Scotland-wide average of 83% noted in **Paragraph 23**. Of those savings not delivered, the majority were linked directly or indirectly to the impacts of the pandemic, including loss of assumed income or necessarily-delayed organisational reviews.

4.6 While the outturn for 2021/22 remains provisional, the in-year level of savings delivery has continued the improving trend apparent in recent years, linked to the putting in place of more robust scrutiny at the savings inception, implementation and delivery stages.

4.7 **Paragraphs 25 to 30** and the accompanying appendices consider councils' year-end outturns and the consequent impacts on their reserve levels. In common with all other councils in Scotland, following the receipt of significant additional grant funding late in the year, the Council returned an overall surplus in 2020/21 (of some £7.9m), with this sum set aside in reserves.

4.8 The overall level of the Council's reserves as of 31 March 2021 was also influenced by the prudent prior identification, and earmarking, of savings prior to the confirmation of this external funding. As part of the year-end closedown process, the unallocated General Fund balance (funds held against the risk of unanticipated expenditure and/or reduced income arising in any particular year) was furthermore increased from £13.9m to £25.0m, in line with the Council's revised strategy and providing a further contingency against other risks to which the Council is exposed.

4.9 The approved budget for 2021/22 then assumed in-year use of £58m of COVID-related funding held in reserves, with further sums to be drawn down in 2022/23.

4.10 **Paragraphs 31 to 39** consider the in-year impact of the pandemic on councils' capital programmes. While the actual level of capital expenditure reported was also a product of year-on-year variation in planned spend, the Council's gross capital expenditure in 2020/21 was 8% lower than in 2019/20.

4.11   Delays were experienced due to the scarcity of materials and contractor staff taking time to return from furlough, as well as revised on-site operating practices to comply with social distancing guidelines. The General Fund saw capital slippage of around £150m in-year and the HRA around £55m from the originally-planned programme pre-COVID. Some of this slippage was addressed in 2021/22 but an element will not be made up until the current financial year or later given subsequent disruption to supply chains linked directly or indirectly to current events in Ukraine.

4.12   **Paragraphs 40 and 41** highlight the availability of additional financial "flexibilities" made available by the Scottish Government to spread the costs of the pandemic over a longer timeframe. Prior to the announcement of significant additional grant funding, the Council's approved budget for 2021/22 had been predicated upon utilising the loans fund principal deferral flexibility but this assumption was revised by Council in May 2021, with the approved 2022/23 similarly assuming no use of available flexibilities. The Scottish Government has recently issued draft guidance in respect of the expanded basis on which the service concession flexibility will be made available for use by local authorities in 2022/23 and 2023/24.

4.13   **Paragraphs 42 to 47** consider some wider aspects of the pandemic on councils' operations during the year, including administration of business support grants and increased support for ALEOs, many of which resonate with experience in Edinburgh.

4.14   In total, some £359m of COVID-related funding was received by the Council during the year. Audit testing identified one small funding stream of £0.162m which had been accounted for as income received as principal whereas, in fact, the Council was acting as an agent (i.e. on behalf of the Scottish Government), with this change reflected in the audited accounts.

4.15   The external auditor's report intimated that no significant weaknesses were identified within the Council's systems of accounting and internal financial control and that its arrangements with regard to the detection of fraud and irregularity were considered sufficient and appropriate, complemented by active participation in the National Fraud Initiative.

4.16   **Paragraphs 48 to 52** contain an overview of in-year investment returns for Scotland's Local Government Pension Funds. While the absolute return for Lothian Pension Fund was the lowest of Scotland's eleven funds and underperformed slightly against its benchmark, the triennial valuation as of 31 March 2020 showed it to be fully funded, with employer contributions essentially unchanged for the period from 2021/22 to 2023/24.

4.17   **Paragraphs 53 to 55** highlight the Council as being amongst only seven in Scotland in addressing three key aspects of financial reporting in their annual accounts management commentaries.

4.18   The remaining section of the Audit Scotland report looks at councils' financial outlooks as of the time of setting 2021/22 budgets in February 2021. The Council undertook a comprehensive realignment of its reserves policy as part of setting the 2021/22 budget, almost doubling the size of its unallocated general reserve and

reprioritising a number of other existing earmarked reserves in recognition of the on-going expenditure and income impacts of the pandemic.

4.19   A five-year timeframe was also adopted with regard to revenue budget-setting, albeit with significant gaps remaining beyond 2021/22. The planning assumptions underpinning future years' funding gaps are subject to on-going review and an update is included in the report elsewhere on today's agenda.

4.20   The Council continues to face significant financial challenges resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the continuing financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not keeping pace.

4.21   The urgent need to initiate a structured medium to longer-term savings programme was highlighted in both the Council's Best Value Assurance Report and the external auditor's report for 2020/21. Proposals to address these gaps will be subject to a process of co-design between the incoming administration and officers and form the basis of public engagement in Autumn 2022. Members will likely need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

5.   Next Steps

5.1   Publication of the Financial Overview has been complemented by the issuing of the *Performance Overview* report in May 2022 and a subsequent report will therefore be brought forward to both the Policy and Sustainability and Governance, Risk and Best Value Committees.

6.   Financial impact

6.1   There is no direct impact arising from the report's contents but the report reminds officers and members of the importance of a number of aspects of sound financial management in underpinning longer-term sustainability.

7.   Stakeholder/Community Impact

7.1   There is no direct impact arising from the report's contents.

8.   Background reading/external references

8.1   Revenue Budget 2020/21: outturn report, Finance and Resources Committee, 12 August 2021

8.2   City of Edinburgh Council – 2020/21 Annual Audit Report to the Council and the Controller of Audit, Governance, Risk and Best Value Committee, 9 November 2021

9.   Appendices

One – Local Government in Scotland – Financial Overview 2020/21

Local government in Scotland

Financial overview 2020/21

ACCOUNTS COMMISSION ✓

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Contents

You can find more information on our website:

Exhibits data
Data files are available for Exhibit 5.

Supplement
Covid-19 funding to Local Government – 2020/21

Audit team

The core audit team consisted of: Blyth Deans, Lynne Templeton, Martin Allan, Christopher Holgate under the direction of Brian Howarth.

Chair's introduction

Our independent overview of council finances 2020/21 covers the first full year that makes clear the impacts of Covid-19. We also look ahead to the medium- to longer-term financial outlook for councils.

That all councils have increased their reserves, boosted by late funding from the Scottish Government to help mitigate the impacts of Covid-19, distracts from the underlying pressures and continued uncertainty on council finances.

The long-term funding position for councils remains uncertain, with significant challenges ahead. This ongoing financial uncertainty for councils is exacerbated by: Scottish Government budget settlements for councils that don't go beyond one year; impacts of an ageing population; shifting and increasing demand for many council services and, alongside this, greater uncertainty over inflationary and other price pressures.

Excluding additional Covid-19 funding, councils have seen a real terms reduction in funding from the Scottish Government of 4.2 per cent since 2013/14. This is a larger reduction than the rest of the Scottish Government budget over the same period.

With increasing amounts of money ring-fenced to meet Scottish Government priorities, it means councils must focus on specific policy areas, rather than the urgent, local priorities they have identified. And while councils have rightly shifted their focus to address the immediate impacts of Covid-19, plans to transform services have slowed.

The absence of a multi-year funding settlement, alongside the ongoing impacts of Covid-19, makes it challenging for councils to plan and budget effectively for the medium and longer term. Robust forward looking financial plans, however, will be key to maintaining financial sustainability, alongside accelerating progress with transformation programmes that have stalled, addressing issues in delivering recurring savings and bringing forward proposals to reduce costs. As Covid-19 uncertainty diminishes, councils should review longer-term planning arrangements.

The pressures on councils that existed before March 2020 continue, yet now with greater intensity. As we reported in our 2021 Local government overview inequalities have been exacerbated and deepened by Covid-19. At the same time, the financial and service demands and stresses on councils have also increased.

Dr William Moyes
Chair of the Accounts Commission

Councils must manage the ongoing impacts of Covid-19, while looking ahead to local service and economic recovery and transformation, as well as delivering on Scottish Government priorities. This includes ambitions for Early Learning and Childcare, climate change and plans for a National Care Service.

Simply rewinding and trying to return services to pre-March 2020 models and levels of service isn't good enough. How to restart services, deliver differently, save money and empower communities to help redesign and reshape core services, is a massive challenge for all councils. Councils need to undertake this work, involve the communities they serve and partner organisations.

This report, alongside our second overview report (due to be published in May) which will focus on the wider performance and challenges facing local government will, we hope, be a useful analysis and support for both new and returning councillors, and senior officers, as they make difficult decisions over how best to allocate money and resource.

The Accounts Commission will continue to publish outputs focusing on key issues impacting local councils and communities.

Our ambition is for our independent reporting to support challenge and change across council services.

Key messages

Local government finances 2020/21

1 The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.

2 When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.

3 The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.

4 Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.

5 In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.

6 Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

7 Capital expenditure reduced by more than 20 per cent in 2020/21 because of Covid-19.

8 Covid-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts.

Medium- and longer-term outlook for local government finances

9 Scottish Government capital funding to councils is expected to fall again in 2021/22.

10 Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.

11 Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2020/21 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils in the medium and longer terms. It is one of two overview reports that the Accounts Commission publishes each year. The second report, commenting on councils' response to and recovery from the Covid-19 pandemic, will be published in May 2022.

2. Our primary sources of information for the financial overview are councils' 2020/21 audited accounts, including management commentaries and the 2020/21 external annual audit reports, where available. We have supplemented this with data collected as part of a data set request issued to local auditors in April 2021. We received 22 returns by the deadline in late May 2021, and therefore some of the analysis included in this report is based on the available returns, which are only a sample of the total. The response rate from auditors (69 per cent) was lower than in previous years.

3. The Covid-19 pandemic has again created challenges that have affected the preparation of this report. The rescheduling of audit timetables meant that audited accounts did not require certification until 30 November 2021. Twenty-three sets of accounts were certified by the revised deadline, with a further seven signed off thereafter. As at 1 February 2022, two councils' accounts are still to be certified; therefore, analysis in this report is based on 30 sets of audited accounts and two sets of unaudited accounts.

4. We refer to 'real terms' changes in this report. This means that we are showing financial information from past and future years at 2020/21 prices, adjusted for inflation so that they are comparable. Similarly, where comparisons with 2021/22 are made, we have adjusted for inflation to 2020/21 prices. We use gross domestic product (GDP) deflators to adjust for inflation, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK and Scottish Governments when analysing public expenditure. As a result of the way that GDP is calculated, the increased public spending related to Covid-19 means that (in the short term) annual GDP growth rates are forecast to be volatile. To allow us to continue to provide meaningful comparisons between years, we have changed how we use GDP deflators this year. To compensate for the increased volatility, we have used an average GDP growth rate across 2020/21 and 2021/22 to separate inflation from the changes largely attributable to Covid-19 spending and changes in outputs.

5. We also refer to figures in 'cash terms'. This means that we are showing the actual cash or money paid or received.

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1. Councils' income in 2020/21

Key messages

1 The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.

2 The underlying increase in Scottish Government funding to councils of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants, which are now £710 million. Ring-fenced funding helps support delivery of key Scottish Government policies, such as expanding early learning and childcare services, but constrains a proportion of the total funding and resources and removes any local discretion over how these funds can be used by councils.

3 When Covid-19 funding is excluded, there has been a real terms underlying reduction in local government funding of 4.2 per cent since 2013/14.

Total revenue funding and income

Covid-19 had an impact on the whole of 2020/21

6. The global pandemic and consequent restrictions emerged at the end of March 2020 and persisted throughout the 2020/21 financial year. This report is the first Local Government Overview to capture the full-year impact of Covid-19 on local government finances.

Councils' total funding and income increased by £1.8 billion (10 per cent) in 2020/21, mainly as a result of additional Covid-19 funding of £1.5 billion

7. Councils' total revenue funding and income was £20.3 billion in 2020/21, an increase of £1.8 billion (or 10 per cent) on the previous year. Comparing 2020/21 with 2019/20 (Exhibit 1, page 10) shows that most funding comes from the Scottish Government in both years and illustrates the impact of Covid-19 additional funding on the overall funding of councils (7 per cent of funding received).

8. Additional Covid-19 funding included as part of the General Revenue Grant was £1.3 billion, and additional Covid-19-specific grant funding was £0.2 billion in 2020/21. When this is excluded, total revenue and income increased by £0.3 billion, or 1.6 per cent, compared with the previous year.

Councils' income from customer and client receipts reduced by an average of 25 per cent

9. Scotland wide, the reduction in income from customer and client receipts is estimated at £0.5 billion. Significant income streams were affected by Covid-19 restrictions and measures. Glasgow City and Fife Councils both suffered significant reductions in cultural and community income and car parking income. Orkney and Argyll and Bute Councils identified reductions in pier and harbour income as a direct consequence of Covid-19 travel restrictions. Councils have also experienced reductions in income from school meals, building warrants and trade waste disposal.

Council tax rates increased by 4.5 per cent in 2020/21

10. All councils raised council tax levels in 2020/21. The average rate increase across Scotland was 4.5 per cent. The lowest increase was 3 per cent in Clackmannanshire, Inverclyde and South Lanarkshire Councils. Twenty councils increased council tax by 4.8 per cent in line with the Scottish Government cap on council tax rate increases.

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Exhibit 1.
Sources of funding and income, 2019/20 and 2020/21
Councils' total funding and income increased by £1.8 billion (10 per cent) in 2020/21, mainly as a result of additional Covid-19 funding of £1.5 billion.

£18.5 bn

£20.3 bn

Additional Covid-19 funding represented **7%** of total funding and income received by councils in 2020/21

2019/20	2020/21		
10.7%	7.4%		Customer and client receipts
6.7%	6.5%		Housing Revenue Account rents
13.5%	12.7%		Council tax
16.2%	17.1%		Grants including Scottish Government and other sources
0.0%	1.2%		Covid-19-specific grants
0.0%	6.2%		General revenue Covid-19 funding
52.9%	52.9%		General revenue funding and non-domestic rates
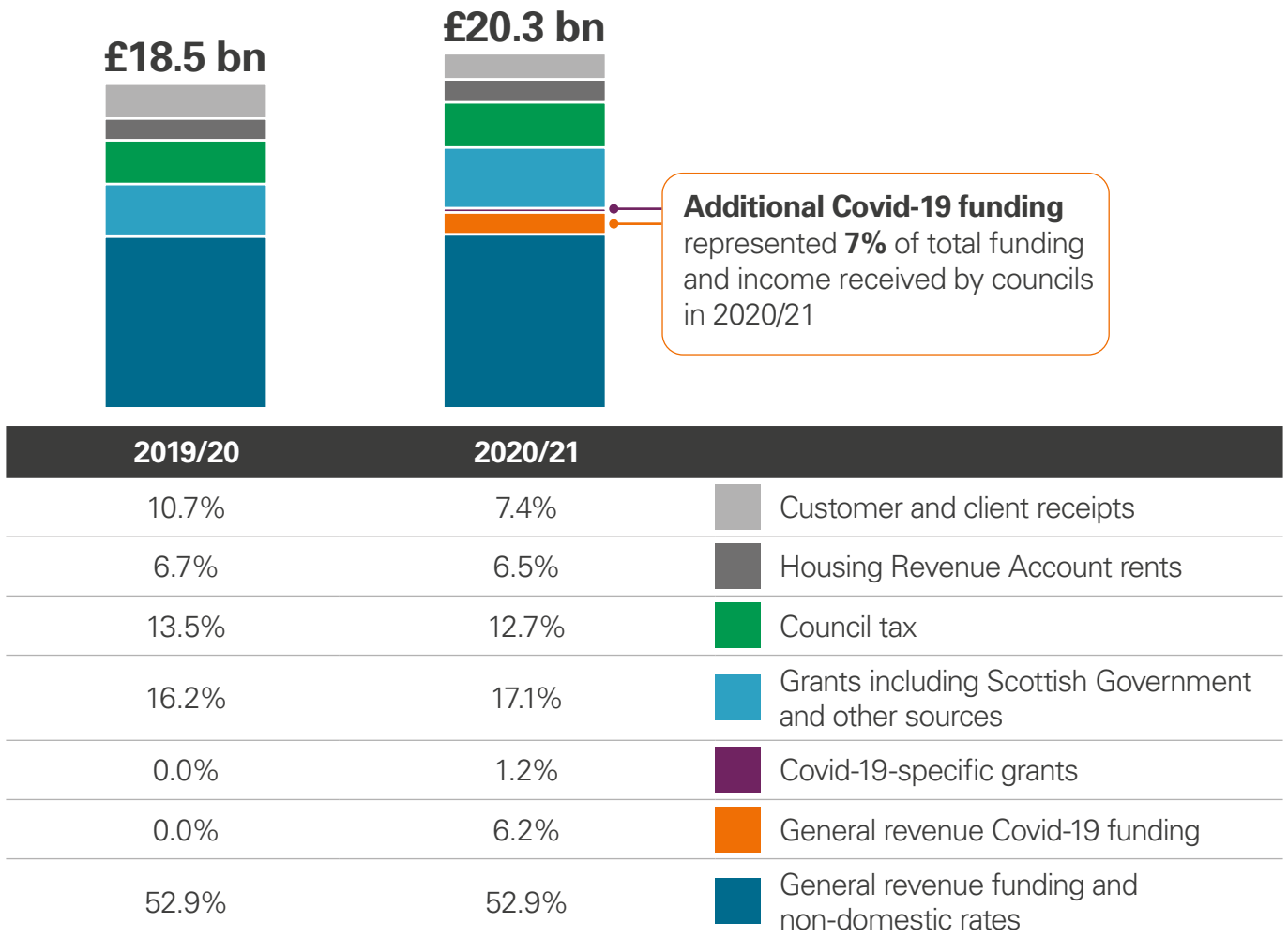
Source: Audited financial statements 2019/20 and 2020/21

Council tax collection rates across Scotland fell by 1 per cent

11. Council tax debts accumulate over many years. The in-year collection rate (for 2020/21 charges) fell from an average of 95.8 per cent to 94.8 per cent. The 1 per cent fall in collection rate contributed to a reduction in income of £30 million. The total amount of council tax billed, taking account of council tax reductions, was £2.7 billion. Of this total, £2.5 billion was collected by 31 March 2021. Collection rates fell across all councils (Exhibit 2, page 11), with Glasgow City Council experiencing the largest reduction. Some councils chose to defer or reschedule debt recovery as part of their Covid-19 responses.

Exhibit 2.
Council Tax collection rates
The average Council Tax collection rate across Scotland fell by 1 per cent in 2020/21.

Percentage   -2.5   -2.0   -1.5   -1.0   -0.5   0.0

Glasgow
North Ayrshire
Aberdeen
Orkney
East Lothian
Edinburgh
Moray
East Renfrewshire
Clackmannanshire
Inverclyde
Renfrewshire
Fife
Midlothian
West Dunbartonshire
Aberdeenshire
East Ayrshire
Eilean Siar
North Lanarkshire
South Ayrshire
Stirling
Scottish Borders
Angus
Dumfries and Galloway
Dundee
Falkirk
Highland
Perth and Kinross
Argyll and Bute
East Dunbartonshire
South Lanarkshire
West Lothian
Shetland

1% fall
in average collection rate contributed to a
£30 million reduction
in income across Scotland

Source: Scottish Government Council Tax Collection Statistics 2020-21, Audited financial statements 2020/21

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Scottish Government funding

Scottish Government revenue funding increased by 13 per cent in real terms in 2020/21. This was mainly due to Covid-19 funding of £1.5 billion

12. As noted in paragraph 7, Scottish Government funding forms a significant proportion of the total funding available to local government. The proportion increased from 55.7 per cent in 2019/20 to 58.6 per cent in 2020/21.

13. In 2020/21, total revenue funding from the Scottish Government increased by 15.6 per cent in cash terms and by 13.0 per cent in real terms (Exhibit 3). Most of this increase was due to additional Covid-19 funding of £1.5 billion, including £1.3 billion of general revenue funding and £0.2 billion of specific grants.

Exhibit 3.
Changes in Scottish Government revenue funding in 2020/21

Scottish Government revenue funding increased by 13 per cent in real terms in 2020/21, although the increase largely relates to additional specific revenue grants and non-recurring Covid-19 funding.

	2019/20 £ million	2020/21 £ million	Cash change %	Real terms change %
General revenue grant and non-domestic rate income	9,811.4	9,967.5	1.6	-0.7
Specific revenue grants[1]	507.7	709.8	39.8	36.6
Non-recurring Covid-19 funding		1,253.5		
Total revenue funding	**10,319.1**	**11,930.7**	**15.6**	**13**
GRG + NDRI + SRG	10,319.1	10,677.2	3.5	1.1

Note: 1. Includes specific revenue grants for Covid-19.

Source: Finance Circulars 2/2020 and 5/2021 and Scottish Government budget documents.

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14. Total revenue funding of £11.9 billion consisted of general resource grant (GRG) funding of £8.1 billion, non-domestic rates (NDR) distribution of £1.8 billion, specific grants of £0.7 billion and non-recurring Covid-19 funding of £1.3 billion.

15. The Scottish Government NDR relief, which was announced in March 2020 to help businesses deal with the impact of Covid-19, resulted in a significant change in the expected income collected from NDR, and this was reflected in the funding given to councils. NDR funding reduced from £2.8 billion in 2019/20 to £1.8 billion in 2020/21. A compensatory increase was given to councils as GRG, as part of a guarantee by the Scottish Government to ensure total funding.

Specific Scottish Government grants contributed to over half of the underlying increase in funding of 1.1 per cent in real terms

16. When non-recurring Covid-19 funding is excluded, the increase in funding from the Scottish Government is 3.5 per cent in cash terms and 1.1 per cent in real terms. The increase in underlying revenue funding was £358 million.

17. In previous overview reports, we identified that increasing amounts of the Scottish Government's total funding to councils is for specific purposes. This trend continued in 2020/21. Over half of the increase was accounted for by specific revenue grants, including an additional £201 million to fund expanding early learning and childcare services. However, the Scottish Government gave councils flexibility in 2020/21 to use the funding for early learning and childcare to support their responses to Covid-19.

18. Specific revenue grants made up 6.7 per cent of recurring revenue funding in 2020/21, up from 4.9 per cent the previous year.

There was a 7 per cent real terms increase in funding to councils in 2020/21, due to Covid-19. However, the underlying decrease is 4.2 per cent since 2013/14

19. Funding from the Scottish Government to local government between 2013/14 and 2020/21 increased by 7.0 per cent in real terms. The Scottish Government received Scottish budget increases for Covid-19 **Barnett consequentials** of £9.5 billion and £1.3 billion was given to councils to support services and Covid-19 responses.

20. Excluding the effect of Covid-19 funding, the underlying cumulative funding position for councils has fallen by 4.2 per cent in real terms since 2013/14 . This demonstrates that local government funding has been reduced by proportionately more than the rest of the Scottish Government budget over this period. The Scottish Government is committed to protecting the Health Budget which has a direct impact on all other areas of the Scottish Budget, including local government.

Barnett consequentials

Throughout 2020/21, the UK Government introduced various spending measures to support households, businesses, and public services in recovering from the impact of Covid-19. Some of these spending measures resulted in Barnett consequentials. The Barnett formula is the way the UK Government ensures that a share of additional funding – allocated only to England – is provided fairly to Scotland, Wales, and Northern Ireland.

The formula delivers a fixed percentage of additional funding allocated in England to services which are devolved, but there is no requirement for this additional funding to be spent in the devolved administrations on the services which generated the additional funding. Each devolved administration can allocate these funds as it believes appropriate.

Exhibit 4.

A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

The second graph shows that, funding from the Scottish Government to local government between 2013/14 and 2020/21 decreased by 4.2 per cent in real terms once Covid-19 funding is removed.
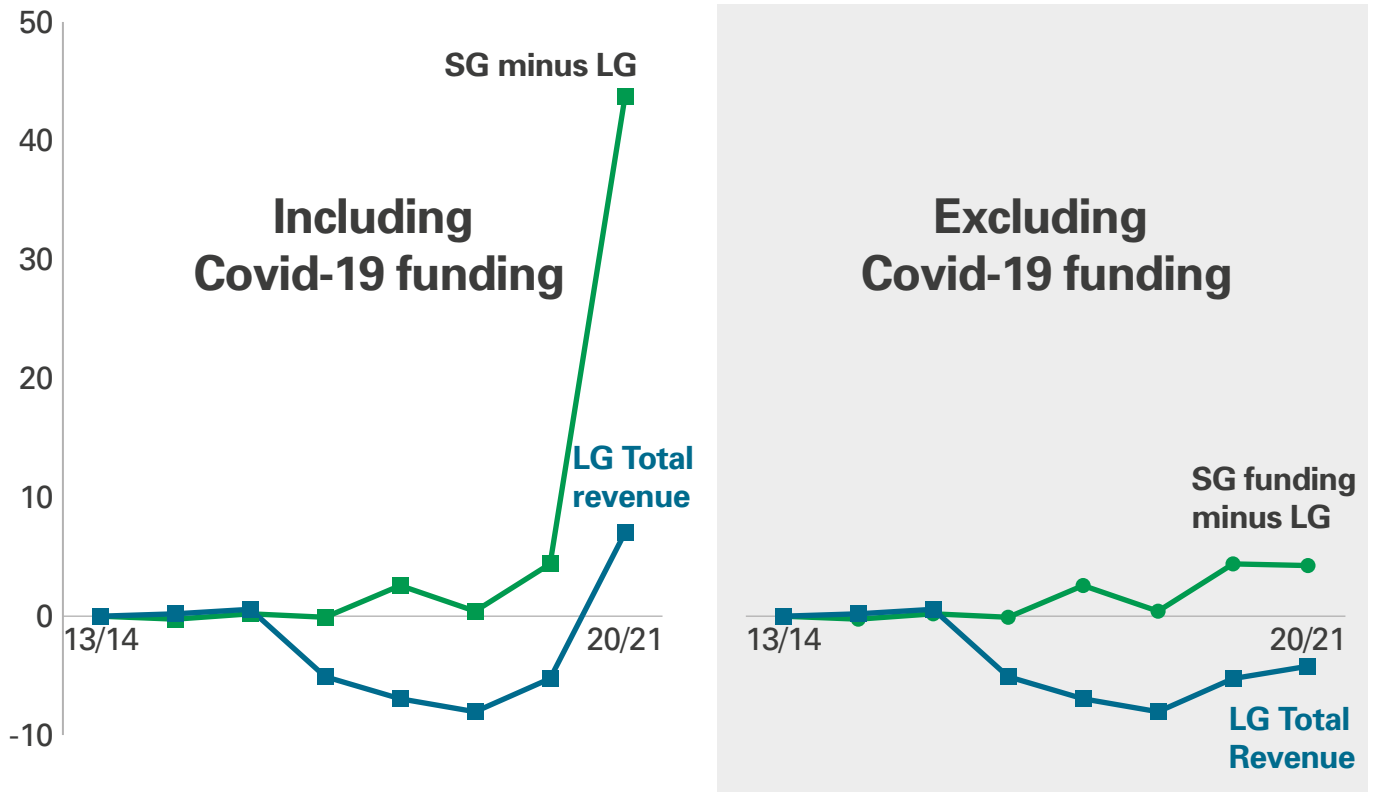
Source: Finance Circular 5/2021 and Scottish Government budget documents

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2. Councils' financial position in 2020/21

Key messages

1 Savings plans were mostly delivered across councils, but with significant variation.

2 All councils increased their usable revenue reserves, mainly due to late Covid-19 funding which was unspent at 31 March 2021. The total increase was £1.2 billion.

3 Capital expenditure reduced by more than 20 per cent in 2020/21 due to Covid-19.

4 Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government. The need to administer payment of these grants quickly to support the local economy put additional pressure on finance staff across councils.

5 Covid-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts. Auditors also reported wider issues relating to Covid-19, including the slowing of progress in some councils' transformation plans, the impact of reduced income on arm's-length external organisations (ALEOs) and what that means for their financial sustainability, identified weaknesses in internal control systems, and adverse impacts on long-term planning and capacity.

6 In line with the recovery in global stock markets, pension fund investments performed well. In addition, the triennial funding position improved.

Council budgets and outturn 2020/21

In 2020/21, initial budget gaps were consistent with previous years

21. In 2020/21, councils identified net expenditure of £13.5 billion in initial budgets. These were budgets that were set before the Covid-19 lockdown in late March 2020. The budget gap at the time was £0.5 billion (1.7 per cent), which was consistent with the gap identified in the previous year.

22. Planned savings were the most common way of addressing expected budget gaps in 2020/21, although plans also included reference to income generating activities and reprofiling loan fund repayments to make savings.

Savings plans were mostly delivered across councils, but with significant variation

23. An analysis of a sample of 14 councils identified that, on average, 83 per cent of the planned savings were achieved. However, there was significant variation in how individual councils performed against their savings targets:

- **East Lothian Council** achieved savings of £3.1 million (99 per cent of those budgeted) in 2020/21. However, of this total, only £1 million (35 per cent) of savings were on a recurring basis. Council officers have recognised the risk of not achieving these savings annually and the council is reviewing its budgeted savings.

- **Angus Council** set a Change Programme saving target for 2020/21 of £9 million. The council achieved actual savings of £8.5million (95 per cent).

- **Comhairle nan Eilean Siar**, which planned to make £2.6 million of savings in 2020/21, achieved savings of £1.6 million or 62 per cent. The auditors note that service redesign savings of £1.0 million were not achieved, as resources were reallocated to the council's Covid-19 response.

- **Fife Council** planned to achieve efficiency savings of £13 million and achieved actual savings of £8 million (65 per cent). The shortfall was dealt with by in-year alternative savings, such as alternative cost reductions, unused contingency funding and a change in accounting treatment of loan charges.

24. Non-recurrent savings can include savings made as a result of delays in recruitment due to Covid-19; savings in budget provisions for energy and NDR costs; reduced operational costs arising from the Covid-19 impact on service delivery; and reductions in borrowing costs resulting from lower than anticipated capital spending.

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All councils reported surpluses and increased their usable reserves in 2020/21. The total increase was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which is earmarked to be spent on Covid-19 recovery activity over the next two financial years

25. All councils increased their total usable reserves at 31 March 2021 to £3.8 billion. This represents an increase of £1.2 billion (46 per cent) on the previous year and includes revenue and capital reserves. Exhibit 5 (page 18) shows increases in councils' usable reserves during 2020/21.

26. Most of the increase in 2020/21 is in general fund reserves (including Housing Revenue Account, HRA) of £1.1 billion. This is predominantly due to a significant element of Covid-19 funding that was issued to councils very late in the financial year. This contributed to about a 70 per cent increase in reserves held by councils at the end of 2020/21. However, the view of the Convention of Scottish Local Authorities (COSLA) is that this funding is fully committed and most will be spent in 2021/22, with an element carried forward to be spent in 2022/23.

27. The timeline of funding announcements made by the Scottish Government during 2020/21 (Supplement: Covid-19 funding to Local Government – 2020/21) illustrates the challenges faced by councils in receiving and spending this additional money.

Reductions in expenditure and savings achieved contributed to about 30 per cent of the increase in councils' reserves in 2020/21

28. COSLA notes that, during 2020/21, councils faced challenges arising from a combination of loss of income and additional expenditure and had to manage financial projections without any guarantee of any additional financial support from either the UK or Scottish Governments. As a result, councils took steps to reduce expenditure and achieve budgeted savings where possible to mitigate the impact of the pandemic. As financial support was announced later in 2020/21 some of the short-term measures taken during the year by councils, to manage their budgets, resulted in increases in council reserves due to service underspends. Around 30 per cent of the increase in reserves is attributed to service underspends.

29. Over the same period, it was not possible to progress spending in some policy areas, such as expanding early years services and employability programmes, adding to a short-term increase in the level of reserves held.

Supplement:
Covid-19 funding to Local Government – 2020/21
Accounts Commission March 2021

Exhibit 5.

Increases in councils' usable reserves during 2020/21
All councils increased their usable reserves.

£1.2 billion increase (46%) on the previous year
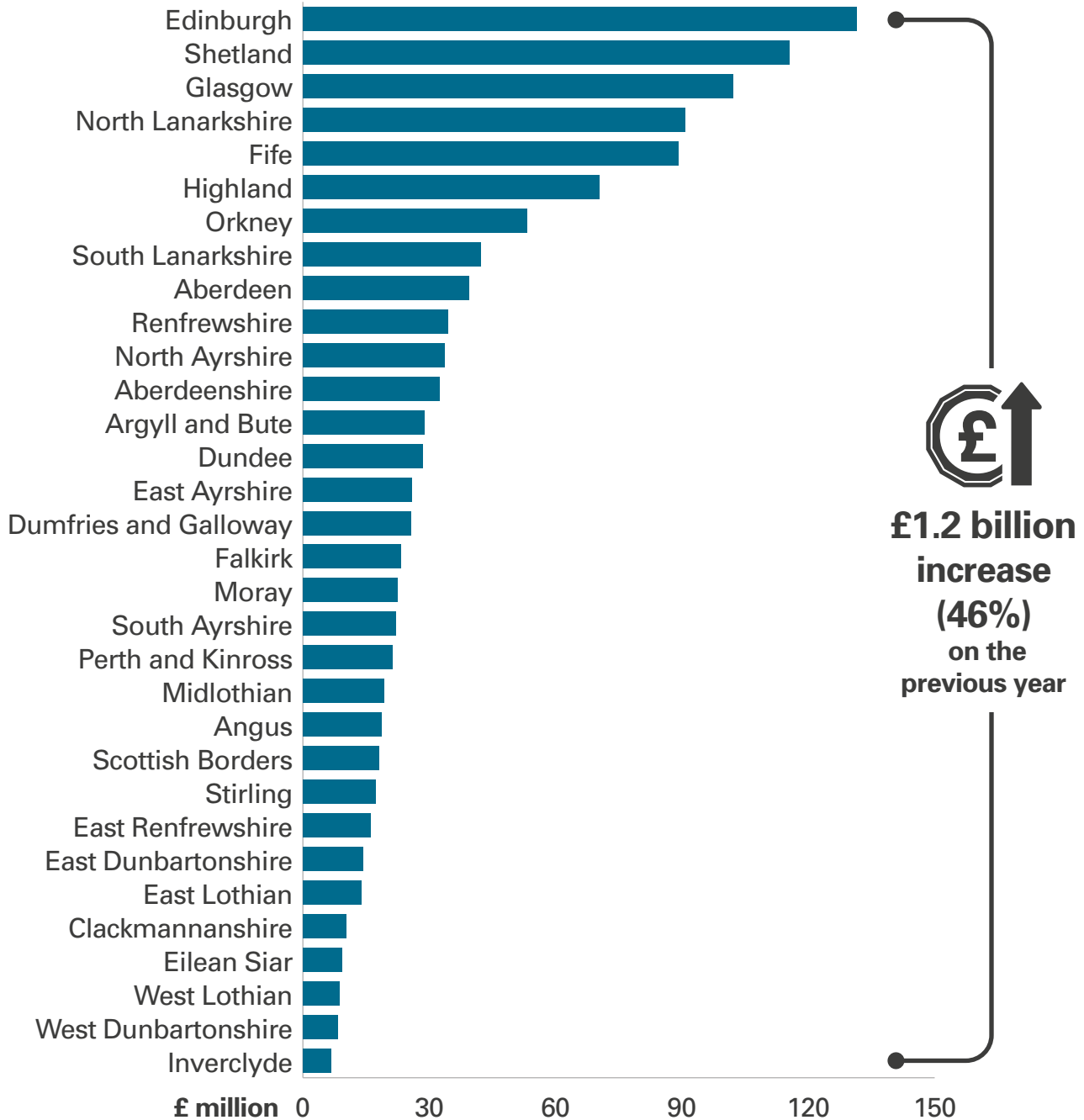
Note: Exhibit 5 data available to download on our website.

Source: Audited financial statements 2020/21

Reserves

Most of the increase in the general fund is committed to Covid-19 recovery

30. Exhibit 6 (page 20) shows the nature and value of usable reserves in 2020/21. Within the committed element of the general fund, councils' accounts have not always clearly identified the element arising from Covid-19 funding, but at least £650 million of the increased balance is identified for Covid-19 recovery, and we believe that the actual amount is much higher.

Recommendation

Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.

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Exhibit 6.

The relative size and nature of councils' usable reserves

In 2020/21, usable reserves held by councils totalled £3.8 billion.

Councils' usable reserves
£3.8 billion

Capital
£0.6 billion

Used for future capital expenditure or to repay borrowing

Revenue
£3.2 billion

General fund
£2.6 billion

Other statutory reserves
£0.6 billion

Committed
£1.9 billion

Surpluses with identified future uses

Uncommitted
£0.5 billion

Surpluses with identified future uses – a contingency balance

HRA
£0.2 billion

Balance of housing surpluses, strictly part of general fund, but used to offset future HRA deficits or enable NRA investment

Repairs and renewals
£0.2 billion

Used to fund future maintenance and repair of assets

Insurance
£0.1 billion

Manages self-insured losses by charges to services

Other usable reserves
£0.3 billion

Includes harbour funds at Orkney and Shetland

Source: Audited financial statements 2020/21

Capital

In 2020/21 underlying capital expenditure was reduced by more than 20 per cent due to Covid-19

31. Capital spending across Scotland fell by £1.2 billion in 2020/21, from £3.6 billion in 2019/20 to £2.4 billion. Glasgow City Council's **sale and leaseback transactions** in 2019/20, as part of its equal pay funding strategy, account for £0.5 billion of this reduction. The overall reduction in capital expenditure in 2020/21, net of Glasgow City Council, was still £0.7 billion (22 per cent, based on £3.1 billion underlying spending last year).

32. Auditors reported that Covid-19 restrictions had a significant adverse impact on the cost and delivery of capital projects in 2020/21. In many cases, capital plans were revised to reflect lockdown and the impact of social distancing and other suppression measures that contributed to delays in construction for a large part of 2020/21.

33. Twenty-six councils (81 per cent) reported reduced capital expenditure. Only six councils spent more on their capital programmes in 2020/21 than in 2019/20. The average decrease was 31 per cent. Significant slippage against capital programmes was also noted at some councils in 2020/21:

- **Dundee City Council:** Capital works of £47 million were completed during 2020/21, against an approved capital programme of £107 million (£75 million general fund projects and £32 million HRA projects). This represents slippage against the original plan of 56 per cent, but this is largely attributable to the impact of Covid-19 in the early part of the year. Multiple projects contribute to the significant slippage recorded and span all services areas, including housing, education, cultural and related services and environmental services.

- **East Lothian Council:** Total capital expenditure in 2020/21 was £56.9 million, relative to a budget of £98.1 million, of which £35.7 million related to general fund projects and £21.2 million to the HRA. This represents slippage against budget of 42 per cent. The underspend is almost entirely due to delays caused by Covid-19 lockdown periods and suspended construction projects.

The number of new houses completed fell by 92 per cent in the first quarter of 2020/21, because of Covid-19, but recovered over the year

34. Local authority housing completions fell by 92 per cent in the first quarter of 2020/21 to 34 from 446 in the first quarter of 2019/20. This was a direct result of the first lockdown and restrictions in response to the Covid-19 pandemic. This significant level of reduction was mirrored across all housing sectors in Scotland. Completions returned to pre-lockdown levels in the second quarter, once initial lockdown restrictions were removed, and continued to recover in the third quarter. In total, 537 completions were reported in 2020/21, an increase of 57 per cent on 2019/20 (Exhibit 7, page 22).

Sale and leaseback transactions

Glasgow City Council included a provision for equal pay costs in 2018/19 and during 2019/20 settled the majority of outstanding equal pay claims. The £500 million cost of settlement was met by a sale and leaseback funding strategy that raised £549 million. Our analysis in 2020/21 has been adjusted to reflect this artificial inflation of capital expenditure in 2019/20.

Exhibit 7.
Quarterly Local Authority Housing Completions
Local authority completions fell by 92 per cent in the first quarter of 2020/21.

Number of new houses completed by local authorities
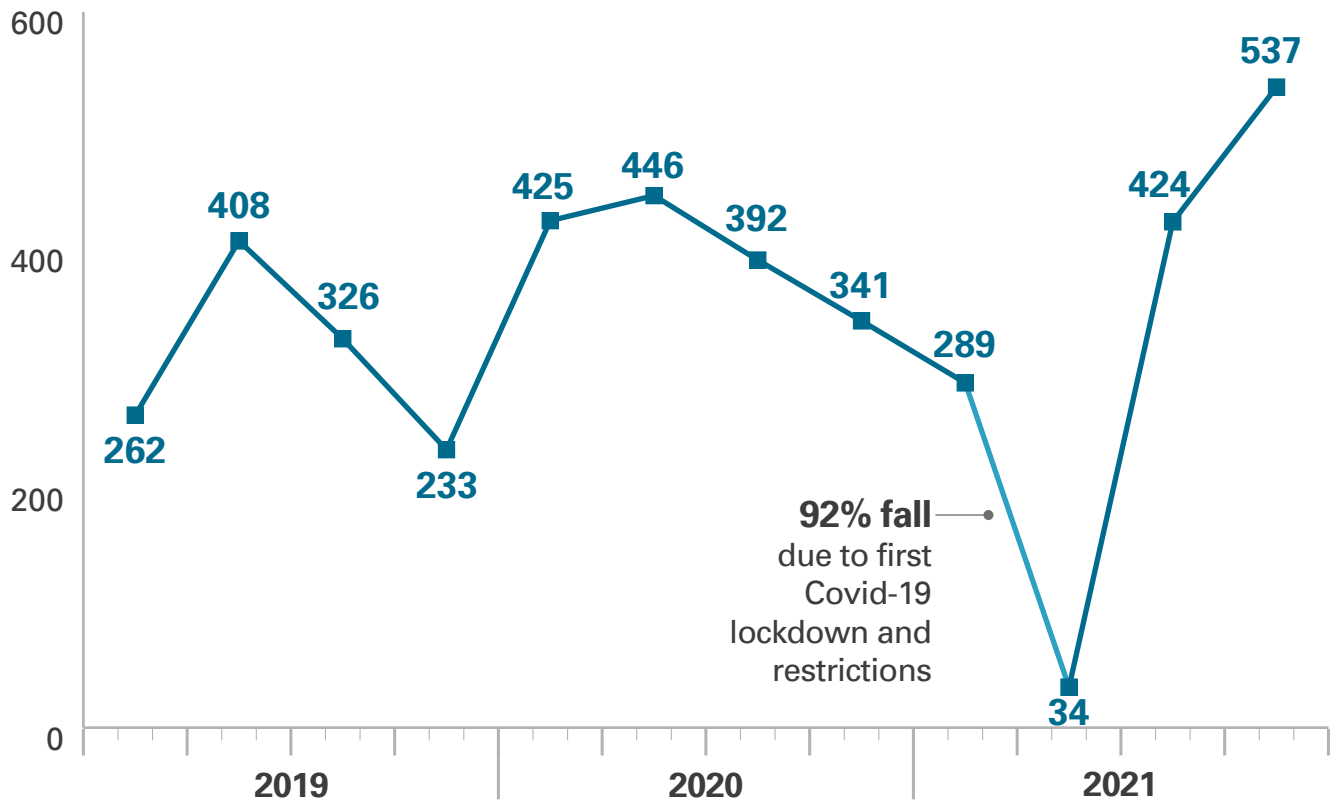
Source: Scottish Government housing statistics quarterly update: December 2021

Capital costs increased in 2020/21, largely as a result of Covid-19

35. Fourteen of the 20 councils that we reviewed noted increased capital project costs in 2020/21, largely because of the impact of the Covid-19 pandemic. The key factors included increases in the cost of raw materials, supply chain delays and inflation associated with delayed contracts.

The main sources of capital financing are still government grants, but internal loan fund repayments from council services have reduced

36. Government grants continued to provide the main source of capital finance (49 per cent). The amounts financed from internal loan fund repayments reduced from 27 per cent in 2019/20 to 20 per cent in 2020/21 (Exhibit 8, page 23).

37. The reduction in this internal source of capital finance might be the result of rescheduling loan fund repayments, reducing the amount available to reinvest in capital.

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Exhibit 8.
Capital expenditure analysed by source of finance 2016/17 to 2020/21
Total capital expenditure fell and 49 per cent was financed by government grants.

49%
Government grants continued to provide the main source of capital finance

2016/17	2017/18	2018/19	2019/20	2020/21	
24%	21%	21%	9%	13%	▇ Increase/decrease in underlying need for borrowing
4%	2%	3%	4%	4%	▇ Other contributions and PPP
8%	5%	3%	17%	3%	▇ Capital receipts
10%	11%	12%	8%	12%	▇ Sums from revenue (CFCR)
23%	24%	23%	27%	20%	▇ Loans fund
31%	37%	38%	35%	49%	▇ Government grants
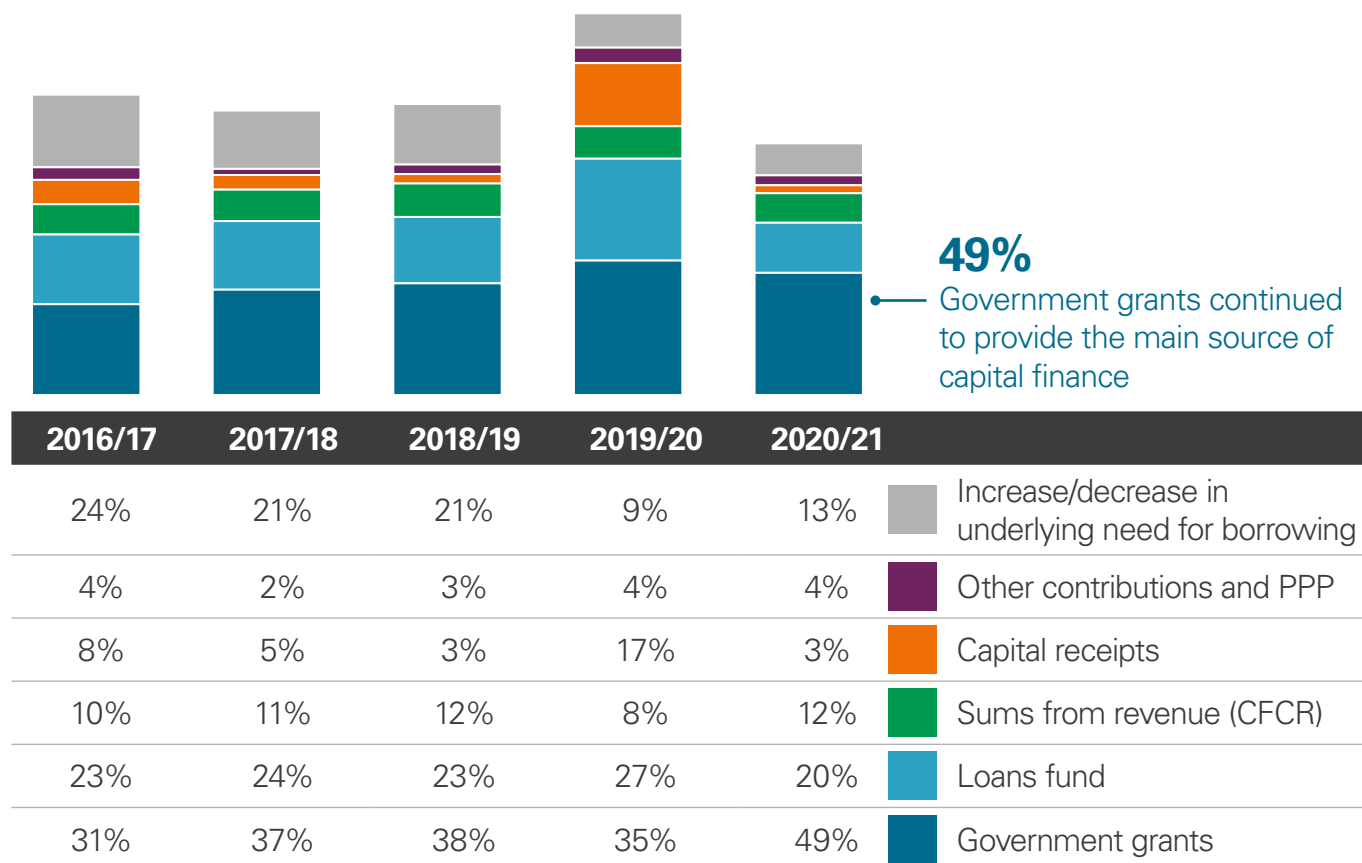
Source: Audited financial statements 2016/17 – 2020/21

Net debt has fallen by £1 billion

38. Total net debt (total debt less cash and investments) fell across councils by £1 billion, or 5.7 per cent, between 2019/20 and 2020/21, to £16 billion. Only seven councils' net debt increased in 2020/21.

39. The most significant element of this change is the increase in cash and investment balances: unspent Covid-19 funding received late in 2020/21 contributed £720 million to the decrease in net debt.

The wider impacts of Covid-19

Councils did not use the additional financial flexibilities granted to respond to Covid-19

40. Councils were given an additional package of spending powers and financial flexibility to respond to Covid-19 in 2020/21. However, of a sample of 22 councils, none used them in 2020/21.

41. Ten of the councils in the sample intend to use funding flexibilities in 2021/22. Some councils intend to use multiple flexibilities. Our analysis indicates that nine councils plan to defer internal loan fund repayments, five councils intend to extend debt repayment periods and two councils plan to use capital receipts to meet one-off revenue pressures arising from Covid-19.

Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21

42. Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21 and acted as agents in administering and disbursing these grants to businesses and individuals. The income and expenditure relating to these grants was not included as income or expenditure in the accounts reflecting the councils' position as paying agents.

43. Some council auditors reported that the additional administrative burden put additional pressure on council finance staff. The auditors of Orkney Islands Council noted that managing the volume and complexity of the various Covid-19 support schemes was challenging for finance staff. Furthermore, the auditors of North Lanarkshire Council found that the council's second officer checks of council tax and NDR discounts and reliefs were paused for a period during 2020/21, as staff were diverted to process Covid-19-related business grants.

44. Across Scotland, councils were under pressure to administer payment of these grants within a very short period of time to support the local economy. Our report Scotland's economy: Supporting businesses through the Covid-19 pandemic, due to publish in March 2022, considers the work undertaken by the Scottish Government and councils to minimise fraud risk involved in making these payments. This included placing reliance on councils' existing internal control environments to ensure eligibility of applications. Council auditors did not report any weaknesses in control in relation to these payments in 2020/21 annual audit reports.

Supporting local government recovery
Scottish Government
October 2020

Covid-19 contributed to greater and more frequent errors in councils' unaudited accounts

45. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance on the accounting treatment and disclosure requirements expected for grants and for the accounting of personal protective equipment. This guidance was issued to councils in June, after unaudited accounts had already been prepared.

46. The majority of council auditors reported errors in the accounting treatment of these unusual transactions in the unaudited annual accounts, but councils made appropriate adjustments to reflect Scottish Government and LASAAC guidance.

47. Auditors also noted some wider issues including errors in asset valuations and the consolidation of group accounts. An increase in the number of errors identified may be linked to the challenges faced by council finance teams working remotely and faced with the additional responsibilities that arose during the Covid-19 pandemic.

Auditors reported issues with transformation plans, support for ALEOs, weaknesses in internal controls, and impacts on long-term planning and capacity due to Covid-19

- **Progress with transformation plans:** Covid-19 slowed progress in transformation and savings plans at some councils in 2020/21. For example, service redesign savings of £1 million were not achieved at Comhairle nan Eilean Siar because resources were reprioritised in response to Covid-19. Similarly, East Dunbartonshire Council's auditor noted that planned efficiency and transformation savings were not fully achieved in 2020/21, due to Covid-19, but that the shortfall was met by budget underspending. Fife Council's transformation programme has also been adversely affected by Covid-19.

- **Funding of leisure ALEOs:** East Dunbartonshire Council supported the East Dunbartonshire Leisure and Culture Trust (EDLCT) through its Covid-19 challenges to ensure the sustainability of its services. EDLCT experienced a significant drop in its income because its facilities were closed in response to Covid-19 and reported a loss of £4.7 million for 2020/21. The council provided additional funding to EDLCT in 2020/21 for vaccination costs (£0.3 million) and loss of income (£0.7 million), as well as letters of comfort to ensure the trust's financial sustainability. Other auditors reported similar support for leisure trusts.

- **Improvements required in internal controls:** The auditors of Glasgow City Council highlighted areas where improvements in internal controls are needed. These were in relation to journal authorisation, checks on discounts on council tax and NDR and on housing benefits, and key system user access. Changes in business operations and working circumstances because of Covid-19 are

likely to have contributed to the weaknesses identified. Covid-19 also had a significant impact on staff capacity and the control environment at Clackmannanshire Council. Auditors concluded that introducing remote working and additional duties and reprioritising tasks had a significant impact on staff capacity to undertake routine tasks on time. This affected the control environment, with several control weaknesses identified that needed a change in the audit approach. Substantive testing was increased to enable the auditors to obtain the required audit assurances.

- **Long-term financial planning:** Some councils have updated their long-term financial plans to reflect the ongoing impact of the Covid-19 pandemic. These plans cover a 10-year period and are in place at Argyll and Bute Council, Comhairle nan Eilean Siar, Inverclyde Council, North Ayrshire Council and West Dunbartonshire Council. The auditors of Dundee City Council note that, although a long-term financial strategy was approved in August 2019, this will now need to be revised to reflect the longer-term financial impact of Covid-19. Auditors note similar findings at Glasgow City Council, Orkney Islands Council and South Lanarkshire Council.

- **Workforce capacity challenges:** Auditors at nine councils reported issues relating to workforce capacity in 2020/21. For example, Angus Council's payroll team faced additional pressures because of staff absences; Comhairle nan Eilean Siar has faced challenges in recruiting a new director for assets, finance and resources; and Dundee City Council faced additional workload challenges caused by a number of changes in key finance staff, administrative problems presented by the Covid-19 support schemes, sickness absence and the impact of remote working.

Local government pension funds

Pension fund investment returns improved in 2020/21 following initial market reactions to Covid-19 in the last quarter of 2019/20

48. The 11 main Scottish local government pension funds experienced positive investment returns in 2020/21. The annual return was between 15.6 per cent and 38.3 per cent in individual funds, based on the average assets position (Exhibit 9). The improvement in asset valuations during 2020/21 followed the global impact on investment values due to Covid-19 in the last quarter to 31 March 2020.

Exhibit 9.

Investment returns based on average assets in Scottish Pension Funds 2020/21
2020/21 investment returns were positive for all funds.
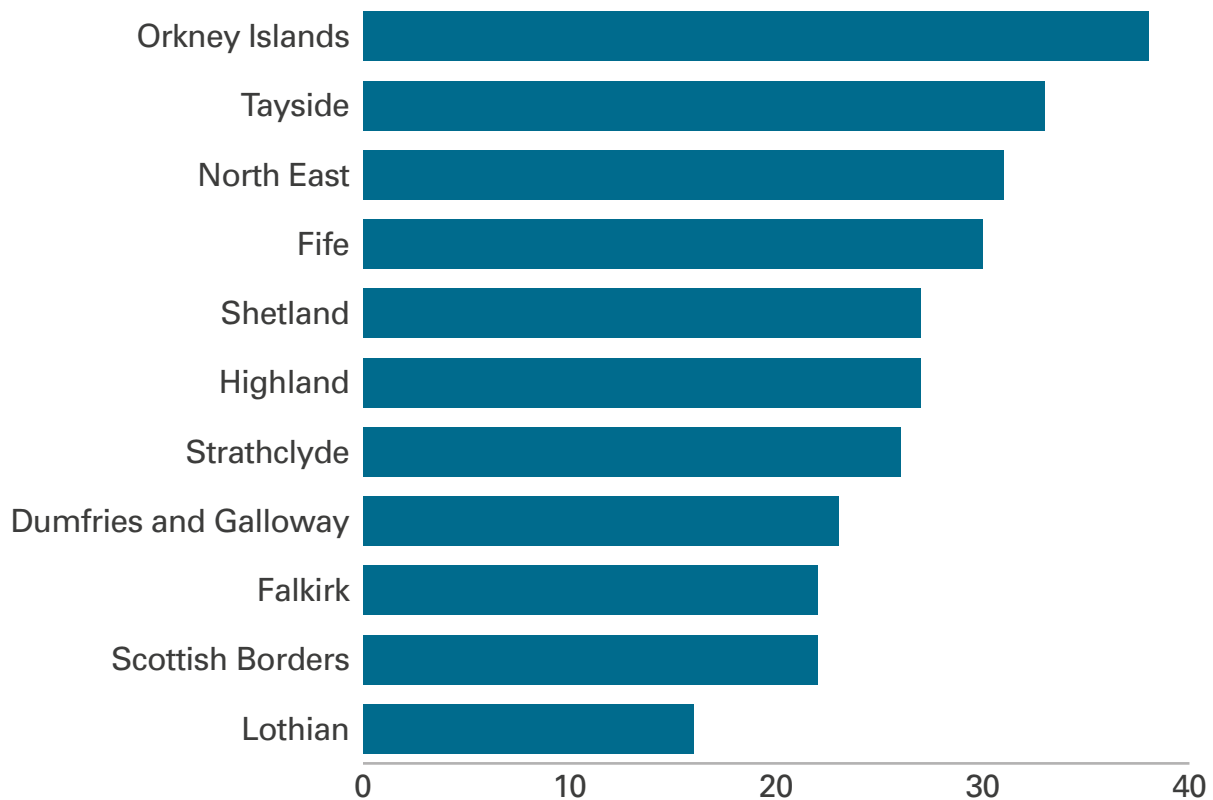
Source: Audited accounts of the Pension Funds 2020/21

Funds tended to outperform their benchmarks

49. In the majority of funds, the overall investment returns outperformed their individual annual benchmarks to 31 March 2021. Fund benchmarks and annual returns reflect the investment strategy of each fund. Funds' investment strategies and exposure to market volatility and risk will differ.

The triennial funding valuation at 31 March 2020 showed improved funding positions for most funds with a number showing funding levels of more than 100 per cent

50. The triennial funding valuation took place across Local Government Pension Scheme pension funds on 31 March 2020. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period.

51. Overall, the funding position has improved across Scotland. Nine of the 11 pension funds showed an improved funding position compared with 2017, with the biggest increase noted at Lothian Pension Fund (98 per cent funded in 2017; 106 per cent funded in 2020).

52. Seven funds show funding levels of more than 100 per cent. These range from 118 per cent in Orkney Islands Council Pension Fund to 100 per cent at Highland Pension Fund. Not all pension funds were fully funded, however. Funding levels of 92 per cent were noted at Dumfries and Galloway Pension Fund and at Shetland Islands Council Pension Fund.

Financial management and transparency

Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency

53. In previous Local government in Scotland: Financial overview reports we highlighted three key aspects in assessing whether financial reporting is transparent in the management commentaries:

- Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious?

- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained?

- Is progress against agreed savings reported?

54. Our review of 2020/21 management commentaries found that:

- Argyll and Bute Council, City of Edinburgh Council, Comhairle nan Eilean Siar, Fife Council, South Lanarkshire Council, Stirling Council and West Dunbartonshire Council included these key aspects of transparency in their management commentaries.

- Nearly all councils reported their year-end outturn, but six councils did not explain significant variances from budget.

- Only nine councils reported progress against agreed savings.

Recommendation

We recommend again that councils review and improve how they comply with these key expectations of transparency

Most councils identified the financial impact of Covid-19 in their management commentaries

55. We also considered the extent to which management commentaries for 2020/21 included detail of the impact of Covid-19 on councils' financial positions and governance arrangements. Most councils included good coverage of this in the management commentary, particularly on the total cost of Covid-19, additional funding provided and the distribution of business support grants on behalf of the Scottish Government.

3. Councils' financial outlook

Key messages

1 Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.

2 Initial Scottish Government revenue funding in 2021/22 has increased by 1.1 per cent in real terms.

3 Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

4 Scottish Government capital funding in 2021/22 is expected to fall again. This may have a significant adverse impact on councils' investment plans.

5 The long-term funding position for councils remains uncertain, with significant challenges ahead as councils continue to manage and respond to the impact of Covid-19 on their services, finances and communities.

6 In the longer term, uncertainty creates challenges for councils as they seek to address cost and demand pressures that existed before the impact of Covid-19, as well as develop long-term plans with their partners to address complex issues such as child poverty and inequalities, to improve economic growth and to deliver Scotland's net zero ambitions.

Budgets for 2021/22

The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021

56. Councils approved net expenditure budgets of £13.8 billion for 2021/22, including a budget gap of £0.2 billion (or 1.5 per cent). Many budgets were set before the full impact of Covid-19 funding was known in 2020/21, and some councils set their budget over more than one meeting due to changing financial position on funding.

57. As Covid-19 funding was not incorporated into initial council budgets for 2021/22, many councils presented additional 'Covid-19 budgets' in autumn 2021. Of a sample of 22 councils, only five (or 23 per cent) reported that they have updated their reserves policy because of changes resulting from Covid-19.

Recommendation

We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision-making committee.

All councils froze council tax for 2021/22

58. The Scottish Government made a grant offer conditional on all councils agreeing to freeze their council tax at 2020/21 levels. All councils agreed to accept this offer and froze council tax for 2021/22.

Many councils continue to present multi-year indicative budgets

59. Sixteen councils presented multi-year indicative budgets in 2021/22. In four councils (Aberdeen City, Aberdeenshire, Scottish Borders and Stirling) budgets cover the next five years, and the others cover two or three years.

Financial pressures in 2021/22 budgets

The 2021/22 budget papers contained some common themes in the pressures that councils identified

60. Councils consistently identified short- and long-term cost pressures in their initial 2021/22 budget papers, including:

- costs associated with restarting services after restrictions have ended

- inflation

- increased pay awards

- demand pressures, particularly population and demographic changes

- pressure on capital budgets

- financial sustainability challenges for ALEOs.

61. Further commentary on the future funding position of councils and the associated challenges is included at paragraphs 70 to 73.

2021/22 funding settlement

Excluding Covid-19 funding, initial Scottish Government revenue funding in 2021/22 has increased by 1.1 per cent in real terms. However, when non-recurring Covid-19 funding is included, total revenue funding has fallen by 7.4 per cent in real terms

62. The initial local government revenue settlement from the Scottish Government in 2021/22, excluding non-recurring Covid-19 funding, increased by 3.4 per cent (cash terms) from 2020/21 to £11.0 billion. This was a real terms increase of 1.1 per cent (Exhibit 10).

63. Non-recurring funding related to Covid-19 has fallen from £1.3 billion in 2020/21 to £0.3 billion in 2021/22. As a result, total revenue funding has fallen by 7.4 per cent in real terms from £11.9 billion in 2020/21 to £11.3 billion in 2021/22.

Exhibit 10.
Changes in Scottish Government initial revenue funding in 2021/22

	2020/21 £ million	2021/22 £ million	Cash change %	Real terms change %
General revenue grant and non-domestic rate income	9,967	10,267	3.0	0.6
Specific revenue grants	710	776	9.3	6.8
Revenue funding excluding Covid-19	**10,677**	**11,043**	**3.4**	**1.1**
Non-recurring Covid-19 funding	1,254	259	-79.3	-79.8
Total revenue funding	**11,931**	**11,302**	**-5.3**	**-7.4**

Source: Finance circulars 05/2021 and Scottish Government Budget documents

Medium- and long-term financial planning

Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes

64. Auditors have reported greater uncertainty in current financial planning arrangements at councils because of Covid-19. All councils will now need to revise medium-term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions.

65. Of a sample of 22 councils, all have a medium-term financial plan in place that covers a 3-5 year period. Only 19 councils review the plan annually.

66. Fifteen of the 22 councils sampled have a longer-term financial plan in place (covering a period of over five years), but many now need updated. The continuing uncertainty and related challenges created by Covid-19 mean that councils have concentrated on revising medium-term financial plans during the recovery from the pandemic. As the uncertainty created by Covid-19 diminishes, councils should update their longer-term financial plans to reflect this. It is also important that councils take account of their overarching recovery strategies in the longer term.

67. Most medium-term financial plans included in our sample contained details of savings and targets, cost pressures, updates on Scottish Government funding levels and scenario planning for the future. We noted gaps, however, in some medium-term financial plans in that key areas and risks, such as Scottish Government settlement updates, staff costs, demographics and inflation, are set out but not quantified.

Recommendation

All councils will now need to revise medium-term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions.

Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

Capital funding

Scottish Government capital funding in 2021/22 is expected to fall again

68. The local government capital settlement in 2021/22 decreased from £0.8 billion in 2020/21 to £0.6 billion. Capital funding increased significantly up to 2019/20 before falling in 2020/21 and 2021/22 (33 per cent increase between 2017/18 and 2019/20 when capital funding was £1.1 billion). Total capital funding has fallen to a level below that in 2013/14 in real terms (Exhibit 11).

Exhibit 11.

Real terms capital funding between 2013/14 and 2021/22
Scottish Government capital funding in 2021/22 is decreasing by 23 per cent
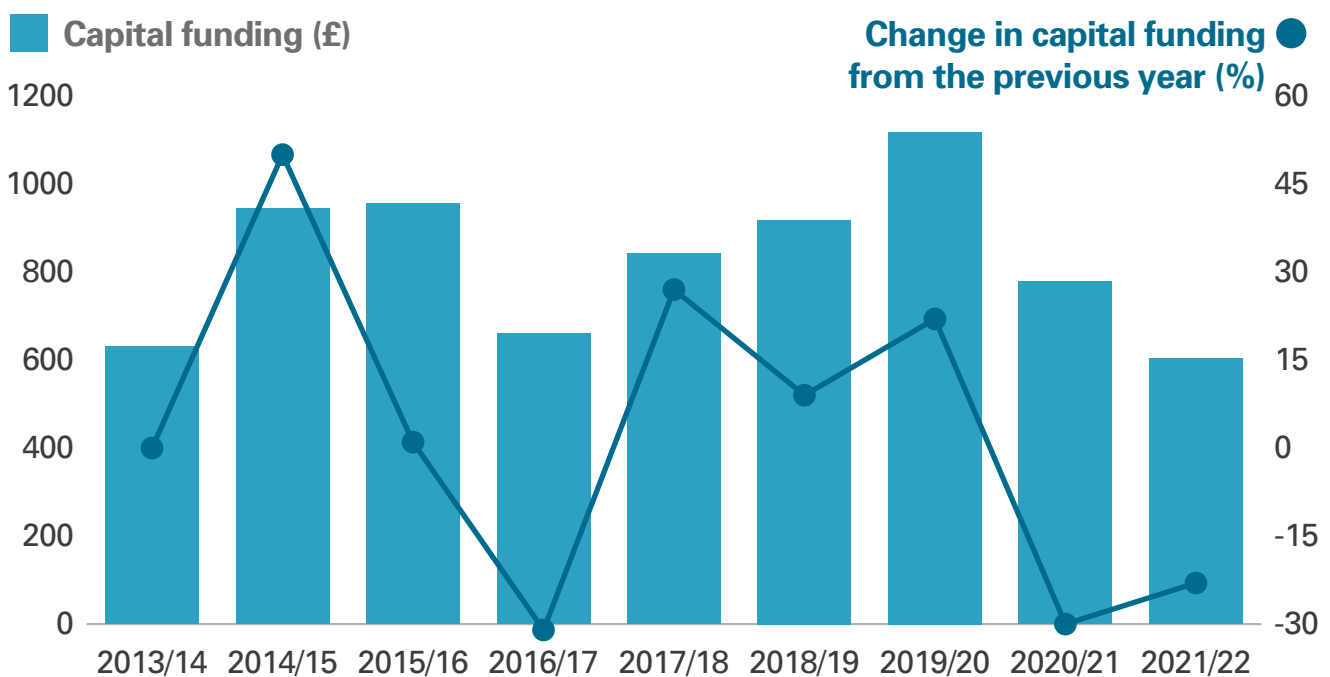
Source: Finance circulars 05/2021 and Scottish Government budget documents

The fall in capital funding may have a significant impact on councils' investment plans

69. Reductions in capital funding may have a significant adverse impact on councils' investment plans. This may create a risk that the progress of crucial transformation activity will be restricted. This is of significant concern at a time when councils will face challenges in supporting communities and local economies to recover from the impact of Covid-19, as well as taking on other local priorities and national policy commitments.

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Longer-term financial challenges

Councils' future funding position remains uncertain, with many challenges ahead

70. The funding settlement from the Scottish Government to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium and longer term and creates uncertainty over future funding. COSLA expects that the impact of the Covid-19 pandemic will last for many years and that continuing loss of income and additional expenditure will be a concern for all councils. Managing reserves and medium and longer-term financial planning will continue to be key to maintaining financial sustainability.

71. COSLA also expects that uncertainty over the continuity of Covid-19 funding in future years will bring substantial challenges to councils in developing effective medium and longer-term financial plans. As Covid-19 funding reduces, councils will need to accelerate progress with transformation programmes that have stalled, address issues in delivering recurring savings and bring forward proposals to reduce costs to maintain financial sustainability.

72. Although councils' reserves increased significantly in 2020/21, large parts have been earmarked for specific purposes, such as economic recovery, business transformation and, in some cases, balancing budgets, as part of a longer-term financial strategy. This therefore limits councils' flexibility to respond to unforeseen challenges and circumstances that may arise.

73. The requirement for councils to plan and deliver new ways of working across services, the need to meet carbon reduction targets to mitigate climate change and the potential impact of a national care service on councils' finances and service viability further exacerbate this challenge. We intend to comment further on this as part of our Local government in Scotland: Overview 2022 report, due for publication in May 2022.

The Scottish Government and COSLA are discussing the extent of ring-fencing in the local government budget

74. The provisional Scottish local government finance settlement for 2022/23 was published on 20 December 2021. This set out that a total of £12.5 billion will be distributed to local authorities in 2022/23. However, a final figure has yet to be established as the Scottish Budget process continues.

75. Almost £1.4 billion of the local government settlement is being transferred from other portfolios. As noted in our recent Scottish Budget 2022/23 briefing, the Scottish Government regards this funding as general revenue grant, available to allocate to local needs and priorities, and considers specific revenue grants the only element of the revenue

settlement that is ring-fenced. COSLA contests this view and claims that revenue funding transferred from other portfolios is ring-fenced for implementing a specific policy and comes with conditions setting out how it should be used.

76. The Scottish Parliament Information Centre notes that, if specific revenue grants are the only part of funding that is considered ring-fenced, then ring-fenced funds as a proportion of total revenue grew from 2.7 per cent in 2018/19 to 6.6 per cent in 2022/23. However, if COSLA's definition of ring-fencing is used, namely specific revenue grants plus revenue transferred from other portfolios, then ring-fenced funding as a proportion of total revenue grew from 4.0 per cent in 2018/19 to 17.9 per cent in 2022/23.

77. As we have noted earlier in the report, ring-fenced funding helps support the delivery of key Scottish Government policy initiatives but constrains a proportion of councils' total funding and removes any local discretion over how these funds can be used. The Scottish Government and COSLA continue to discuss this.

> **Local Government Finance: Budget 2022-23 And Provisional Allocations to Local Authorities**
> Scottish Parliament Information Centre
> January 2022

Local government in Scotland
Financial overview 2020/21

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AUDIT SCOTLAND

Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

Revenue Monitoring 2022/23 – month three position – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1.   For Decision/Action

1.1   The Finance and Resources Committee has referred a report on the Revenue Monitoring 2022/23 – month three position to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

Revenue Monitoring 2022/23 – month three position – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 8 September 2022, the Finance and Resources Committee considered the Revenue Monitoring 2022/23 – month three position report. The report set out the projected Council-wide revenue budget position for the year, based on analysis of the first three months' financial data and projections of income and expenditure for the remainder of the year.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note that, as of month three, an overall overspend of £5.627m was forecast.

2.2.2 To note the potential for further expenditure pressures to emerge during the remainder of the year, particularly in respect of the 2022/23 employee pay award and other inflationary uplifts, and thus the urgent need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership.

2.2.3 To note on-going discussions with the UK and Scottish Governments around the provision of further funding to address in full significant additional costs expected to be incurred as part of the Council's response to the Ukraine crisis.

2.2.4 To note that, in light of the above, regular updates would continue to be provided to members of the Committee during the remainder of the year.

2.2.5 To refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

3. Background Reading

3.1 Finance and Resources Committee – 8 September 2022 - Webcast

3.2 Minute of the Finance and Resources Committee – 8 September 2022

4.   Appendices

4.1   Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Revenue Monitoring 2022/23 – month three position

Executive/routine	Executive
Wards	
Council Commitments	

1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended to:

1.1.1 note that, as of month three, an overall overspend of £5.627m is being forecast;

1.1.2 note the potential for further expenditure pressures to emerge during the remainder of the year, particularly in respect of the 2022/23 employee pay award and other inflationary uplifts, and thus the urgent need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;

1.1.3 note on-going discussions with the UK and Scottish Governments around the provision of further funding to address in full significant additional costs expected to be incurred as part of the Council's response to the Ukraine crisis;

1.1.4 note that, in light of the above, regular updates will continue to be provided to members of the Committee during the remainder of the year; and

1.1.5 refer this report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Report

Revenue Monitoring 2022/23 – month three position

2.   Executive Summary

2.1   The report sets out the projected Council-wide revenue budget position for the year, based on analysis of the first three months' financial data and projections of income and expenditure for the remainder of the year. At this stage, an overall overspend of £5.627m is being forecast but with the potential for further risks to emerge during the remainder of the year, particularly in respect of the 2022/23 employee pay award and other inflationary uplifts. Additional certainty is also required with regard to securing full funding for the significant additional costs being incurred as part of the Council's response to the Ukraine crisis.

2.2   It is therefore crucial that Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership fully manage pressures, risks and savings delivery shortfalls within their respective core budgets and review all discretionary expenditure if a balanced position is to be achieved by the end of the year.

3.   Background

3.1   On 24 February 2022, Council approved a balanced revenue budget for 2022/23 based on the Council's provisional grant funding allocation and a 3% increase in Council Tax rates. This grant funding allocation was then confirmed following approval of the Local Government Finance Order for 2022/23 on 2 March 2022.

3.2   A subsequent report to the Finance and Resources Committee on 3 March 2022 highlighted to members the main aspects of the approved budget, including:

   (i)   £9.860m of additional one-off service investments;

   (ii)   £25.3m of provisions in respect of the on-going financial impacts of the pandemic, including sums provided to recognise continuing homelessness pressures, loss of the Lothian Buses dividend, support to the Council's Arm's-Length External Organisations (ALEOs) and reduced parking and commercial rental income; and

   (iii) £19.2m of newly-approved savings, primarily in corporate budgets.

3.3 Members then considered an interim in-year update at the Committee's following meeting on 16 June. The report highlighted that the Council's budget is subject to an unprecedented level of inflation-linked pressures, most materially in respect of energy-related tariff increases but also including other areas of third party spend linked to supplier claims for significant uplifts.

3.4 While, given the level of uncertainty in the wider environment, the report emphasised the difficulties in accurately quantifying the extent of these pressures, it was noted that consideration of corporate budgets had identified potential savings across a number of areas, including (i) continuation of underspends apparent in the provisional outturn for 2021/22, (ii) application of the budget framework risk contingency and available inflation provisions and (iii) other timing-related savings, to address the most material non-pay inflation pressures within a balanced overall position. It was noted, however, that a key area of risk related to the adequacy of pay award provision in 2022/23. This position also assumed full management of other risks and pressures within Directorates.

4. Main report

COVID-related impacts

4.1 As was the case in both 2020/21 and 2021/22, monitoring in the current year will focus not only on core service activity but, in addition, how the projected expenditure and income impacts of the pandemic compare to the provisions contained within the revised budget. The budget approved by Council on 24 February 2022 provided for the following sums:

Area of expenditure pressure/income loss	£m
Reductions in parking income	6.0
Lothian Buses - loss of dividend	6.0
Reductions in commercial rental income	3.0
Additional support for Edinburgh Leisure	3.0
Homelessness	3.0
ALEOs – other	1.0
Personal Protective Equipment	1.0
Other income/expenditure	2.3
Total funding for COVID impacts	**25.3**

4.2 In the case of homelessness services, the £3m shown above forms part of an overall level of budgetary provision that is £17.6m higher than was approved, pre-pandemic, for 2020/21.

4.3 Other income/expenditure represents sums set aside in recognition of various anticipated continuing impacts of increased expenditure, or reductions in income, linked to the pandemic. These provisions include additional staffing costs in waste and cleansing, as well as assumed reductions in income for the Council's outdoor

centres, cultural venues and community access to schools. As with all COVID-related projections, these will be the subject of on-going review during the year.

4.4 **At this stage and based on the actual COVID-related requirement in 2021/22, the approved level of provision is assessed to be sufficient**. Parking income for the year to date has been around £0.1m per month lower than in 2019/20, the last full largely pre-pandemic year. While these shortfalls are in addition to income from inflationary uplifts that would have been anticipated over this period, they are still expected to fall within the £6m budget framework income loss provision in this area.

4.5 Transport Scotland has confirmed the provision until October 2022 of additional funding to bus operators through the Network Support Grant (NSG) Plus initiative, a temporary scheme to support services and protect fares while patronage continues to recover from the impacts of the pandemic. Lothian Buses has previously indicated that it does not anticipate being in a position to pay any dividend to the Council for the foreseeable future, an assumption that is consistent with the budget framework.

4.6 Equivalent funding has not, however, yet been made available to Edinburgh Trams, with overall patronage sitting at 75% of pre-COVID levels. Tram revenues are also being affected by the expansion of free travel to under 22s where the Council has previously agreed not to make offsetting funding available. Members will therefore be kept apprised of any developments in this area.

4.7 Through a combination of an element of carry-forward from 2021/22 and the in-year allocation of £3m, it is not anticipated that the level of assumed financial support for Edinburgh Leisure will be exceeded.

4.8 The Council's commercial rental portfolio has proved resilient to wider economic conditions and the level of provision for reductions in income received is assessed to be sufficient at this time.

4.9 The position in respect of homelessness services is covered in more detail later within the report.

Directorate projections

4.10 In addition to monitoring the on-going or residual impacts of the pandemic, Executive Directors continue to oversee the delivery of approved savings and management of pressures within their respective areas. The approved budget for 2022/23 contains relatively few service-specific savings and also made some additional provision for service pressures. While these measures provide a degree of contingency against the emergence of significant in-year pressures within services, it remains the role of Executive Directors to manage these fully when they do arise and to maintain expenditure within budgeted levels.

Education and Children's Services

4.11 The first quarter's monitoring forecast for the Directorate shows a net pressure of £2.5m. Significant elements within the forecast include a projected net pressure of £1.9m within the budget for Children's Services, including residential and secure accommodation, reflecting increases in the numbers of young people being supported across the service and limited capacity to free up places within internal provision to return young people to the Council's care. The forecast is based on current numbers of young people and families being supported and so any further increase in demand for support will result in an additional pressure.

4.12 Pressures of £1.2m are also forecast within Home to School Transport, reflecting previously approved budget savings relating to the Transport Review and costs for additional routes which were put in place in response to the pandemic. Routes will be reviewed following the start of the new school term and any changes in the current forecast will be reported as part of the month six update.

4.13 At this stage, potential net mitigations across the wider service of £0.6m have been identified, resulting in an overall projected pressure of £2.5m at this time.

4.14 Forecast pressures are based on an initial assessment of spend as at the end of May and will be subject to review through the on-going revenue monitoring process, with an update provided as part of the month six monitoring report.

Corporate Services

4.15 As outlined in a report elsewhere on today's agenda, the Interim Executive Director of Corporate Services is projecting an overall service underspend of £0.279m, in the main attributable to one-off staffing-related savings. This projection does not, however, reflect any expenditure in respect of required Enterprise Resource Planning (ERP) upgrades, the subject of a separate report on today's agenda.

Place

4.16 The Executive Director of Place is forecasting an overall pressure of £3.7m as of period three. This position reflects the combined impact of inflationary pressures in excess of those for which corporate budgetary provision has been made (totalling £1.8m) and a range of other net pressures across the Directorate of £1.9m.

4.17 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions, such that net expenditure is brought back within approved levels.

Homelessness Services

4.18 Revenue monitoring reports throughout 2021/22 highlighted pressures within Homelessness Services and, such is the extent of these pressures, the approved budget for 2022/23 contains £17.6m of additional investment relative to the equivalent budget for 2020/21. Despite this additional investment, further pressures totalling £5.5m are apparent in 2022/23, mainly comprising:

（i）　　projected in-year growth in client numbers;

（ii）　　claims for increased rates from providers due to changes in market rates (Private Sector Leasing), inflationary increases (spot purchasing) and revision of current terms (contracted suppliers), the majority of which represent a pass-through of increased energy costs;

（iii）　　costs of the Welcome Centre, funding for which remains to be confirmed; and

（iv）　　increased Council costs for Housing First.

4.19　A more detailed report in this area, including options for the mitigation of demand-led pressures, will be considered by the Housing, Homelessness and Fair Work Committee on 29 September.

Edinburgh Integration Joint Board (EIJB)

4.20　The EIJB Chief Finance Officer presented an update on the 2022/23 Financial Plan to the Board's meeting on 9 August 2022.

4.21　At its meeting in March 2022, the EIJB agreed the financial plan for 2022/23. At that point, the budget was out of balance by £16.9m and the board recognised that IJB officers would work with partner bodies to address the gap as the year progressed. In setting a budget with a deficit, the IJB recognised the clear risk that agreeing stringent additional savings at a time of significant uncertainty could lead to unnecessary public concern as well as a material deterioration in performance.

4.22　Decisions made at the Board's meeting on 9 August resulted in a reduction of the residual gap to £10.8m. Comprehensive financial reporting covering all delegated services is not yet available for 2022/23. All indications, however, are that the underlying position will show improvement relative to the assumptions contained within the financial plan. The position will be closely monitored by the EIJB Chief Officer and Chief Finance Officer, working with the finance teams from the Council and NHS Lothian, with a view to bridging the in-year shortfall by the year-end.

Savings delivery

4.23　The approved budget for 2022/23 is underpinned by the delivery of approved savings of £19.2m. As shown in Appendix 2, 92% of these savings by value are currently assessed as green, with most of the remainder assessed as amber. Assessments of the deliverability of the latter, and where necessary identification of mitigating offsetting measures, remains in progress.

Service investments

4.24　As part of setting the Council's budget on 24 February 2022, members approved £9.860m of service investments. Appendix 3 shows the current assessment of these savings and the associated outcomes sought. Any in-year underspends

against these investments will not be carried forward into 2023/24 and thus considered in the context of offsetting future years' savings requirements.

Employee pay award, 2022/23

4.25 The Council's approved budget for 2022/23 provides for a pay uplift of 3% across all staffing groups, a level of provision that lies at the higher end of councils in Scotland.

4.26 Given the level of offer made to NHS staff, COSLA has estimated that £278m would additionally be required to increase the overall offer to local government staff from the previously-rejected 2% (the average level of provision made by Scotland's councils, in turn linked to the Scottish Public Sector Pay Policy) to 5%, sums that would need to be identified on a recurring basis to avoid hastening pressures in future years. Given that the previous offer of 2% has already been assessed by COSLA to lie at the limits of affordability, a corresponding request was made to the Scottish Government to fund the £278m in full.

4.27 Through reprioritisation of its own budget, the Scottish Government has identified £140m of additional recurring funding i.e. half of the requested increase. Following the Leaders' Meeting on 19 August, COSLA as employer agreed to fund the remaining element required to increase the overall offer to 5% and the Scottish Local Government Living Wage to £10.50 per hour whilst signalling a need for further discussions with the Scottish Government around greater flexibility in the application of existing funding. A separate report on today's agenda provides an overview of potential areas for consideration.

4.28 It is important to emphasise that the 5% figure represents an average across the workforce as a whole, with higher percentage increases being assumed for lower-paid staff. Discussions on the precise configuration of this offer are continuing.

4.29 When added to the 3% already included in the Council's budget, this would mean that 4.5% of an offer of 5% could be funded on a recurring basis, albeit with the position for 2023/24 and subsequent years reflecting significant remaining funding gaps. The unfunded 0.5% would give rise to an estimated in-year and recurring pressure of £3.1m, subject to the decision of Council Leaders on distribution of the £140m of Scottish Government funding, and this sum is assumed in overall monitoring projections. Given the evolving nature of discussions, a verbal update will be provided at the meeting.

Ukraine response

4.30 The Council is undertaking a key role in welcoming displaced Ukrainians to Scotland and thereafter temporarily resettling a number of these within the city. As of the beginning of August, almost 6,000 arrivals had been triaged at the Council-operated Welcome Hub, with around 600 Ukrainians now residing in Edinburgh with hosts under the Homes for Ukraine scheme.

4.31 While some elements of funding have been received, the Council has also incurred significant expenditure in establishing and operating what are essentially national facilities where, as of the time of writing, related funding arrangements remain to be confirmed. Urgent discussions have therefore been initiated at a senior level with both the Scottish and UK Governments as appropriate to ensure these costs are understood and funded, with no further commitments to be entered into until this assurance has been received. These discussions will also seek to clarify the provision of funding beyond the current financial year.

Inflationary pressures

4.32 The report considered by the Committee on 16 June highlighted a range of inflationary pressures affecting the Council, most materially energy cost increases but also including food, fuel, home-to-school transport and uplifts affecting a number of its contracts. At this stage, the level of these remains broadly unchanged, with a pressure of some £8.9m in respect of energy assumed within the overall outturn. The projected outturn for the Homelessness Service also reflects £2m of additional contract uplift requests from other providers. Other inflationary pressures, where their impact cannot be fully mitigated, are reflected in service outturns.

Corporate budget savings

4.33 Given the extent of inflation-related and wider pressures within services, opportunities to address these through available savings in corporate areas continue to be examined. As of period three, the following anticipated mitigations have been identified:

(i) **Council Tax** - the 2021/22 outturn report elsewhere on today's agenda indicates a positive variance of £2.271m. Based on analysis of subsequent changes in the size and profile of the Council Tax base and estimated movements in discounts and exemptions over the remainder of the financial year, a £3m positive variance is being forecast in 2022/23;

(ii) **Loans charges/interest and investment income** - based on analysis of planned in-year capital spend, debt redemption, available cash balances and recent increases in interest rates, an overall saving of £3m is now anticipated;

(iii) **application of the budget framework risk contingency, available inflation provisions and other timing-related savings** – together releasing £7.9m towards energy cost increases; and

(iv) the Council's share of net revenue from electricity generation through the **Millerhill Recycling and Energy Recovery Centre,** estimated at £3.8m in 2022/23.

Overall position

4.34 Taken together, the net impact of anticipated pressures in service areas less corporate or other savings is a projected overspend of £5.6m as shown in the table below:

	£m	£m
Net pressures in service areas:		
Homelessness Services	5.5	
Place	3.6	
Education and Children's Services	2.5	
Corporate Services	(0.3)	
Energy	8.9	
Employee pay award, 2022/23	3.1	
		23.3
Savings in corporate budgets:		
Application of budget framework risk contingency, available inflation provision and other timing-related savings	(7.9)	
Millerhill - gainshare income	(3.8)	
Loans charges/interest and investment income	(3.0)	
Council Tax	(3.0)	
		(17.7)
Net projected pressure		5.6

4.35 As noted in the preceding sections, there is the potential for further risks to emerge during the remainder of the year, particularly in respect of the 2022/23 employee pay award and other inflationary uplifts. Additional certainty is also required with regard to securing full funding for significant additional costs being incurred as part of the Council's response to the Ukraine crisis.

4.36 It is therefore crucial that Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership fully manage pressures, risks and savings delivery shortfalls within their respective core budgets and review all discretionary expenditure if a balanced position is to be achieved by the end of the year.

4.37 To this end, revised arrangements for staff recruitment have been implemented with effect from 3 August 2022, requiring all recruitment to secure written approval from both the relevant Head of Service and Service Director. The need to recruit should also be more explicitly scrutinised, including consideration of whether the relevant service could be delivered in a different way within current capacity.

5. Next Steps

5.1 Given the range of pressures outlined within the report, Executive Directors will require to bring forward measures to offset residual service pressures and risks within their respective areas of responsibility during 2022/23. The adequacy of budget framework provision in respect of the on-going financial impacts of the pandemic will also be kept under close review with a view to taking any necessary remedial action.

6. Financial impact

6.1 As of Period 3, an overall overspend of £5.6m is forecast, with a range of further pressures identified. The report therefore acutely emphasises the importance of proactive management of pressures and delivery of approved savings in maintaining the integrity of the budget framework. Given the extent of subsequent years' funding gaps, early action is also required to deliver robust savings proposals, aligned to the priorities set out in the Council's business plan, sufficient to meet these requirements.

7. Stakeholder/Community Impact

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

8. Background reading/external references

8.1 2022/23 Financial Plan, Edinburgh Integration Joint Board, 9 August 2022

8.2 Revenue Budget 2022/27 Framework: progress update, Finance and Resources Committee, 16 June 2022

8.3 Revenue Budget Update 2022/23 – Update, Finance and Resources Committee, 3 March 2022

8.4 Coalition Budget Motion 2022/23, The City of Edinburgh Council, 24 February 2022

9. Appendices

9.1 Appendix 1 – 2022/23 Revenue Budget – Projected Expenditure Analysis

9.2 Appendix 2 – Approved savings, 2022/23 – current status

9.2 Appendix 3 – Approved service investments, 2022/23 – current status

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
Directorate / Division	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Corporate Services (including Chief Executive's Office)	87,876	24,139	21,745	(2,394)	87,597	(279)	(0.3)
Education and Children's Services	455,748	114,667	116,262	1,595	458,248	2,500	0.5
Health and Social Care	285,022	75,036	76,411	1,375	285,022	0	0.0
Place	172,005	45,073	46,902	1,829	175,605	3,600	2.1
Homelessness Services	50,467	14,709	17,175	2,466	55,967	5,500	10.9
Lothian Valuation Joint Board	3,817	954	954	0	3,817	0	0.0
Directorate / Division total	**1,054,936**	**274,579**	**279,449**	**4,870**	**1,066,257**	**11,321**	**1.1**
Non-service specific areas							
Loan Charges / interest and investment income	83,450				80,450	(3,000)	(3.6)
Other non-service specific costs less sums to be disaggregated:	27,429				20,581	(6,848)	(25.0)
- Non-Domestic Rates (poundage uplift)	1,005				0	(1,005)	n/a
- Energy	1,141				10,000	8,859	776.4
- Discretionary Rates	720				720	0	0.0
Additional Investment to disaggregate	20,507	0	0	0	20,507	0	0.0
Tram Shares	8,500	0	0	0	8,500	0	0.0
Council Tax Reduction Scheme	28,800	n/a	n/a	n/a	28,800	0	0.0
Staff early release costs	2,500	n/a	n/a	n/a	2,500	0	0.0
Net Cost of Benefits	(127)	n/a	n/a	n/a	(127)	0	0.0
Pay award - unfunded pressure	0	n/a	n/a	n/a	3,100	3,100	n/a
Millerhill - electricity generation income	0	0	0	0	(3,800)	(3,800)	n/a
Non-service specific areas total	**173,924**	**0**	**0**	**0**	**171,230**	**(2,694)**	**(1.5)**
Movements in reserves							
Net contribution to / (from) earmarked funds	(45,632)	0	0	0	(45,632)	0	0.0
Movements in reserves total	**(45,632)**	**0**	**0**	**0**	**(45,632)**	**0**	**0.0**
Sources of funding							
General Revenue Funding	(609,735)	(152,434)	(152,434)	0	(609,735)	0	0.0
Non-Domestic Rates	(249,861)	(62,465)	(62,465)	0	(249,861)	0	0.0
Council Tax	(323,632)	(80,908)	(80,908)	0	(326,632)	(3,000)	(0.9)
Sources of funding total	**(1,183,228)**	**(295,807)**	**(295,807)**	**0**	**(1,186,228)**	**(3,000)**	**(0.3)**
In-year (surplus) / deficit	**0**	**(21,228)**	**(16,358)**	**4,870**	**5,627**	**5,627**	**0.5**

	Directorate	£m	Current RAG status			Comments where full delivery not assumed
			£m	£m	£m	
Borrowing costs	Corporate	12.000	12.000	0.000	0.000	
Corporate budgets reprioritisation/realignment	Corporate	5.000	5.000	0.000	0.000	
Procurement	Corporate	0.100	0.100	0.000	0.000	
Total Corporate		**17.100**	**17.100**	**0.000**	**0.000**	
Continuation of 5% increase in discretionary fees and charges	Council-wide	1.000	0.120	0.880	0.000	An assessment of the deliverability of the Place element of this saving remains in progress.
Chief Officers and Senior/Middle Management Review	Council-wide	0.218	0.000	0.218	0.000	A number of service reviews are in progress but with the associated level of savings remaining to be confirmed pending these outcomes.
Total Council-wide		**1.218**	**0.120**	**1.098**	**0.000**	
Statutory Consents	Place	0.025	0.025	0.000	0.000	
Increase in garden waste charge based on full-cost recovery (full-year effect)	Place	0.160	0.160	0.000	0.000	
Development and Business Services Operating Model	Place	0.300	0.000	0.300	0.000	
Library efficiencies	Place	0.050	0.000	0.000	0.050	
Edinburgh Shared Repairs - Management Resource and Income Generation	Place	0.007	0.000	0.007	0.000	
Total Place		**0.542**	**0.185**	**0.307**	**0.050**	
Digital delivery	Corporate Services	0.190	0.150	0.040	0.000	Verification for Print, Mail and Scan Strategy Development element of saving being progressed with other Council services.
Renting of assets for 5G nodes	Corporate Services	0.050	0.000	0.050	0.000	One-off mitigating saving has been identified in Digital Services budget.
Directorate Workforce Savings	Corporate Services	0.110	0.110	0.000	0.000	
Total Corporate Services		**0.350**	**0.260**	**0.090**	**0.000**	
Total pre-approved savings		**19.210**	**17.665**	**1.495**	**0.050**	
			92.0%	7.8%	0.3%	

	Service	Investment	Nature of spend	Key outcomes sought (where applicable)	Current status	Comments where status not green
1	Improvements to HR systems	£2,000,000	Subject to the development of an accompanying full business case, the funding will serve as a contribution towards the cost of upgrading the Council's HR systems to support implementation of the recommendations from the independent inquiry and whistleblowing and organisational culture review.	Investment in an upgraded HR system will enable all employees to have access to organisational information, such as the Orb and myLearning Hub. Our current HR system has no core case management functionality and does not enable triage or offer the ability to perform complex data analysis e.g. spotting trends. A core HR solution that can administer all aspects of cases from logging, sending electronic letters and meeting notifications to allowing access to named individuals at certain points only, etc. is required in order to fulfil all the recommendations outlined.	RED	There is delivery risk associated with this project which will not be mitigated until a fully-costed business case is produced. Additional details were included in the update report to Council considered on 25 August 2022.
2	Easing the cost of living crisis	£1,100,000	The investment will provide capacity and resources to help Edinburgh citizens on low incomes manage the increasing cost of living in 2022 by providing direct financial support; advice to maximise income and entitlements; and prevention measures for those experiencing high energy costs and at risk of falling into arrears and debt. Further details were included in a report to Council considered on 25 August 2022.	The investment will: * Deliver on political commitments in the Council Business Plan * Prevent poverty and hardship * Make the experience of seeking help more compassionate and more dignified * Improve income or reduce living costs for poorest citizens * Improve opportunities to access or progress in fair employment, learning or training * Improve physical and mental health and reduce health inequalities	GREEN	
3	Deep cleaning the city, graffiti removal and street cleaning	£1,072,000	£72,000 of this funding will be used to purchase a new hot wash vehicle for city centre close cleaning. £200,000 will be used to procure a contract for the deep cleaning of the city centre. This will incorporate the cleaning of closes, steps, pavements and street furniture as well as the removal of graffiti from CEC property. 800,000 will be used to employ additional temporary staff and vehicles in the Street Cleansing service to undertake deep cleans of residential areas across the city.	This will improve the appearance of the city and send a message to residents and businesses that the Council is committed to improving local communities and supporting business recovery following COVID-19.	GREEN	
4	Roads and pavements maintenance	£1,000,000	The package of funding includes £450,000 in permanent patching repairs across 10,000m^2 of carriageways across the city (for which contracts to a value of £170,000 have already been issued); £300,000 to carry out footpath resurfacing across the city; and, £250,000 for traffic signal infrastructure improvements for which works are due to commence in October 2022, with all sites completed by April 2023.	This will visibly improve the condition of roads and pavements across the city and will increase pedestrian safety.	GREEN	
5	Children's Services - additional investment	£1,000,000	Given the unforeseen duration of the pandemic's impacts and the continued restricted ability to move young people from their current placements, a budget pressure exists within 2021/22 and will extend into 2022/23. With children unable to move across the last two years, they have become settled in existing out-of-authority placements and it would be poor practice to disrupt their progress – and we would be unlikely to persuade the Children's Hearing to move them back into Edinburgh.	While a range of mitigating measures to address the overarching Children's Services pressure has been identified, the £1m investment will allow time for these measures to bed in.	GREEN	
6	Net-zero	£500,000	The Council is leading on the development and delivery of net zero community pilots based in geographies with different demographic profiles and community capacity. The pilots will be collaborations between property owners to scope a scalable approach to retrofitting private housing using models that focus on community empowerment and supporting a just transition to net zero.	The investment will: * Deliver on political commitments in the net-zero strategy * Strengthen co-production approach and citizen capacity building to deliver net-zero agenda * Model net-zero community action with open source data and open source technical solutions for wider adoption * Provide a scalable financial model to support the financial route map to net-zero * Derive quantifiable co-benefits and nature-based economic benefits	GREEN	

	Service	Investment	Nature of spend	Key outcomes sought (where applicable)	Current status	Comments where status not green
7	Social care adaptations	£500,000	Further discussion is required to scope this investment proposal and relevant discussions have been initiated. An update will be included in subsequent iterations of this report.		🟥	No delivery plan for this initiative has yet been developed.
8	Park facilities improvements	£450,000	The safety of residents visiting parks is extremely important. £300,000 of this funding will allow the employment of additional Trees and Woodlands staff to deal with Ash Dieback and reduce the risk of tree failures causing harm to members of the public. Recognising the importance of proper lighting for the safety of visitors to our parks, the remaining funding will be used to install additional lighting in some of our parks.	This additional lighting will help to make parks safer to visit.	🟧	
9	Play parks (CFCR)	£325,000	This funding will be converted to capital to be used to invest in play park equipment in each ward across the city. Play park renewal projects are progressing and total £1.2M for 22/23. The £325k fund is expected to be fully allocated.	Residents will be encouraged to visit and spend time in play parks across the city as modern, accessible play equipment is introduced.	🟩	
10	Neighbourhood Action Team	£250,000	The investment will help to tackle hot spot areas of unkept land, dealing with dumping, vegetation and other issues to improve the look and feel of areas in need of additional attention.	TBC	🟧	Confirmation of this funding has only been received in the last few weeks and this coincided with the Trade Union strike action. This means that there is still work to be done on implementing this action.
11	Local community festivals and events	£200,000	Based on experience of local city-wide community events/festivals funding, the investment would be targeted towards capacity building and resilience. Given this would be a one-off fund, the proposal would be for larger individual funding awards to support more substantively event stability and establish a robust business and event model going forward - principally to support (i) identifying baseline funding models and partners and (ii) the creative and programme development opportunities presented by the event or festival.	The approach reflects both the current events strategy, and culture funding targeted towards resilience and creative practitioner skills development/support/retention.	🟩	
12	Energy for Edinburgh	£200,000	The money will be spent on a combination of CEC staff time/capacity building and consultants' time that will be used to develop a business plan for Energy for Edinburgh, including outline scope(s) for potential community energy generation projects as part of the development of a local heat and energy efficiency strategy.	A business plan for Energy for Edinburgh; a draft local heat and energy generation strategy, and hopefully as a result, active and profit-making local energy generation projects.	🟧	This investment aims to explore the role of Energy for Edinburgh and identify initial project activity so the ESCO can begin to deliver heat and energy solutions for the city. Progress against this project will be dependent upon current Council capacity to deliver and reported to Council in due course.
13	Temporary toilets in premier parks	£200,000	The investment will allow for the continuation of hiring of temporary toilets for The Meadows, Inverleith Park and Leith Links.	Creation of a more welcoming and active travel-friendly environment, along with reductions in antisocial behaviour.	🟩	
14	Hostile vehicle mitigation barriers	£180,000	£0.180m was included within the budget motion to provide funding to cover potential costs of retaining temporary Hostile Vehicle Mitigation arrangements while a long-term solution is agreed to protect the High Street and other areas following the withdrawal of support from the Home Office. Further discussion is required to scope this investment proposal and relevant discussions have been initiated. An update will be included in subsequent iterations of this report.		🟧	
15	Taxi regulation and enforcement	£160,000			🟩	
16	Short-term lets regulation and monitoring	£150,000			🟩	
17	Food growing	£130,000	Further discussion is required to scope this investment proposal and relevant discussions have been initiated. An update will be included in subsequent iterations of this report. A proposed approach to the allocation of this spend was presented in a report to the Policy and Sustainability Committee on 30 August 2022.		🟩	

	Service	Investment	Nature of spend	Key outcomes sought (where applicable)	Current status	Comments where status not green
18	Defibrillators in schools	£112,000	Budget has been allocated to roll out defibrillators to much of the school estate where not currently in place. However, work needs to be done in the next 6/12 months to identify the best locations to site them – this may be schools or a mix of schools, community centres and care homes.			Work still required to identify optimal locations. Progress will depend upon current capacity within Council to support the project. It is accepted that there will be continued risk while this is not taken forward.
19	Participatory Budgeting support	£100,000	The investment will allow the Council to work effectively with communities in delivering a robust local process, building community skills and capacity as part of the Council's commitment to progress community empowerment. Specifically it will support capacity building with communities and local community groups, communications and promotion of participatory budgeting activity, training for staff, delivery of local deliberation processes and IT support to underpin local decision-making.	* Delivery of political commitments on community engagement * Delivery of nationally-agreed 1% target * Supports effective service design based on service user needs * Strengthened local democracy and community cohesion * Improved quality of life for people and communities		
20	Portobello Kilns restoration	£61,000	The allocation represents seed funding to demonstrate the Council's commitment to the project and lever in external funding contributions for the estimated £645k of total funding required, including potential contributions from Historic Environment Scotland, Heritage Lottery Fund, Place-Based Investment Fund and the Wolfson Foundation.	Restoration of a key local landmark and listed ancient monument		Delivery of full restoration is dependent on the identification of partner funding, discussions on which remain in progress.
21	Pentland Park Rangers	£60,000	This funding will be used to employ additional Park Rangers and improve visitor facilities in the Pentland Hills Regional Park.	As well as improving conditions for local residents and land managers, this funding will help reduce anti-social behaviour and prevent loss of livestock.		
22	Libraries re-opening support	£60,000	The outline proposal for spend at this stage is to support the following: * Additional book / media fund expenditure * Provision of replacement furniture/ fittings * Fund to support development and delivery of service in response to an engagement programme with young people * City-wide communications campaign to highlight the message that libraries are open * Temporary library provision for Leith at The Fort Community Centre * Costs to support reopening of the remaining four libraries	Attracting people back in to the library service and reaching new members/audiences - building up use and visits		
23	"Forever Edinburgh" website development	£50,000	New website to replace the existing www.edinburgh.org	An updated website which acts as a gateway to the city for visitors, residents, investors and students alike. A new Forever Edinburgh website will provide many benefits to the Council and city including: * Improved staff efficiencies and timesaving by automating some of the content management processes that are currently being done manually * Improved user experience as the website will be reliable and designed for purpose * Better insights on user behaviours through improved functionality * Possible reduction in ongoing hosting and maintenance costs * A reliable and professional website that supports the reputation we want to create and set for residents and visitors * The possibility of generating income from the website through digital advertising sales.		
		£9,860,000				

Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1.   For Decision/Action

1.1   The Finance and Resources Committee has referred a report on the 2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 to the Governance, Risk and Best Value Committee for part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 8 September 2022, the Finance and Resources Committee considered the 2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23 report. The report provided capital expenditure and funding outturns for 2021/22, providing explanations for key variances.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the 2021/22 unaudited capital outturn for the Council's General Fund and Housing Revenue Account.

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

2.2.3 To approve the revised capital budget strategy for the financial year 2022/23, as set out in Appendix 3.

2.2.4 To note a further update on the Sustainable Capital Budget Strategy would be brought to Finance and Resources Committee in November 2022, with a focus on addressing the funding pressure identified in this report.

2.2.5 To note the Council's Prudential Indicators for the Revised Budget 2022/23, as set out in Appendix 5.

3. Background Reading

3.1 [Finance and Resources Committee – 8 September 2022 - Webcast](#)

3.2 Minute of the Finance and Resources Committee – 8 September 2022

4. Appendices

4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23

Executive/routine	Executive
Wards	All
Council Commitments	

1. Recommendations

1.1 To note the 2021/22 unaudited capital outturn for the Council's General Fund and Housing Revenue Account (HRA);

1.2 To refer the report to the Governance Risk and Best Value Committee as part of its work programme;

1.3 To approve the revised capital budget strategy for the financial year 2022/23, as set out in Appendix 3;

1.4 To note a further update on the Sustainable Capital Budget Strategy will be brought to Finance and Resources Committee in November 2022, with a focus on addressing the funding pressure identified in this report; and

1.5 To note the Council's Prudential Indicators for the Revised Budget 2022/23, as set out in Appendix 5.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Matt Jones, Senior Accountant,

Finance and Procurement, Corporate Services Directorate

E-mail: Matt.Jones@edinburgh.gov.uk | Tel: 07863 561 145

Report

2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23

2. Executive Summary

2.1 The report provides capital expenditure and funding outturns for 2021/22, providing explanations for key variances.

2.2 At month 12, the General Fund capital expenditure totalled £371.115m with capital income of £150.674m, resulting in a net requirement of £220.441m in loans fund advances. This is £34.037m lower than the revised budget update provided in month three due to slippage across the programme.

2.3 At month 12, the Housing Revenue Account (HRA) capital expenditure totalled £64.850m and capital income of £29.486m, resulting in a net requirement of £35.364m in loans fund advances. This is £11.571m lower than the revised budget update provided in month three primarily due to a land purchase not proceeding as expected and additional grant funding being received in March than projected.

2.4 Slippage from 2021/22 is rolled forward and added to the capital investment programme for the period 2022-2032 to create the revised capital budget. In creating the revised budget, realignments have been made between financial years to reflect the most up to date cash flow projections available. The budget has also been adjusted to reflect funding received since the Council set its budget in February.

2.5 The Council's capital programme is expected to come under further financial pressure as a result of higher tender prices caused by current market conditions. The extent of the impact is likely to differ between programmes and projects, but will result in projects being delayed or postponed, if additional resources are not identified. This is notable in the scarcity and cost pressures in various key construction materials, e.g. steel and timber, which is leading to slippage and cost pressures on delivery of projects. It is also important to note that supply chain pressures associated with staff shortage and higher prices continue to affect delivery schedules.

3. Background

3.1 In February 2021 the Council set out priorities for its 10 year programme of capital investment totalling £1,492.494m for general services and £2,774.844m for the

Housing Revenue Account. This investment was aligned with the Council Business Plan, over the medium to long-term. This budget was then revised on 12 August 2021 with realignments between financial years to take account of slippage from the previous financial year and reflect the most up to date cash flow position available.

3.2 Detailed forecasts for financial year 2021/22 were reported at months 3, 6 and 8, with the most recent update provided to Finance and Resources Committee on 3 February 2022. The report showed the General Fund was projecting capital expenditure of £342.616m and capital income of £121.025m, resulting in a net requirement of £221.591m in loans fund advances. Within the same report, it showed the Housing Revenue Account (HRA) was projecting capital expenditure of £61.980m and capital income of £23.244m, resulting in a net requirement of £38.736m in loans fund advances.

3.3 At its budget meeting of 24 February 2022, the expenditure priorities and available funding were reconsidered and an updated programme of investment was approved for the period 2022-2032. The Sustainable Capital Budget Strategy 2022-2032 set out a fully funded investment programme of £1,459.874m, aligned with the Council Business Plan. The Housing Revenue Account (HRA) Budget Strategy (2022-32) set out £2,934.365m of investment in new affordable housing and improvements to existing homes over the 10 year period.

3.4 This report sets out the outturn position for 2021/22, revisions to the 2022-32 capital budget and the forecast outturn for 2022/23 based on the month 3 position.

4.   Main report

2021/22 Capital Monitoring – Month 12

General Fund

4.1 The month 12 monitoring shows general fund expenditure of £371.115m against a revised budget of £407.447m resulting in a total of £36.332m (8.92%) in expenditure slippage. A breakdown by directorate is provided in Appendix 1.

4.2 Within Education and Children's Services, there has been capital expenditure of £95.726m as at month 12 against a revised budget of £95.834m. Expenditure relates primarily to projects which were well underway prior to COVID-19 lockdowns such as Meadowbank Sports Centre, Castlebrae High School, new Victoria Primary School and Frogston Primary School. The outturn slippage of £0.108m in the year, primarily relates to;

- Rising School Rolls, Maybury Primary School and other smaller project variances and other contingency expenditure slippage of £13.328m due to delays caused to projects principally as a result of COVID-19 and on-going market conditions. Rising costs and shortfalls in supply chains have caused projects to be frozen prior to tender processes until a review of the appropriate course of action to mitigate the impact of market conditions has been undertaken.

This slippage was largely offset by acceleration in the following projects:

- Castlebrae High School acceleration of £11.407m due to the school now being complete but the final funding from EDI dividend payment and capital receipt from sale now not anticipated until the 2022/23 financial year;

- St Crispin's Special School acceleration of £2.029m due to the school nearing completion but the final funding from the capital receipt now not anticipated until the next financial year.

4.3 Within Place, there has been capital expenditure of £176.181m as at month 12 against a revised budget of £197.507m. The outturn slippage of £21.326m in the year, primarily relates to;

- General Place programme slippage of around £13.880m due to construction industry materials and labour shortages across several projects and programmes;

- Active Travel of £4.921m due to programme delays caused by pausing projects pending the review and alignment with the Places for Everyone Programme and the Council's existing and emerging priorities as reported to Transport and Environment Committee on 14 October 2021 as part of the 'Active Travel Investment Programme Update'; and

- Road Safety and Public Transport block funding of £2.525m due to programme delays as a result of reprioritisation and rephasing of Active Travel Strategy to ensure the strategy is affordable. A wider review of Public Transport to align with City Mobility Plan, construction cost inflation, contractor availability and supply chain issues are causing material delays to project progress.

4.4 Within Place – Trams to Newhaven, there has been capital expenditure of £68.486m as at month 12 against a budget of £72.100m. This in-year underspend of £3.614m is a result of a rescheduling of works due to the impact of Covid and industry wide material and skilled labour shortages. While an in-year underspend is currently reported, the project is still expected to complete on time and within the approved budget of £207.3m

4.5 Within Place - Lending there has been capital expenditure of £4.167m as at month 12 against a revised budget of £18.029m. This follows the purchase of completed homes by Edinburgh Living LLP at North Sighthill and Pennywell. This means there was a total outturn slippage of £13.862m primarily due to delays on completion of the final homes at Pennywell and North Sighthill which will now be completed in the 2022/23 financial year. The General Fund capital budget impact is neutral as borrowing is delayed matching the revised expenditure profiles.

4.6 Within Place - Asset Management Works Programme, there has been capital expenditure of £23.236m as at month 12 across various projects, with outturn acceleration of spend of £4.323m compared to the revised budget of £18.913m. This is due to the closure of properties due to the COVID-19 pandemic permitting

more work than anticipated to be carried out ahead of schedule, especially within the learning estate.

Housing Revenue Account

4.7   The month 12 monitoring shows HRA capital expenditure of £64.850m for the financial year across various programmes and workstreams relating to new builds and improvements to existing homes. This is against a revised budget of £103.987m resulting in a total of £39.137m (37.6%) in expenditure slippage. A breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.8 to 4.12.

4.8   The outturn on new homes development is slippage of £5.848m which is primarily due to delays on projects under construction through the impacts of material shortages and COVID measures extending programmes.

4.9   The outturn capital expenditure on land for new homes shows slippage of £17.340m. This is primarily due to a delay to the purchase of Liberton Hospital to the 2022/23 financial year at the request of NHS Lothian. This sale is now being progressed with a revised target date of Autumn 2022.

4.10   The outturn against improvements to existing homes and estates shows slippage of £15.949m. This was due to supply chain disruption, including shortages of materials, contractor availability and gaining access to carry out works within tenants' homes as a result of COVID-19. In relation to external fabric upgrades for multi storey blocks at Craigmillar and Peffermill Courts, engagement with residents was paused due to COVID-19 – this has now recommenced with an opportunity to enhance specification to achieve EnerPHit standard, causing a significant delay.

4.11   The month 12 monitoring shows HRA capital income of £29.486m for the financial year, primarily from Scottish Government grant, disposals through the Acquisitions and Disposals Programme and capital receipts from sales to Edinburgh Living LLP. The outturn shows slippage on the budgeted income of £27.566m.

4.12   This results in a net requirement of £35.364m in loans fund advance, a reduction in borrowing requirement from the revised budget of £11.571m.

Revised Sustainable Capital Budget Strategy 2022-2032

4.13   The Sustainable Capital Budget Strategy 2022-2032 for the general fund was approved by Council on 24 February 2022 and was based on an interim budget which estimated slippage and acceleration. This sets out a fully funded investment programme of £1,459.874m, which is aligned with the Council Business Plan. While the plan is balanced over the 10 year period, this is subject to a number of significant risks, which are set out in the report.

4.14   The Revised Sustainable Capital Budget Strategy 2022-2032 has been adjusted to reflect actual levels of slippage and acceleration and is shown in Appendix 3. It has also been realigned and re-phased to ensure that individual project cash flows reflect the most up to date projections. Project managers have considered risks such as adverse weather or other uncontrollable factors that can impact on delivery and to build this into budgeted cash flows. Forecasts also take account of the

current challenging economic climate, including high inflation, potential labour and materials shortages and procurement difficulties.

4.15   The revised Sustainable Capital Budget Strategy also reflects projects where funding has been approved following the Council's budget meeting. This includes the Scottish Government funding for Place Based Investment Programme (PBIP), Cycling, Walking and Safer Routes (CWSR) and TMDF.

4.16   Members should note that where funding has not been approved or where the amount or timing is still to be confirmed, then projects are not included in the revised Sustainable Capital Budget Strategy. This includes projects funded by capital receipts, grants or contributions which are yet to be secured.

4.17   As the overall funding position of the Sustainable Capital Budget Strategy in Appendix 3 shows, the programme is now funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.

4.18   A further update on the Sustainable Capital Budget Strategy will be brought to Finance and Resources Committee in November 2022. This report will look ahead to 2023/24 Budget Setting, with a focus on addressing emerging pressures and priorities against a backdrop of continuing funding constraint.

HRA Capital Budget Strategy 2022-2032

4.19   The Housing Revenue Account (HRA) Budget Strategy (2022-32) was approved by Council on 24 February 2022. This sets out £2,934.365m of investment in new affordable housing and improvements to existing homes over the 10 year period. In an amendment to the report prepared by officers, members approved the acceleration £5m of investment into 2022/23.

4.20   The budget has been reviewed to incorporate the most up to date cash flow projections for individual projects and programmes. The revised budget for 2022/23 now includes annual investment of £118.755m in 2022/23, which is the largest annual HRA capital programme presented to Committee to date. There are risks associated with delivery of a programme of this scale at this time, particularly in view of the challenging economic climate. However, project managers have considered these risks and, while there are likely to be variances in individual projects and programmes, it is considered that this level of expenditure remains achievable and no changes have been made to the overall HRA capital budget.

2022/23 Capital Monitoring – Month 3

4.21   Capital monitoring for the first quarter of 2022/23 for the General Fund and HRA is set out in Appendices 6 and 7 respectively. As this report revises budgets to take

account of latest expenditure and income forecasts, no variances are currently projected.

4.22 Members should note that the market is currently experiencing shortages in commodities, materials and labour required for construction projects as well as high inflation. The impact is likely to vary from project to project, but there is a risk that projects may be delayed or experience cost pressures. This situation will be monitored and built into forecasts as information becomes available.

4.23 Further reports will be presented to Finance and Resource Committee at month six, month eight and month 12 showing the position against the revised 2022/23 capital budget.

5. Next Steps

5.1 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.

5.2 Finance staff will continue work with project and programme managers to monitor capital budgets.

5.3 Further reports will be presented to Finance and Resource Committee at month six, month eight and month 12 showing the position against the revised 2022/23 capital budget.

5.4 A further report on the 2023/24 to 2032/33 Sustainable Capital Budget will be brought to Finance and Resources Committee on 10 November 2022.

6. Financial impact

6.1 The loans charges associated with 2021/22 outturn, 2022/32 budget and 2022/23 forecast set out in this report are detailed in the table below:

	Loans Fund Advance £m	Interest and Charges £m	Total Cost £m	Average Annual Cost (30 years) £m
Outturn 2021/22				
General Fund	220.441	160.647	381.088	12.703
HRA	35.364	28.555	63.919	2.131
Budget 2022/2023				
General Fund	111.887	85.634	197.521	6.584

HRA	82.330	67.490	149.819	4.994
Forecast 2022/23				
General Fund	111.887	85.634	197.521	6.584
HRA	82.330	67.490	149.819	4.994

6.2 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.

6.3 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.

6.4 The Council's Prudential Indicators for the Revised Budget 2022/23 are set out in Appendix 5.

7. Stakeholder/Community Impact

7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.

7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

8. Background reading/external references

8.1 Sustainable Capital Budget Strategy 2021-2031, Finance and Resources Committee, 21 January 2021

8.2 Sustainable Capital Strategy 2021-31 – Annual Report, Finance and Resources Committee, 4 March 2021

8.3 Liberton Hospital, Edinburgh – Proposed Acquisition, Finance and Resources Committee, 4 March 2021

8.4 Updated Housing Revenue Account (HRA) Capital Programme, Housing, Homelessness and Fair Work Committee, 3 June 2021

8.5 Parks and Greenspace Investment, Culture and Communities Committee, 15 June 2021

8.6 2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22, Finance and Resources Committee, 12 August 2021

8.7 Sustainable Capital Budget Strategy 2022/32, Finance and Resources Committee, 7 October 2021

8.8 Active Travel Investment Programme Update, Transport and Environment Committee, 14 October 2021

9. Appendices

Appendix 1 - 2021/22 Capital Monitoring

General Fund Summary

Month 12

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	Outturn Variance %
Education and Children's Services	108,237	(12,403)	95,834	95,726	(108)	-0.11%
Edinburgh Health and Social Care Partnership	-	448	448	164	(284)	-63.39%
Place	169,147	28,360	197,507	176,181	(21,326)	-10.80%
Place - Lending	13,260	4,769	18,029	4,167	(13,862)	-76.89%
Place - Tram York Place to Newhaven	65,523	6,577	72,100	68,486	(3,614)	-5.01%
Place - Asset Management Works	25,916	(7,003)	18,913	23,236	4,323	22.86%
Corporate Services	2,213	2,403	4,616	3,155	(1,461)	-31.65%
Total Gross Expenditure	**384,296**	**23,151**	**407,447**	**371,115**	**(36,332)**	**-8.92%**

Funding	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	Outturn Variance %
Capital Receipts						
General Asset Sales	3,000	-	3,000	4,889	1,889	62.97%
Ringfenced Asset Sales	-	2,498	2,498	2,498	-	0.00%
Capital from Current Revenue	-	15,047	15,047	15,043	(4)	-0.03%
Total Capital Receipts from Asset Sales and Revenue	3,000	17,545	20,545	22,430	1,885	9.17%
Drawdown from/ (to) Capital Fund	6,986	164	7,150	7,150	-	0.00%
Developer Contributions	436	38,570	39,006	34,811	(4,195)	-10.75%
Developers Contributions Transferred to Investments	-	(30,573)	(30,573)	(31,035)	(462)	1.51%
Total Developer Contributions	436	7,997	8,433	3,776	(4,657)	-55.22%
Total Capital Receipts and Contributions	**10,422**	**25,706**	**36,128**	**33,356**	**(2,772)**	**-7.67%**
Grants						
Scottish Government General Capital Grant	38,360	1,679	40,039	40,039	-	0.00%
Other Grants and Contributions	-	7,858	7,858	8,335	477	6.07%
Cycling, Walking and Safer Routes	2,299	1,384	3,683	3,683	-	0.00%
Place Based Investment Programme	-	1,998	1,998	1,998	-	0.00%
Transfer of Management of Development Funding (TMDF)	27,950	24,468	52,418	52,418	-	0.00%
Regeneration Funding	-	1,628	1,628	1,628	-	0.00%
Other Government Grants	-	5,756	5,756	5,756	-	0.00%
Capital Grants Unapplied Account Drawdown	14,442	(10,981)	3,461	3,461	-	0.00%
Total Grants	**83,051**	**33,790**	**116,841**	**117,318**	**477**	**0.41%**
Total Funding	**93,473**	**59,496**	**152,969**	**150,674**	**(2,295)**	**-1.50%**
Borrowing						
New Prudential Borrowing in Year	85,127	(7,718)	77,409	68,712	(8,697)	-11.24%
New On-Lending in Year	13,260	4,769	18,029	4,167	(13,862)	-76.89%
New Capital Advance - Trams to Newhaven	65,143	6,957	72,100	68,486	(3,614)	-5.01%
New Capital Advance - General Fund	127,293	(40,353)	86,940	79,076	(7,864)	-9.05%
Balance to be funded through Loans Fund Advance	**290,823**	**(36,345)**	**254,478**	**220,441**	**(34,037)**	**-13.38%**

Appendix 2 - 2021/22 Capital Monitoring

Housing Revenue Account

Month 12

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	%
Council Housebuilding Programme	33,223	-	33,223	27,375	(5,848)	-17.6%
Council Housebuilding Programme - Land	20,000	-	20,000	2,660	(17,340)	-86.7%
Improvement to Council Homes and Estates	34,163	16,601	50,764	34,815	(15,949)	-31.4%
Total Gross Expenditure	**87,386**	**16,601**	**103,987**	**64,850**	**(39,137)**	**-37.6%**

Income	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual Outturn £000	Outturn Variance £000	%
Capital Receipts and Other Contributions	4,560	2,750	7,310	7,208	(102)	-1.4%
Capital Funded from Current Revenue	18,300	-	18,300	-	(18,300)	-100.0%
Receipts from LLPs	19,583	-	19,583	3,906	(15,677)	-80.1%
Specific Capital Grant	11,859	-	11,859	18,372	6,513	54.9%
Total Income	**54,302**	**2,750**	**57,052**	**29,486**	**(27,566)**	**-48.3%**
Balance to be funded through Loans Fund Advance	**33,084**	**13,851**	**46,935**	**35,364**	**(11,571)**	**-24.65%**

2022-32 Revised Sustainable Capital Budget Strategy (Incorporating Period 12 out-turn slippage from 2021/22)

SUMMARY	Approved Budget 2022-23 £000	Actual Slippage 2021-22 £000	Re-profile (to)/from Later Years 2022-23 £000	Additional Funding £000	Internal Virements £000	Revised Budget 2022-23 £000	Indicative Budget 2023-24 £000	Indicative Budget 2024-25 £000	Indicative Budget 2025-26 £000	Indicative Budget 2026-27 £000	Indicative Budget 2027-28 £000	Indicative Budget 2028-29 £000	Indicative Budget 2029-30 £000	Indicative Budget 2030-31 £000	Indicative Budget 2031-32 £000	Total Budget 2022-2032 £000
Education and Children's Services	33,040	108	(11,000)	194	3,000	25,342	71,215	103,555	83,314	31,563	30,732	47,171	56,544	12,559	165	462,158
Place	104,983	21,281	(27,406)	-	2,355	101,212	133,294	79,075	76,013	20,239	19,034	19,036	19,039	19,042	19,055	505,037
Place - Lending	16,972	13,861	(10,804)	-	-	20,029	62,413	70,500	41,793	10,804	-	-	-	-	-	205,539
Place - Tram York Place to Newhaven	39,503	3,614	11,583	-	-	54,700	3,507	-	-	-	-	-	-	-	-	58,207
Place - Asset Management Works	29,425	(4,323)	-	-	(3,000)	22,102	26,441	33,677	31,484	20,473	14,000	14,000	14,000	14,000	15,350	205,527
Corporate Services	807	3,469	(3,000)	-	-	1,276	4,091	1,597	669	678	615	615	615	-	-	10,156
Edinburgh Health and Social Care Partnership	-	284	-	-	-	284	-	-	-	-	-	-	-	-	-	284
Contingency	-	-	-	-	-	-	-	-	5,000	5,000	5,000	5,000	5,000	5,000	-	30,000
Slippage Assumption	(21,694)	-	-	-	-	(21,694)	(18,660)	(5,573)	4,574	17,928	9,429	116	(1,282)	3,933	3,965	(7,264)
Total Expenditure	**203,036**	**38,294**	**(40,627)**	**194**	**2,355**	**203,251**	**282,300**	**282,830**	**242,847**	**106,685**	**78,810**	**85,938**	**93,915**	**54,533**	**38,535**	**1,469,644**

Funding	Planned Budget 2022-23 £000	Actual Slippage 2021-22 £000	Re-profile to/from Later Years 2022-23 £000	Additional Funding £000	Internal Virements £000	Revised Budget 2022-23 £000	Indicative Budget 2023-24 £000	Indicative Budget 2024-25 £000	Indicative Budget 2025-26 £000	Indicative Budget 2026-27 £000	Indicative Budget 2027-28 £000	Indicative Budget 2028-29 £000	Indicative Budget 2029-30 £000	Indicative Budget 2030-31 £000	Indicative Budget 2031-32 £000	Total Budget 2021-2031 £000
Capital receipts																
General Asset Sales	3,000	-	-	-	-	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	30,000
Ring-fenced Asset Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Fund drawdown	-	-	-	-	-	-	20,014	-	-	-	-	-	-	-	-	20,014
Capital Grants Unapplied Account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Developers and Other Contributions	-	-	-	-	-	-	1,158	9,893	2,055	4,888	12,794	19,237	15,053	-	-	65,078
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tram Developer Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital from Current Revenue	-	-	-	194	1,286	1,480	-	-	-	-	-	-	-	-	-	1,480
Total Receipts	**3,000**	**-**	**-**	**194**	**1,286**	**4,480**	**24,172**	**12,893**	**5,055**	**7,888**	**15,794**	**22,237**	**18,053**	**3,000**	**3,000**	**116,572**
Capital Grants																
General Capital Grant	40,221	-	-	-	-	40,221	39,080	41,287	41,849	46,000	46,500	47,000	47,500	48,000	48,500	445,937
Specific Capital Grants - Early Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specific Capital Grants - TMDF	45,182	-	-	-	-	45,182	45,053	45,211	45,960	-	-	-	-	-	-	181,406
Specific Capital Grants - CWSS	2,310	-	-	-	1,068	3,378	2,310	2,310	2,310	-	-	-	-	-	-	10,308
Specific Capital Grants - Place Based Investment Programme	1,735	-	-	-	-	1,735	1,209	1,209	1,209	-	-	-	-	-	-	5,362
Specific Grants - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Grants	**89,448**	**-**	**-**	**-**	**1,068**	**90,516**	**87,652**	**90,017**	**91,328**	**46,000**	**46,500**	**47,000**	**47,500**	**48,000**	**48,500**	**643,013**
New borrowing in year - Prudential (including GAM)	9,340	5,791	(4,916)	-	-	10,215	14,354	1,597	669	678	615	615	615	-	-	29,358
New borrowing in year - On-lending	16,972	13,861	(10,804)	-	-	20,029	62,413	70,500	41,793	10,804	-	-	-	-	-	205,539
New borrowing in year - Trams to Newhaven	39,503	3,614	11,583	-	-	54,700	3,507	-	-	-	-	-	-	-	-	58,207
Revenue Budget Framework - Enerphit	-	-	-	-	-	-	-	-	-	-	10,000	-	-	-	-	10,000
New borrowing in year - General	44,773	15,028	(36,490)	-	-	23,311	90,202	107,823	104,002	31,315	15,901	16,086	27,747	3,533	(12,965)	406,955
Total Borrowing	**110,588**	**38,294**	**(40,627)**	**-**	**-**	**108,254**	**170,476**	**179,920**	**146,464**	**52,797**	**16,516**	**16,701**	**28,362**	**3,533**	**(12,965)**	**710,058**
Total Funding	**203,036**	**38,294**	**(40,627)**	**194**	**2,355**	**203,251**	**282,300**	**282,830**	**242,847**	**106,685**	**78,810**	**85,938**	**93,915**	**54,533**	**38,535**	**1,469,644**
Funding Deficit/(Surplus)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Programme Heading	1	2	3	4	5	5 Year	6 to 10	10 Year
Appendix 4 : 2022-32 HRA Capital Budget Strategy								
HRA Five Year Capital Investment Programme and Ten-Year Investment Strategy								
	2022/23	2023/24	2024/25	2025/26	2026/27	Total	2027/28 to 2031/32	Total
	£m	£m	£m	£m	£m	£m	£m	£m
New Homes Development	37.724	107.049	162.503	398.595	401.714	1,107.585	837.356	**1,944.941**
New Home Land Costs	14.344	2.500	17.500	29.433	25.466	89.243	42.322	**131.565**
Tenant's Homes & Services (20-yr borrowing)	12.337	11.115	14.458	14.786	15.337	68.033	82.227	**150.260**
External Fabric and Estates (30-yr borrowing)	54.350	53.923	72.244	69.899	72.513	322.929	384.669	**707.598**
Total Expenditure	**118.755**	**174.587**	**266.705**	**512.713**	**515.030**	**1,587.790**	**1,346.574**	**2,934.364**
Prudential Borrowing	82.330	104.216	127.158	167.115	182.537	663.356	569.712	**1,233.068**
Capital Funded From Revenue	20.844	18.300	10.800	10.800	10.800	71.544	45.856	**117.400**
Capital Receipts and Contributions	5.000	7.920	37.912	39.135	48.046	138.013	129.382	**267.395**
Receipts from LLPs	6.444	15.567	56.437	244.445	199.967	522.860	422.517	**945.377**
Scottish Government Subsidy (Social)	2.537	26.664	32.158	50.258	72.720	184.337	174.307	**358.644**
Scottish Government Subsidy (Acquisition)	1.600	1.920	2.240	0.960	0.960	7.680	4.800	**12.480**
Total Funding	**118.755**	**174.587**	**266.705**	**512.713**	**515.030**	**1,587.790**	**1,346.574**	**2,934.364**

2022/23 Revised Budget Prudential Indicators

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2021/22 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Education and Children's Services	95,726	25,342	71,215	103,555	83,314	31,563
Place	176,181	101,212	133,294	79,075	76,013	20,239
Place - Lending	4,167	20,029	62,413	70,500	41,793	10,804
Place - Trams to Newhaven	68,486	54,700	3,507	0	0	0
Place - Asset Management Works	23,236	22,102	26,441	33,677	31,484	20,473
Corporate Services	3,155	1,276	4,091	1,597	669	678
Edinburgh Health and Social Care Partnership	164	284	0	0	0	0
Contingency	0	0	0	0	5,000	5,000
General Slippage in Programme	0	-21,694	-18,660	-5,573	4,574	17,928
Total General Services Capital Expenditure	**371,115**	**203,251**	**282,300**	**282,830**	**242,847**	**106,685**

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2022-2027 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	64,850	118,755	174,587	266,705	512,713	515,030

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 2021/22 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
General Services	6.8%	7.3%	8.1%	8.1%	8.2%	8.2%
Housing Revenue Account (HRA)	32.0%	35.7%	37.7%	40.5%	44.2%	47.9%

Note: Figures for 2023/24 onwards are indicative at this stage 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. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 2 February 2021.

The estimates of financing costs include current commitments in the capital plans set out in Appendices 3 and 4.

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 31 March 2022 are:

	Capital Financing Requirement					
	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Services (including Finance Leases)	1,411	1,448	1,502	1,547	1,580	1,547
Housing Revenue Account (HRA)	394	458	542	646	788	941
NHT LLPs	56	32	15	15	0	0
Edinburgh Living LLPs	42	61	123	192	234	244
Total Capital Financing Requirement	**1,903**	**2,000**	**2,181**	**2,401**	**2,602**	**2,732**

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. 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 consequences of all of 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.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however four have repaid their loans in full.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence.

In order to ensure that over 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					
	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Gross Debt	1,780	1,720	1,670	1,622	1,548	1,474
Capital Financing Requirements	1,903	2,000	2,181	2,401	2,602	2,732
(Over) / under limit by:	**123**	**280**	**511**	**779**	**1,053**	**1,258**

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

In 2022/2023, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt.

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. "Credit Arrangements" as defined by Financial Regulations, 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. In respect of its external debt, the following authorised limits for its total external debt gross of investments for the next four financial years was approved in February 2022. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council have approved these limits and to delegate authority to the Service DIrector for FInance and Procurement, 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					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
Borrowing	1,640	1,983	2,333	2,798	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Authorised Limit for External Debt	**1,929**	**2,267**	**2,612**	**3,072**	**3,528**	**3,975**

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 (but not worst case) scenario with sufficient headroom to allow for operational treasury management. 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 has also approved, in February 2022, the following operational boundary for external debt for the same 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 has also delegated authority to the Service DIrector for Finance and Procurement, 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					
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,640	1,933	2,283	2,748	3,260	3,713
Credit Arrangements (including leases)	289	284	279	274	268	262
Operational Boundary for External Debt	**1,929**	**2,217**	**2,562**	**3,022**	**3,528**	**3,975**

The Council's actual external debt at 31 March 2021 was £1,347m of borrowing (including sums repayable within 12 months).

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2022/23 and for future years will be considered as part of the longer term financial frameworks.

| | **Loans Charges Liability** | | | | | |
	2021/22 Actual £000	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £001**
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	147,789	33,525	104,556	109,420	104,671	41,993
Year 1 - Interest Only	2,997	680	2,120	2,219	2,122	851
Year 2 - Interest and Principal Repayment	8,597	1,950	6,082	6,365	6,089	2,443
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	35,364	82,330	104,216	127,158	167,115	182,537
Year 1 - Interest Only	761	1,772	2,243	2,737	3,597	3,929
Year 2 - Interest and Principal Repayment	2,120	4,935	6,247	7,622	10,017	10,941

* The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA or General Services revenue budget. Tram repayments are based on the income model and will commence in 2023/24 when the line to Newhaven becomes operational.

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 or 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.

Appendix 6 - 2022/23 Capital Monitoring

General Fund Summary

Period 3

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance £000	%
Education and Children's Services	33,040	(7,698)	25,342	11,877	25,342	-	0.00%
Place	104,983	(3,771)	101,212	13,883	101,212	-	0.00%
Place - Lending	16,972	3,057	20,029	-	20,029	-	0.00%
Place - Tram York Place to Newhaven	39,503	15,197	54,700	12,079	54,700	-	0.00%
Place - Asset Management Works	29,425	(7,323)	22,102	2,235	22,102	-	0.00%
Corporate Services	807	469	1,276	58	1,276	-	0.00%
Edinburgh Health and Social Care Partnership	-	284	284	1	284	-	0.00%
Contingency	-	-	-	-	-	-	0.00%
Slippage Assumption	(21,694)	-	(21,694)	-	(21,694)	-	0.00%
Total Gross Expenditure	**203,036**	**215**	**203,251**	**40,135**	**203,251**	**-**	**0.00%**

Funding	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance £000	%
Capital Receipts							
General Asset Sales	3,000	-	3,000	932	3,000	-	0.00%
Ringfenced Asset Sales	-	-	-	81	-	-	N/A
Capital from Current Revenue	-	1,480	1,480	1,170	1,480	-	0.00%
Less Fees Relating to Receipts	-	-	-	-	-	-	N/A
Less Fees Relating to General Receipts	-	-	-	-	-	-	N/A
Total Capital Receipts from Asset Sales	3,000	1,480	4,480	2,182	4,480	-	0.00%
Drawdown from/ (to) Capital Fund	-	-	-	-	-	-	N/A
Developer Contributions	-	-	-	4,944	-	-	N/A
Developers Contributions Transferred to Investments	-	-	-	-	-	-	0.00%
Total Developer Contributions	-	-	-	4,944	-	-	N/A
Total Capital Receipts and Contributions	**3,000**	**1,480**	**4,480**	**7,126**	**4,480**	**-**	**0.00%**
Grants							
Scottish Government General Capital Grant	40,221	-	40,221	10,157	40,221	-	0.00%
Other Grants and Contributions	-	-	-	321	-	-	N/A
Cycling, Walking and Safer Streets	2,310	1,068	3,378	-	3,378	-	0.00%
Town Centre Funding / Place Based Investment Programme	1,735	-	1,735	1,741	1,735	-	0.00%
Transfer of Management of Development Funding (TMDF)	45,182	-	45,182	-	45,182	-	0.00%
Early Years and Childcare - Expansion	-	-	-	-	-	-	N/A
Regeneration Funding - Powderhall Stables	-	-	-	-	-	-	N/A
Other Government Grants	-	-	-	(4,816)	-	-	N/A
Capital Grants Unapplied Account Drawdown	-	-	-	-	-	-	0.00%
Total Grants	89,448	1,068	90,516	7,402	90,516	-	0.00%
Total Funding	**92,448**	**2,549**	**94,997**	**14,528**	**94,997**	**-**	**0.00%**
Borrowing							
New Prudential Borrowing in Year	9,340	875	10,215	-	10,215	-	0.00%
New On-Lending in Year	16,972	3,057	20,029	-	20,029	-	0.00%
New Capital Advance - Trams to Newhaven	39,503	15,197	54,700	-	54,700	-	0.00%
New Capital Advance - General Fund	44,773	(21,462)	23,311	25,607	23,311	-	0.00%
Balance to be funded through Loans Fund Advance	**110,588**	**(2,334)**	**108,254**	**25,607**	**108,254**	**-**	**0.00%**

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Appendix 7 - 2022/23 Capital Monitoring

Housing Revenue Account

Period 3

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance £000	%
New Homes Development	43,332	(5,608)	37,724	2,948	37,724	-	0.0%
New Homes Land Costs	16,800	(2,456)	14,344	44	14,344	-	0.0%
Improvement to Council Homes and Estates	66,687	-	66,687	8,470	66,687	-	0.0%
Total Gross Expenditure	**126,819**	**(8,064)**	**118,755**	**11,462**	**118,755**	**-**	**0.0%**

Income	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Outturn Variance £000	%
Capital Receipts and Other Contributions	-	-	-	1,441	-	-	#DIV/0!
Capital Funded from Current Revenue	23,300	(2,456)	20,844	6,987	20,844	-	0.0%
Prudential Borrowing	87,938	(5,608)	82,330	(9)	82,330	-	0.0%
Receipts from LLPs	6,444	-	6,444	3,042	6,444	-	0.0%
Scottish Government Subsidy	4,137	-	4,137	-	4,137	-	0.0%
Specific Capital Grant	5,000	-	5,000	-	5,000	-	0.0%
Total Income	**126,819**	**(8,064)**	**118,755**	**11,462**	**118,755**	**-**	**0.0%**
Balance to be funded through Loans Fund Advance	**-**	**0**	**-**	**-**	**-**	**-**	**0%**

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Governance, Risk and Best Value Committee

10.00am, Tuesday 11 October 2022

Revenue Budget Framework 2023/27: progress update – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1   The Finance and Resources Committee has referred a report on the Revenue Budget Framework 2023/27: progress update to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

Referral Report

Revenue Budget Framework 2023/27: progress update – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 8 September 2022, the Finance and Resources Committee considered the Revenue Budget Framework 2023/27: progress update report. The report provided updates on the outcome of the most recent review of the Council's financial planning assumptions, resulting in an increased estimated savings requirement of £70.4m in 2023/24 and £152.9m by 2026/27. An update was also provided on the development of the Council's Medium-Term Financial Plan.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the updates to financial planning assumptions set out in the report, resulting in increased overall estimated savings requirements of £70.4m in 2023/24 and £152.9m over the period to 2026/27 respectively.

2.2.2 To note the further risks outlined in the report, particularly those in respect of inflationary-linked pressures.

2.2.3 To note progress in the development of the Council's Medium-Term Financial Plan and the intention to present draft budget proposals for 2023/24 and broad programmes of activity to contribute towards future years' savings requirements at the Committee's meeting on 10 November 2022.

2.2.4 To refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

3. Background Reading

3.1 [Finance and Resources Committee – 8 September 2022 - Webcast](#)

3.2 Minute of the Finance and Resources Committee – 8 September 2022

4. Appendices

4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Revenue Budget Framework 2023/27: progress update

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the updates to financial planning assumptions set out in the report, resulting in increased overall estimated savings requirements of £70.4m in 2023/24 and £152.9m over the period to 2026/27 respectively;

1.1.2 note the further risks outlined in the report, particularly those in respect of inflationary-linked pressures;

1.1.3 note progress in the development of the Council's Medium-Term Financial Plan and the intention to present draft budget proposals for 2023/24 and broad programmes of activity to contribute towards future years' savings requirements at the Committee's meeting on 10 November 2022; and

1.1.4 refer this report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Report

Revenue Budget Framework 2023/27: progress update

2. Executive Summary

2.1 The report updates members on the outcome of the most recent review of the Council's financial planning assumptions, resulting in an increased estimated savings requirement of £70.4m in 2023/24 and £152.9m by 2026/27. An update is also provided on the development of the Council's Medium-Term Financial Plan.

3. Background

3.1 At the Committee's meeting on 16 June 2022, members considered an update on the Council's revenue budget framework, including the results of a review of financial planning assumptions over the period to 2026/27. The report noted that the Scottish Government had confirmed, as part of the Resource Spending Review, that the £120m of additional Scotland-wide funding provided as part of the 2022/23 Scottish Budget's Parliamentary approval would be baselined, with Edinburgh's share of £9.7m thus representing a favourable movement relative to these assumptions.

3.2 In view of the range of wider inflationary risks, including but not limited to energy costs and pay, however, the report noted the likelihood that additional recurring funds would be required to manage these pressures and, as a result, the £9.7m of additional grant income noted above has been earmarked for this purpose. As such, the framework continued to show an incremental savings gap of £63m in 2023/24, increasing to £144m over the period to 2026/27.

3.3 The report to the June meeting of the Committee also outlined the current status of discussions with the Scottish Government concerning the basis on which the service concession "financial flexibility" might be made available to councils.

3.4 Given the fast-moving nature of the external environment, a further review of these assumptions has been undertaken and this report sets out the results of this consideration and the proposed next steps in developing measures to address the resulting funding gaps, particularly for 2023/24. An update on the service concession flexibility is also provided.

4. Main report

4.1 The report to the Committee's meeting on 16 June highlighted the main contributing factors to the gap between anticipated expenditure requirements and available funding over the period to 2026/27. The Council continues to face significant financial pressures resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the on-going financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not increasing. Based on existing planning assumptions, significant cumulative recurring savings are therefore required as shown below:

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Estimated funding gap, June 2022	62.6	88.3	115.8	143.8

4.2 Even within this timeframe, the assumptions underpinning the above gaps are subject to considerable uncertainty with regard, in particular, to the level of required pay award provision, other inflationary pressures and grant funding. The Council's assumptions are, however, regularly reviewed against a range of independent sources and those of other Scottish local authorities, with any material variation from these considered and justified, or the assumptions revised, as appropriate.

4.3 Other planned structural reforms over the period of the current Scottish Parliament, including the creation of the National Care Service (NCS) and replacement of the current Council Tax system, may give rise to further changes. With this in mind, any projections beyond this timeframe are inherently speculative although, based on past years' requirements, available projections and the level of efficiencies assumed by the Scottish Government, an incremental annual requirement of £28m is assumed. This would result in a need to identify recurring savings of £172m over the five-year period to 2027/28 and £312m over the ten-year period to 2032/33 (the latter some 26% of the Council's net budget).

Inflationary pressures

4.4 Even since the approval of the 2022/23 budget, the wider environment within which the Council operates has also been subject to significant change. The UK is facing rates of inflation not seen for many decades, fuelled by supply chain shortages exacerbated by international events, alongside the challenges of recovering from the COVID-19 pandemic.

4.5 Inflation levels affect the Council's activities in a number of ways; directly through increasing prices of purchased goods and services and the level of uplifts applied to relevant contracts and indirectly through consumer spending and expectations for wage awards.

4.6 The rate of inflation for July 2022 as measured by the Consumer Price Index (CPI) was 10.1%, with the Retail Price Index (RPI) standing at 12.3%, the highest such rates since 1982. While the detail of forecasts varies by source, the Bank of England expects CPI to peak at just over 13% in the final quarter of 2022 and not fall back below 10% until the second half of 2023. This emphasises that the Council's assumptions on inflation levels will continue to be a key consideration, at least into the medium term.

PPP contracts

4.7 While in some instances (such as the ICT contract) the uplift to which the Council is exposed is capped, in a number of other cases, such as the PPP1 and PPP2 schools contracts, the applicable uplift is calculated with reference to current actual inflation rates. As the PPP uplift is based on the annual level of RPI in February, this now gives the likelihood of two successive years' significant uplifts. Although the uplift applied in February 2022 was reflected in the report to June's Committee, it is now considered prudent to increase provision for 2023/24 by a further £2.5m.

Energy costs

4.8 The largest single known non-pay pressure facing the Council is energy costs. The report to the Committee's meeting on 16 June estimated a cumulative pressure (relative to the approved 2021/22 budget) of £14m in 2023/24. Updated estimates, however, point to an increase of £1.9m in the likely overall level of pressure in 2023/24 (i.e. to £15.9m) and a further £4.5m in 2024/25, albeit the lower pre-purchased volumes for the later year make these projections inherently more uncertain.

Other inflationary pressures

4.9 Many other areas of the Council's expenditure are also affected by exceptional inflationary pressures. Requests for significant uplifts to existing contract rates have been received in respect of food and catering, fuel and home-to-school transport provision, as well as children's services contracts. While by no means exhaustive, requests across these areas alone have given rise to a £4m annual, and likely recurring, pressure in 2022/23. While service areas are being asked to mitigate these pressures wherever possible in the current year, in light of the projections for inflation to increase and continue at high levels well in to 2023/24, it is now considered prudent to introduce a general inflationary provision of £5m in 2023/24, the need for which will be reviewed as greater certainty is obtained. An element of this provision may also be retained as a contingency against increased demand for Council services.

Homelessness

4.10 A report elsewhere on today's agenda points to estimated pressures of £5.5m in homelessness services in 2022/23. The budget framework assumes a reduction of

£3m in the level of homelessness service investment in 2023/24 relative to 2022/23, based on an assumption that demand would begin to reduce following the relaxation of public health restrictions introduced at the outset of the COVID pandemic.

4.11 At this stage, however, estimated gross pressures in 2023/24 have increased to £13m above the base budget assumption, with the main elements comprising:

(i) **households in temporary accommodation** – an anticipated in-year increase of 120 households in 2022/23, alongside an assumption of no change in the number of clients with no recourse to public funds (NRPF) being accommodated, would give rise to a combined pressure of £5.6m. There is the potential for this pressure to grow further when the removal of "local connection" takes effect from November 2022;

(ii) **contract inflation** – the majority of the estimated pressure of £4.5m in this area relates to the pass-through of increased utility costs from temporary accommodation providers;

(iii) **support for rough sleepers** – a pressure of £1.9m is projected on the assumption that costs incurred to provide the Welcome Centre at Haymarket and Housing First service will be met in full by the Council; and

(iv) **preventative support, advice and income maximisation services** – investment of £1.2m is required to replace time-limited funding in these areas which has delivered estimated net financial benefits of £1.27m over a twelve-month period.

4.12 A more detailed report, including options for the mitigation of demand-led pressures, will be considered by the Housing, Homelessness and Fair Work Committee on 29 September.

Budget framework provision for continuing COVID impacts

4.13 The budget framework currently provides for £11m of continuing COVID impacts in 2023/24, reducing to £9m in 2024/25 and continuing at that level thereafter. Based on an analysis of the 2021/22 outturn and relevant forward projections, it is proposed to re-align this provision as follows, the appropriateness of which will be kept under review:

	2023/24
	£m
Lothian Buses - loss of dividend	6.0
Reductions in parking income	3.0
ALEO support	2.0
Total funding for COVID impacts	**11.0**

4.14   At this stage, allocation of the £9m in 2024/25 is assumed to comprise £6m for continuing loss of the Lothian Buses dividend, £2m for reductions in parking income and £1m for ALEO support.

4.15   As each of these reallocations is within the existing level of provision, there is no change to the overall funding gaps in these years.

Pay award, 2022/23

4.16   The 2022/23 revenue budget monitoring report elsewhere on today's agenda notes that COSLA, as employer, has now made a pay offer for 2022/23 of an overall value of 5%, alongside increasing the Scottish Local Government Living Wage to £10.50 per hour. When the Council's baseline assumption of 3% and a recurring Scottish Government contribution equal to 1.5% of the overall Local Government paybill are offset against this offer, a 0.5% shortfall remains. Based on the Council's in-scope employee cost budget, this equates to a recurring shortfall of up to £3.1m, depending upon the allocation basis agreed by COSLA Leaders, subject to compounding thereafter. It is also worth emphasising that continuing high inflation rates are likely to put pressure on the level of award for 2023/24, where provision for an average increase of 3% is included in the budget framework.

Revised gap before mitigations

4.17   The additional pressures noted in the preceding sections would give rise to increased revised gaps before mitigations over the years of the framework as follows:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Updated estimated funding gap, June 2022	62.6	88.3	115.8	143.8
Increases in provision:				
PPP contracts	2.5	2.5	2.5	2.5
Energy costs	1.9	6.4	6.4	6.4
Other inflationary pressures	5.0	5.0	5.0	5.0
Homelessness services	13.0	13.0	13.0	13.0
Pay award, 2022/23 – recurring impact	3.1	3.2	3.3	3.4
Revised gap before mitigations	**88.1**	**118.4**	**146.0**	**174.1**

4.18   In view of the extent of these additional pressures, a thorough review of corporate budgets and reserves has been undertaken, including consideration of any favourable variances apparent in 2022/23 that would be expected to recur. This consideration has resulted in the following savings being identified at this time:

(i)   **Council Tax** – a favourable variance against budget of £3m is being forecast in 2022/23. Based on an assessment of the level of buoyancy (i.e. changes in the size and profile of the Council Tax base) implicit in existing

projections, additional income of £3m is anticipated in 2023/24 relative to these assumptions, increasing to £5m by 2026/27;

(ii) **Investment income** – following recent increases in interest rates, the Council's available cash balances have generated additional investment income. While the level of this additional income will reduce over time as these sums are applied to support the capital programme in lieu of undertaking external borrowing, additional income of £1.5m is anticipated in 2023/24, reducing by £0.5m each year thereafter;

(iii) **Millerhill Recycling and Energy Recovery Centre** - the Council is entitled to a share of the net income generated by the facility under a heat off-take agreement, estimated at £2m for each year of the budget framework. Additional details are included in a separate report elsewhere on today's agenda;

(iv) **Inflationary provisions/additional income** – a number of inflationary provisions contained within the budget framework have not yet been fully utilised or have been supplemented by the receipt of external income. These include a residual element of the sums put aside to address the increase in employer's National Insurance rates from April 2022, sums originally earmarked to meet increases in the Non-Domestic Rates poundage (where these then decreased in 2021/22 and have only returned to 2020/21 levels in 2022/23) and a redirection of additional provision made for demographic-related demand where updated projections suggest this may not be required. Taken together, these measures provide savings of £6.2m in 2023/24, increasing to £9.2m by 2026/27; and

(v) Application of the **budget framework risk contingency** for 2023/24, reducing the residual gap by £5m in each of the years of the framework.

4.19 The net effect of these mitigations is summarised in the table below:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Updated estimated funding gap before mitigations, September 2022	88.1	118.4	146.0	174.1
Offset by savings as follows:				
Council Tax	(3.0)	(4.0)	(4.5)	(5.0)
Investment income	(1.5)	(1.0)	(0.5)	0.0
Millerhill heat off-take agreement	(2.0)	(2.0)	(2.0)	(2.0)
Inflationary provisions/additional income	(6.2)	(7.2)	(8.2)	(9.2)
Risk contingency	(5.0)	(5.0)	(5.0)	(5.0)
Revised gap after mitigations	**70.4**	**99.2**	**125.8**	**152.9**

4.20 The revenue budget outturn 2021/22 report elsewhere on today's agenda indicates that the actual net in-year call on the Council's COVID reserves was some £30m[1] less than assumed at the time of setting the 2021/22 budget. While, by definition, not a sustainable funding source, these reserves are therefore also available to offset costs or loss of income due to COVID over the period to 2026/27.

Edinburgh Integration Joint Board (EIJB)

4.21 The Chief Finance Officer of the EIJB presented a Finance Update to the Board's most recent meeting on 9 August 2022. While focusing primarily on achieving a balanced position for 2022/23, the need to develop a sustainable medium-term plan has been acknowledged and corresponding updates will therefore be provided to the Board as this progress develops.

Links to capital programme

4.22 A report elsewhere on today's agenda highlights an expectation that the current capital programme will come under further financial pressure as a result of higher tender prices caused by current market conditions. This will result in a need to consider re-profiling of priorities, reduction in scope of projects and/or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy to comply with the terms of the Prudential Code. This is likely to mean that later phases of the programme will be unable to be delivered within the ten-year strategy.

Service concession financial flexibility

4.23 The report to the Committee's last meeting confirmed that the Cabinet Secretary for Finance and the Economy had agreed to the main elements of COSLA's request on changes to accounting for service concession arrangements, thus allowing councils to spread the principal element of capital repayments over the (longer) life of the asset as opposed to the existing contract term. The Scottish Government has now issued a consultation draft Finance Circular outlining the basis of the change and good progress has been made in ensuring the intended flexibility can be effectively applied in practice. As of the time of writing, the finalised guidance has not been issued but a verbal update will be provided at the meeting.

4.24 While it is important to emphasise that the service concession flexibility mechanism is a timing-related one that merely spreads an unchanged overall level of liability over a longer period, modelling is continuing to determine the extent of any potential retrospective and prospective benefit to the Council and the associated required considerations and actions to demonstrate that any decision to adopt is prudent. A more detailed update will be provided in November once this modelling has been completed and necessary clarifications received.

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[1] This sum comprises a combination of (i) a lower call in respect of COVID-specific impacts of £13.5m and (ii) savings in service and corporate budgets, reducing by a further £16.3m the level of funding requiring to be drawn down from reserves during the year.

Capital Accounting Review

4.25 The Scottish Government has now confirmed the appointment of an independent chair for the Capital Accounting Review (CAR) which will consider, amongst other things, the on-going appropriateness of statutory mitigation provisions alongside alignment to the Code of Practice on Local Authority Accounting. The Council will be represented on the CAR's working group by the Service Director: Finance and Procurement in his capacity as Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

4.26 Statutory mitigation is statutory guidance issued by Scottish Ministers for the accounting treatment for specified transactions or types of transactions undertaken by a local authority. It is usually issued where the accounting practice under the Code has been determined to result in an improper charge against the General Fund in the Local Authority financial statements and thus has a consequential impact on the funding available for the provision of local services.

4.27 While the Scottish Government has re-emphasised that there is no predetermined outcome of the review, there is nonetheless a risk that this outcome will result in a need to review the affordability of councils' existing capital programmes. Members of the Committee will be kept apprised of progress once the review gets underway.

Future years' savings requirements and development of corresponding savings proposals

4.28 The urgent need to initiate a structured medium to longer-term savings programme was highlighted in both the Council's Best Value Assurance Report and the external auditor's report for 2020/21. Since that time, a combination of the on-going impacts of the COVID pandemic and inflationary pressures resulting from global events have only re-emphasised the importance of developing this programme. While the year-on-year progress in savings delivery apparent in recent years[2] has been encouraging, budget implementation plans for 2023/24, particularly those relating to generic cross-cutting themes with implicit departmental savings targets, will also need to be suitably robust, with specific associated actions identified in advance of approval, for inclusion in the budget framework.

4.29 The Scottish Government's Resource Spending Review (RSR) set out clearly the extent of the challenge, with non-prioritised areas (including Local Government) facing significant real-terms reductions in funding over the coming years. Since its publication at the end of May, however, these inflation-driven pressures have only intensified and are anticipated to last well into 2023.

4.30 The Scottish Government has indicated that, in the absence of any additional block grant funding provided in recognition of these pressures, it can only improve pay deals for public sector workers in Scotland through deep cuts to public services. As has been indicated in previous reports, while opportunities for

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[2] Some 89% of approved savings for 2021/22 were delivered during the year, compared to 80% in 2020/21, 77% in 2019/20 and 60% in 2018/19.

efficiencies will be examined in the first instance, members will therefore likely need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

Council's Medium-Term Financial Plan

4.31 Given this backdrop, work is continuing to develop the Council's Medium-Term Financial Plan (MTFP) to deliver a programme of strategic and structural change to address the four-year (medium-term) financial challenge and, more immediately, agree a set of proposals to set a balanced budget for 2023/24. The plan will be framed by a refreshed Business Plan that articulates the Administration's priorities, forms the basis of collaboration amongst political parties and sets out the narrative of a strategic case for change. It is envisaged that the plan will comprise:

(i) a set of fully costed and assessed proposals for budget 2023/24 (year 1); and

(ii) a set of strategic outline business cases for the major change projects that will primarily deliver in years 2 to 4 i.e. 2024/25 to 2026/27 and contribute towards later years' savings requirements.

4.32 A core project team has been established to progress development of the plan, with accountable owners being clearly identified for both Directorate-specific and cross-cutting savings proposals.

4.33 It is the intention, at this stage, to present for members' consideration at the Committee's next substantive meeting on 10 November a set of specific budget proposals for 2023/24 and this proposed longer-term programme of work.

5. Next Steps

5.1 The assumptions within the budget framework will continue to be the subject of regular review and material changes reported to members as appropriate.

5.2 There is an urgent need to identify and develop potential options to address increasing future years' savings gaps. Given the previous low rates of delivery associated with generic Council-wide savings, these proposals need to detail specific steps and measures to support delivery within each Directorate and an update will be provided at the Committee's meeting in November.

5.3 Executive Directors and Service Directors will also require to continue to manage proactively risks and pressures as they relate to their respective areas of responsibility.

6. Financial impact

6.1 The Council continues to face significant financial pressures resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the continuing financial impacts of the pandemic. These

factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not increasing.

6.2   While the Council has approved a balanced budget for 2022/23, it faces significant financial challenges going forward. The revised projections in this report indicate a need to deliver at least £70m of recurring savings in 2023/24, increasing to £153m over the period to 2026/27.

7.   Stakeholder/Community Impact

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

8.   Background reading/external references

8.1   [Cost of Living Support – response to a motion from Councillor Biagi](), The City of Edinburgh Council, 25 August 2022

8.2   [Revenue Budget Framework 2022/27: progress update](), Finance and Resources Committee, 16 June 2022

8.3   [Revenue Budget Update 2022/23 – Update](), Finance and Resources Committee, 3 March 2022

8.4   [Coalition Budget Motion 2022/23](), The City of Edinburgh Council, 24 February 2022

8.5   [Revenue Budget 2022/23 – Risks and Reserves](), Finance and Resources Committee, 3 February 2022

9.   Appendices

None

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Governance, Risk and Best Value

10:00am, Tuesday 11 October 2022

Internal Audit Annual Plan 2022-23 – Referral from the Edinburgh Integration Joint Board Audit and Assurance Committee

Item number
Executive/routine
Wards
Council Commitments

1.   For Decision/Action

1.1   The Governance, Risk and Best Value Committee is requested to consider the Internal Audit Annual Plan 2022-23 referral from the Edinburgh Integration Joint Board Audit and Assurance Committee for information.

Richard Carr

Interim Executive Director of Corporate Services
Contact: Matthew Brass, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: matthew.brass@edinburgh.gov.uk

Referral Report

Internal Audit Annual Plan 2022-23

2.   Terms of Referral

2.1   On 31 August 2022, the Edinburgh Integration Joint Board (EIJB) Audit and Assurance Committee considered the Internal Audit (IA) Annual Plan for 2022-23.

2.2   The EIJB Audit and Assurance Committee agreed:

2.2.1   To review and approve the 2022-23 Internal Audit Plan and supporting risk assessment.

2.2.2   to note the costs (circa £50k) associated with the delivery of IA services by the Council to the EIJB (further detail included at paragraph 11 below).

2.2.2   To refer the approved EIJB IA Plan to both the Council's Governance, Risk and Best Value Committee and the NHS Lothian Audit and Assurance Committee for information.

2.2.4   To present a briefing paper to the December Committee to give an informal position on a third audit into the National Care Service.

3.   Background Reading/External References

3.1   None.

4.   Appendices

4.1   Appendix 1 – Report by the Senior Audit Manager, City of Edinburgh Council

REPORT

Internal Audit Annual Plan 2022/23

Audit and Assurance Committee

31 August 2022

Executive Summary	
	1. The purpose of this paper is to present the Edinburgh Integration Joint Board (EIJB) draft Internal Audit (IA) plan for the 2022/23 financial year to the Committee for approval.
	2. The proposed IA annual plan has been reduced from three to two audits, reflecting that the majority of the EIJB's most significant risks have been covered in prior year audits, and the ongoing assurance provided through the established IA follow-up process. This reduced coverage also recognises capacity challenges in the EIJB and Partnership as management continues to address ongoing Covid service delivery challenges.
	3. It is IA's opinion that the two reviews and follow-up activity included in the revised plan will provide the appropriate level of assurance on the control frameworks designed to manage the EIJB's most significant risks, and that the plan can be delivered by Internal Audit resources currently available from the EIJB's two partners, the City of Edinburgh Council (the Council) and NHS Lothian (NHSL).
	4. Reliance will be placed on relevant assurance reviews performed by the Council and NHSL IA teams in the respective partner organisations and referred to the EIJB Audit and Assurance Committee to inform the 2022/23 Internal Audit Annual Opinion. No reliance will be placed on assurance provided by any other second and third line of defence assurance providers.
	5. The audit plan is risk based and is derived from the EIJB's risk register (as at February 2022) which identifies the key areas of risk.

Recommendations	
	It is recommended that the Audit and Assurance Committee:
	1. Reviews and approves the 2022/23 Internal Audit plan and supporting risk assessment.

| | 2. Note the costs (circa £50K) associated with delivery of IA services by the Council to the EIJB (further detail is included at paragraph 11 below). |
| | 3. Refers the approved EIJB IA plan to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Assurance Committee for information. |

Directions

Direction to City of Edinburgh Council, NHS Lothian or both organisations	No direction required	✓
	Issue a direction to City of Edinburgh Council	
	Issue a direction to NHS Lothian	
	Issue a direction to City of Edinburgh Council and NHS Lothian	

Report Circulation

1. Discussion with the EIJB's Chief Officer and Chief Finance Officer

2. Audit and Assurance Committee

Main Report

3. The IA plan is driven by Public Sector Internal Audit Standards (PSIAS) requirements; the EIJB's organisational objectives and priorities; and an assessment of the risks that could prevent the EIJB from meeting those objectives.

4. The plan is risk based and focuses on the governance, risks, and controls within the EIJB. The outcomes of the audits included in the plan will support the 2022/23 EIJB Internal Audit annual opinion, and inform the annual Governance Statement in the financial statements

5. The 2022/23 IA annual plan is based on the risk register that was presented at the EIJB Audit and Assurance Committee in February 2022; engagement with Health and Social Care Senior Management; EIJB Audit and Assurance Committee Elected Members; Azets (the EIJB's currently appointed external auditors); and the Care Inspectorate. As the risk register has now been refreshed, the scope of the audits included in the annual plan will be mapped to the refreshed risks at the planning stage of the reviews.

6. The approach applied in developing the plan considered the outcomes of work performed across the EIJB by other second and third line assurance providers, and the extent to which reliance can be placed upon them.

7. The Audit and Assurance Committee's remit includes ensuring internal audit work is properly planned with due regard to risk, materiality and coverage, and agreeing annual IA plans

8. The plan includes two IA reviews to be completed by the EIJB's partners, the Council and NHSL. The Council will perform one review, and NHSL one.

9. The two audits included in the plan and follow up on findings raised in previously completed audits will provide sufficient assurance over all of the EIJB's auditable 'Very High' and 'High' rated risks, where no other assurance is provided.

10. Adequacy and capability of IA resources have been reviewed to confirm that sufficient resources, skills, and capability are available within the Council and NHSL to support delivery of the revised plan.

Implications for Edinburgh Integration Joint Board

Financial

11. The total cost of IA services provided to the EIJB is circa £50K. This reflects delivery of the two IA reviews performed by the Council; ongoing follow-up; preparation of committee reports; and attendance at the EIJB Audit and Assurance and other relevant committees.

12. Any requirement to increase assurance provision as a result of new and emerging risks may also result in the need to fund additional IA resource.

Legal / risk implications

13. The IA plan is not sufficiently comprehensive to provide the level of assurance that the Integration Board requires in all the areas that it needs.

14. That IA cannot obtain the necessary access to the records; assets; physical; properties; and personnel of the EIJB's partner organisations (the Council and NHSL) to enable delivery of the EIJB annual plan and annual opinion.

Equality and integrated impact assessment

15. There are no equality impacts.

Environment and sustainability impacts

16. No direct sustainability impacts.

Consultation

17. The IA plan is based on the EIJB's risk register as at February 2022 and subsequent discussion with management and the EIJB Audit and Assurance Committee.

18. The two IA reviews will be performed by the Integration Joint Board's partners IA functions (one by the City of Edinburgh Council and one by NHSL). These audits have been incorporated into the internal audit plans of those organisations.

19. Delivery of the EIJB IA plan is likely to involve input from the partner organisations that provide support to the EIJB (the Council and NHSL) under the terms of the EIJB Scheme of Integration.

20. The EIJB Internal Audit Charter (presented to the Audit and Assurance Committee in March 2022) notes in the section on 'Authority' that IA is authorised by the EIJB Audit and Assurance Committee to have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel, and those of its partners, the Council and NHSL.

Report Author

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Senior Audit Manager

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Background Reports

None

Appendices

Appendix 1   Draft EIJB Internal Audit Plan 2022/23

The Edinburgh Integration Joint Board

Internal Audit Annual Plan 2022/23

Contents

Internal Audit Annual Plan 2022/23

1. Introduction and Approach

1.1 Introduction

This document sets out the scope of the draft Internal Audit (IA) 2022/23 annual plan and supporting risk assessment for The Edinburgh Integration Joint Board (the EIJB). The objective of the plan is to deliver assurance on the design adequacy and operating effectiveness of the key controls established to mitigate the EIJB's most significant risks.

1.2 Approach

A summary of the approach applied when assessing the EIJB's key risks and preparing the annual plan is set out below in Figure 1. The IA plan is driven by Public Sector Internal Audit Requirements (PSIAS); the EIJB's organisational objectives and priorities; and an assessment of the risks that could prevent the EIJB from meeting those objectives.

Figure 1: Approach applied in developing the 2022/23 IA Annual Plan

Step 1 *Review Public Sector Internal Audit (PSIAS) requirements*	Review PSIAS to confirm that there have been no changes in relation to annual planning requirements.
Step 2 *Understand the EIJB''s objectives and risks*	Obtain information about the external and internal risks that could impact the EIJB.
Step 3 *Consider the Audit universe and other sources of assurance*	Identify all auditable areas across the EIJB and consider other sources of assurance provided across the three lines of defence model.
Step 4 *Assess the inherent risk*	Assess the inherent (pre-controls) risks associated with each auditable area based on the likelihood that the risk will crystallise and its potential impact.
Step 5 *Assess the strength of the control environment*	Assess the strength of the control environment within each auditable area (considering assurance outcomes across the three lines of defence) to identify those areas with a high reliance on key operational or manual controls.
Step 6 *Calculate the audit requirement rating*	Calculate the audit requirement rating considering the inherent risk assessment and the strength of the control environment for each auditable area.
Step 7 *Determine the audit plan*	Based on the outcomes of steps 4, 5 and 6, determine the timing and scope of audit work required.
Step 8 *Other considerations*	Consider any requirements in addition to those identified from the risk assessment process.

1.3   Step 1 - Review Public Sector Internal Audit (PSIAS) requirements

The draft IA plan has been developed based on the requirements of the Public Sector Internal Audit Standards (PSIAS) which specify that:

- The Chief Internal Auditor (CIA) must develop a risk-based plan that is consistent with the organisation's goals, and determines the priority of IA activity;

- The plan must be based on a documented risk assessment, undertaken at least annually, with input from senior management and the board;

- The CIA must consult with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, and associated risks and risk management processes;

- The plan must consider the requirement to produce an annual internal audit opinion;

- The plan must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to organisational objectives and priorities;

- The CIA must communicate the internal audit activities, plans, and resource requirements, including significant interim changes, to senior management and the board for review and approval;

- The CIA must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan;

- The plan must explain how internal audit's resource requirements have been assessed. Where the CIA believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board; and

- The CIA must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

1.4   Step 2- Understand the EIJB's Objectives and Risks

The annual Internal Audit Plan is based on an annual assessment of the EIJB's key risks and operations (the audit universe). The outcomes of the risk assessment process are included at Section 2.

The risk assessment process involved review of the EIJB risk register as at February 2022, and discussions with the Health and Social Care Partnership senior management team; External Audit (Azets); and the Care Inspectorate.

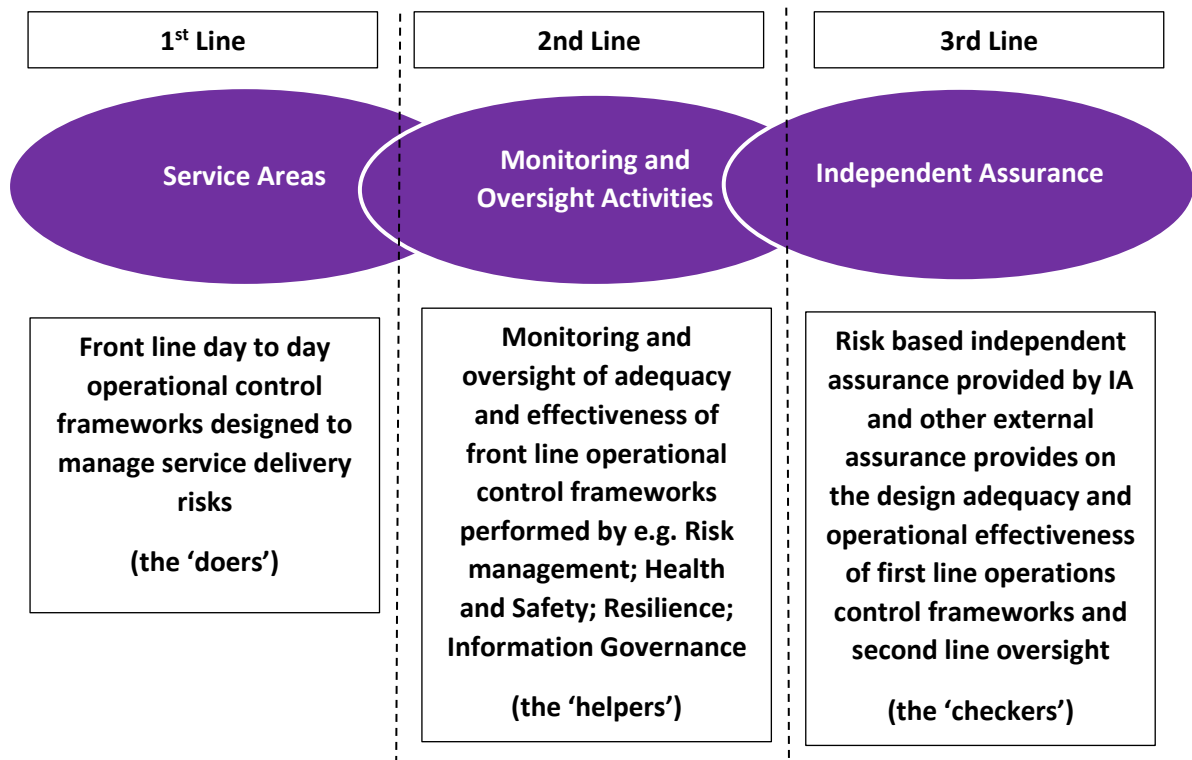## 1.5   Step 3 - The Audit universe and other assurance providers

1.5.1 The Audit Universe

The EIJB's audit universe is essentially its entire organisational structure.

1.5.2 The Three Lines Model

The approach applied in developing the plan also considers Internal Audit's role as one of the EIJB's 3rd line independent assurance providers. The diagram below outlines the three lines assurance model.

Figure 2: The "Three Lines" model

1st Line	2nd Line	3rd Line
Service Areas	**Monitoring and Oversight Activities**	**Independent Assurance**
Front line day to day operational control frameworks designed to manage service delivery risks **(the 'doers')**	**Monitoring and oversight of adequacy and effectiveness of front line operational control frameworks performed by e.g. Risk management; Health and Safety; Resilience; Information Governance** **(the 'helpers')**	**Risk based independent assurance provided by IA and other external assurance provides on the design adequacy and operational effectiveness of first line operations control frameworks and second line oversight** **(the 'checkers')**

1.5.3 Other Assurance Providers

In developing our internal audit risk assessment, we have considered other sources of assurance and the extent to which reliance can be placed upon them. A summary of other sources is detailed below:

- The results of audit work performed by the Council and NHS Lothian (NHSL) Internal Audit teams;
- External inspections such as those undertaken by the Care Inspectorate and Audit Scotland;
- External audit undertaken by Azets; and
- Information Commissioner Reviews and inspections.

We intend to place reliance upon the activities of the City of Edinburgh Council and the NHS Lothian Internal Audit teams as we have sufficient visibility over their internal processes and procedures (including quality procedures) to be able to conclude that the audits that they undertake are prepared to a standard that is consistent with the requirements of the PSIAS.

Although we have no concerns over the other potential sources of assurance noted above, we note that these organisations are not seeking to conduct their activities in a manner that is compliant with the PSIAS. We do not have sufficient visibility (and it is not practical to

gain such visibility) over their relevant internal processes to be able to draw a conclusion as to whether reliance can be placed upon their activities for the purposes of developing our EIJB Internal Audit annual opinion for 2022/23.

2.   Steps 4- 6 - Risk Assessment

The annual plan is based on the EIJB risk register that was presented to the Audit and Assurance Committee in February 2022.

Each inherent (pre controls) risk has been reviewed to assess whether it can be audited; whether assurance is available from other assurance providers; and whether IA assurance is required for 2022/23. The outcomes of this assessment are detailed at 2.1 below.

Risk		Inherent Risk Rating	Auditable Risk	Other Assurance Source	Proposed IA coverage for 2022/23
1. Strategic planning and commissioning					
1.1	Failure to deliver EIJB strategic objectives leading to a requirement to revise the strategic plan	**High**	Y	N	Covered in the 2020/21 audit of Capital and Workforce Planning and 2021/22 audit of Strategic Implications of Covid-19 lessons learned. **Follow up will continue to be performed on findings raised in 2022/23.**
1.2	Failure to influence decision-making over services that are not managed by the EHSCP leading to the inability to review service delivery and drive strategy.	**High**	Y	N	Covered in the 2020/21 audit of Management Information. **Follow up will continue to be performed on findings raised in 2022/23.**
	Failure to deliver delegated services within available budgets leading to a requirement to revise the Strategic Plan.	**High**	Y	N	Review of Financial and Budget Management completed in 2018/19. Covid-19 Financial Management audit completed in 2020/21. **Proposed 2022/23 audit of Set Aside Budget Setting and Monitoring Processes.**
1.4	Insufficient asset planning arrangements leading to failure or delays in delivering the strategic plan.	**High**	Y	N	Covered in the 2020/21 audit of Capital and Workforce planning. **Follow up will continue to be performed on findings raised in 2022/23.**
2. Issuing of Directions					
2.1	Failure of NHS Lothian and The City of Edinburgh Council in delivering directions leading to confusion and inefficiency.	**High**	Y	N	Review of the design of the new Directions setting framework completed in 2019/20. **Proposed 2022/23 audit of Governance of Directions.**
2.2	Failure of NHS Lothian and The City of Edinburgh Council to deliver directions leading to services not aligned to strategic intentions.	**Very High**	Y	N	Review of Management information with focus on partner performance MI and linkage to directions completed in 2020/21 and Strategic Implications of Covid-19 Lessons learned in 2021/22. **Proposed 2022/23 audit of Governance of Directions.**

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Risk		Inherent Risk Rating	Auditable Risk	Other Assurance Source	Proposed IA coverage for 2022/23
3. Management and role of the EIJB					
3.1	Inability to operate effectively as a separate entity leading to a failure to deliver the principles of integration.	**Medium**	Y	N	Covered by the 2018/19 Governance audit. **Review of transitional plans for the reform of the Integration Joint Board to Community Health and Social Care Boards suggested for 2023/24 audit plan.**
3.2	Failure to make best use of the expertise, experience and creativity of its partners leading to a negative impact on the delivery of the strategic outcomes and poor relationships	**Medium**	Y	N	Covered in the the 2018/19 Strategic Planning audit and 2021/22 audit of Strategic implications of Covid-19 lessons learned. **Follow up will continue to be performed on findings raised in 2022/23.**
3.3	EIJB infrastructure lacks the professional, administrative and technical infrastructure to operate effectively leading to failures in governance, scrutiny and performance arrangements.	**High**	Y	N	Reviewed in the 2018/19 Integration Scheme audit. Additional coverage in the 2021/22 audit of Risk Management. **Follow up will continue to be performed on findings raised in 2022/23.**
3.4	Insufficient or poor-quality assurance from assurance providers to support effective delivery of their scrutiny responsibilities.	**Medium**	Y	N	Covered in the 2021/22 audit of Risk Management and 2021/22 audit of Delivery of EIJB Legislative and Regulatory requirements. **Follow up will continue to be performed on findings raised in 2022/23.**
3.5	Non-compliance with applicable legislative and regulatory requirements leading to legal breaches, fines and/or prosecution.	**Low**	Y	N	Covered in the 2021/22 audit of Delivery of EIJB Legislative and Regulatory requirements. **Follow up will continue to be performed on findings raised in 2022/23.**
3.6	Officers with operational responsibilities are being asked to scrutinise performance in areas where they are not totally independent leading to inadequate oversight of delegated EIJB functions.	**Low**	Y	N	Covered in the 2021/22 audit of Risk Management. **Follow up will continue to be performed on findings raised in 2022/23**.

3. Step 7 - Annual Internal Audit plan

3.1 Internal Audit Resources

The EIJB is reliant upon its two partners (the Council and NHS Lothian [NHSL]) for provision of IA services. A formal secondment arrangement has been established between the Council and the EIJB for provision of three audits each year (a total of 75 audit days) and fulfilment of the role of Chief Internal Auditor. NHSL has also confirmed that they will deliver one audit in the 2022/23 plan year for the EIJB.

The current level of available IA resources from the Council and NHS Lothian will provide the appropriate level of assurance on the control frameworks designed to manage the EIJB's most significant risks.

3.2 Annual plan and indicative timeline

This capacity will enable provision of assurance on all of the 'Very High and 'High' rated EIJB auditable risks where other assurance is not provided.

It is important to note that IA assurance activity includes follow-up to confirm that agreed management actions have been effectively implemented and sustained to support closure of previously raised IA findings.

The draft 2022/23 IA plan is detailed below at Figure 3 below. Each proposed review and ongoing follow-up activity have been cross referenced to the corresponding risks included in the risk register and includes indicative timeframes.

Figure 3: 2022/23 draft Internal Audit plan

	Description	Internal Audit Team	Q1	Q2	Q3	Q4	Link to Inherent Risk
1	**Review of set aside budget setting and monitoring processes** - including identification of services and their associated costs; underlying budget assumptions; and financial reporting to the IJB on ongoing set aside budget management.	NHSL		✓			1.3 (High)
2	**Governance of Directions** – review of governance arrangements for directions to ensure they are associated with EIJB decisions; are revised in response to transformation, service redesign, and financial developments; and partner implementation and performance is monitored.	CEC			✓		2.1 (High) 2.2 (Very High)

Internal Audit Follow-up of completed EIJB reviews	Risk Reference
2016/17 - Data Integration and Sharing	3.3 (High)
2017/18 - Health and Social Care Purchasing Budget Management	1.3 (High)
2017/18 - Social Care Commissioning	1.2 and 1.3 (both High)
2018/19 - Strategic Planning	1.1 and 1.4 (both High);
2020/21 - Capital and workforce planning	1.4 (High)
2020/21 – Management Information	2.2 (Very High)
2021/22 – Strategic Implications of Covid-19 Lessons Learned	1.1 (High) 2.2 (Very High)
2021/22 – Delivery of Legislative and Statutory Requirements	3.4 (Medium) 3.5 (Low)
2021/22 – Risk Management, Board Rotation and Induction Arrangements	3.3 (High) 3.4 (Medium) 3.6 (Low)

3.3   Basis of our annual Internal Audit opinion

In developing the annual plan, we have considered the PSIAS requirement to produce an annual Internal Audit Opinion by determining the necessary level of internal audit coverage required to provide assurance over the EIJB's audit universe and key risks.

Our annual Internal Audit Opinion will be based on and limited to the outcomes from internal audits completed during the year; the reported overdue IA recommendations position as at 31 March 2023; and will be informed by any audits referred to the EIJB Audit and Assurance Committee by the Council and NHSL. No reliance will be placed on assurance provided by any other parties.

Internal audit work supporting the annual Opinion will be performed in accordance with our IA methodology which is aligned to PSIAS requirements. Consequently, our work and deliverables are not designed or intended to comply with any other auditing standards.

4.   Step 8 - Other Considerations

There were no other considerations that require to be reflected in the 2022/23 Internal Audit annual plan.

Appendix 1: Inherent Risk Assessment Process

1. The internal audit plan is based on the draft risk register presented to the EIJB Audit and Assurance Committee in February 2022. The inherent (pre controls) risk rating for each risk considers the impact of the risk should it crystallise, and the likelihood that it will crystallise, and is assessed using the table below:

Likelihood	Consequence				
	Neg	**Min**	**Mod**	**Maj**	**Ext**
Almost Certain	M	H	H	VH	VH
Likely	M	M	H	H	VH
Possible	L	M	M	H	H
Unlikely	L	M	M	M	H
Rare	L	L	L	M	M

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Governance, Risk and Best Value

10:00am, Tuesday 11 October 2022

Internal Audit Charter 2022-23 – Referral from the Edinburgh Integration Joint Board Audit and Assurance Committee

Item number
Executive/routine
Wards
Council Commitments

1.   For Decision/Action

1.1   The Governance, Risk and Best Value Committee is requested to consider the Internal Audit Charter 2022-23 Referral from the Edinburgh Integration Joint Board Audit and Assurance Committee with a request that it is signed by the Convener to confirm that both partner organisations will support the delivery of the 2022-23 EIJB IA Annual Plan and Opinion in line with the authority delegated by the EIJB to IA.

Richard Carr

Interim Executive Director of Corporate Services
Contact: Matthew Brass, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: matthew.brass@edinburgh.gov.uk

Referral Report

Internal Audit Charter 2022-23

2.   Terms of Referral

2.1   On 31 August 2022, the Edinburgh Integration Joint Board (EIJB) Audit and Assurance Committee considered the Internal Audit (IA) Charter for 2022-23.

2.2   The EIJB Audit and Assurance Committee agreed:

2.2.1   To review, approve and sign the refreshed 2022/23 IA Charter.

2.2.2   To refer the approved Charter to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Assurance Committee, with a request that it is signed by the Convenor's of the respective Committees to confirm that both partner organisations will support delivery of the 2022/23 EIJB IA annual plan and opinion in line with the authority delegated by the EIJB to IA.

3.   Background Reading/External References

3.1   None.

4.   Appendices

4.1   Appendix 1 – Report by the Senior Audit Manager, City of Edinburgh Council

Edinburgh Integration Joint Board

REPORT

Internal Audit Charter 2022/23

EIJB Audit and Assurance Committee

31 August 2022

Executive Summary	
	1 The purpose of this report is to present the revised draft Internal Audit (IA) Charter for 2022/23 to the Audit and Assurance Committee for approval on behalf of the Edinburgh Integration Joint Board (EIJB).
	2 Public Sector Internal Audit Standards (PSIAS) specify that the purpose, authority, and responsibility of IA must be formally defined in an IA Charter (the "Charter") that is periodically reviewed and presented to senior management and the board for approval. The EIJB's IA Charter fulfils this requirement.

Recommendations	
	It is recommended that the Committee:
	1 Reviews, approve, and sign the refreshed 2022/23 IA Charter; and
	2 Refers the approved Charter to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Assurance Committee, with a request that it is signed by the Convenor's of the respective committees to confirm that both partner organisations will support delivery of the 2022/23 EIJB IA annual plan and opinion in line with the authority delegated by the EIJB to IA.

Directions

Direction to City of Edinburgh Council, NHS Lothian or both organisations	No direction required	✓
	Issue a direction to City of Edinburgh Council	
	Issue a direction to NHS Lothian	
	Issue a direction to City of Edinburgh Council and NHS Lothian	

Report Circulation

1.   Audit and Assurance Committee

Main Report

2.   The PSIAS specify (at section 1000) that the purpose, authority, and responsibility of IA must be formally defined in a charter that is periodically reviewed and presented to senior management and the board for approval.

3.   The PSIAS state that the IA Charter must also define the terms 'board' and 'senior management' for the purposes of IA activity; cover arrangements for appropriate resourcing; define the role of IA in any fraud-related work; and include arrangements for avoiding conflicts of interest if IA audit undertakes non-audit activities.

4.   Within the EIJB, the role of the chief audit executive is fulfilled by the Chief Internal Auditor, the role of senior management is fulfilled by the senior management teams of the EIJB's partners (City of Edinburgh Council (the Council) and NHS Lothian (NHSL)) and the board role is undertaken by the members of the Integration Joint Board as a body.

5.   The IA Charter is presented to the EIJB Audit and Assurance Committee annually for scrutiny, review, and approval on behalf of the Board.

6.   The IA Charter is essentially the operational terms of reference agreed between the EIJB Audit and Assurance Committee (on behalf of the Board); IA; and the partner organisations (the Council and NHSL) that provide ongoing support to the EIJB under the terms of the EIJB Scheme of Integration.

7.   The content of the IA Charter covers the following specific areas:

- Purpose of Internal Audit;
- Definitions;
- Independence and Objectivity
- Authority;
- IA Objectives and Responsibilities;
- Professionalism;
- Internal Audit Plan;
- Resourcing;

- Management Responsibilities;

- Follow up;

- Reporting;

- Internal Audit Annual Opinion;

- Fraud and Corruption;

- Quality Assurance and Improvement Programme; and

- Approval.

8.   Whilst there have been no significant changes to the charter, it is important to note that:

    8.1.1   IA is authorised by the EIJB Audit and Assurance Committee to have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel.

    8.1.2   The Council and NHSL have also been contacted and requested to sign the charter confirming that they will also grant IA authority to records, assets, physical properties, and personnel to support delivery of the EIJB annual IA plan.

    8.1.3   The approach to IA follow up activity remains unchanged and confirms that IA does not currently apply a 'risk based' follow up approach, based on the acknowledged need to further improve risk and control awareness and embed the risk and control culture across both the EIJB and Council.

Implications for Edinburgh Integration Joint Board

Financial

9.   There is no direct financial impact arising from this report.

Legal / risk implications

10.   That IA cannot obtain the necessary access to the records; assets; physical; properties; and personnel of the EIJB's partner organisations (the Council and NHSL) to enable delivery of the EIJB IA annual plan and opinion, as detailed in this charter.

Equality and integrated impact assessment

11.   There are no equalities impacts.

Environment and sustainability impacts

12.   There are no sustainability impacts.

Consultation

13. The draft Charter has been presented directly to the EIJB Audit and Assurance Committee for their review and approval.

Report Author

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Background Reports

Public Sector Internal Audit Standards PSIAS

Appendices

Appendix 1   Draft EIJB Internal Audit Charter 2022/23

Appendix 1

Edinburgh Integration Joint Board

Internal Audit Charter 2022/23

Contents

Executive Summary

The [Public Bodies (Joint Working) (Scotland) Act 2014](#) is the legislative framework for integrating adult health and social care, to ensure a consistent provision of quality, sustainable care services for the increasing numbers of people in Scotland who need joined-up support and care, particularly people with multiple, complex, long-term conditions.

The Act details requirements in relation to finance and audit at section 13 and refers the reader to the [Local Authority Accounts (Scotland) Regulations 2014/20 Part 2 Regulation 7 - Internal Audit](#) which should apply to IJBs. This specifies that Local Authorities (and therefore IJBs) must operate a professional and objective IA service in accordance with recognised standards and practices in relation to internal auditing.

This Charter sets out the purpose, scope, authority, and responsibility of the Edinburgh Integration Joint Board's (the EIJB) Internal Audit (IA) function in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS are applicable across the whole of the public sector and are intended to ensure sound corporate governance and set out roles and responsibilities for both IA and management to support delivery of IA services.

1. Purpose of Internal Audit

The purpose of IA is to provide a high-quality independent audit service to the EIJB, in accordance with PSIAS, that provides assurance over the risk management frameworks; control environments; and governance frameworks established to manage the EIJB's key risks and ensure that the EIJB's strategic and operational objectives can be achieved.

The PSIAS recognise that IA's remit extends to the entire control environment of the organisation and not just to financial controls.

IA assurance is provided by delivering an annual schedule of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the EIJB's most significant risks, with the remaining risks covered on a cyclical basis.

The PSIAS notes that IA should also consider providing consultancy services based on their potential to improve management of risks, add value, and improve the organisation's operations.

2. Definitions

Chief Audit Executive; Senior Management; and Board

The PSIAS requires the that all public sector IA charters define the terms 'Chief Audit Executive (CAE)', 'Senior Management' and 'Board'.

Within the EIJB:

- the role of the 'CAE' is performed by the Chief Internal Auditor (CIA);

- the role of the 'Chief Financial Officer' is fulfilled by the EIJB's Chief Finance Officer (who is the designated statutory Section 95 Officer),

- the role of 'Senior Management' is performed by the Health and Social Care Partnership's executive management team (EMT) and senior management teams employed by both of the EIJB's partners, the City of Edinburgh Council (the Council) and NHS Lothian (NHSL); and

- the 'Board' role is performed by the members of the Edinburgh Integration Joint Board.

Internal Auditing

The EIJB has adopted the following PSIAS definition of internal auditing:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation establish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

Assurance Services

The EIJB has adopted the following PSIAS definition of assurance services:

'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.'

Independence

The EIJB has adopted the following PSIAS definition of independence:

'*Freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner'.*

Impairment

The EIJB has adopted the following PSIAS definition of impairment:

 'Impairment to organisational independence and individual objectivity may include personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations (funding).'

Consulting Services

The EIJB has adopted the following PSIAS definition of consulting services:

'Advisory and Auditee related service activities, the nature and scope of which are agreed with the Auditee, that are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training'.

3.   Independence and Objectivity

To ensure that IA independence and objectivity is maintained, IA will remain free from interference from anyone within the EIJB in relation to audit selection, scope, procedures, frequency, timing, and report content.

Additionally, IA will have no operational responsibility or authority over any organisational activities audited to prevent any conflicts of interest. Accordingly, they will not perform

4

operational processes; implement internal controls; develop procedures; install systems; prepare records; will not be permitted to audit any activities for which they have previously been responsible within a period of one year; and will not engage in any other activity that may impair judgment or independence.

Where consulting services are provided, the IA role will be specifically restricted to providing guidance, views, and opinions. To comply with PSIAS independence requirements IA will not be involved in any aspects of operational decisions subsequently taken by management.

PSIAS also requires the CIA to report to a level within the organisation which allows IA to fulfil its responsibilities and ensure that organisational independence is maintained. Within the EIJB, the CIA reports to the EIJB Audit and Assurance Committee and the Chair of the EIJB main Board.

The CIA will confirm to the EIJB, at least annually, the organisational independence of IA. The CIA will also inform the Convener of the EIJB Audit and Assurance Committee of any real or potential impairment of organisational independence.

4. Authority

IA derives its authority from the EIJB through the Audit and Assurance committee.

To ensure that IA objectives are achieved, and their independence maintained with no impairment, and with strict accountability for confidentiality and safeguarding records and information, IA is authorised by the EIJB Audit and Assurance Committee to:

- have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel, and those of its partners, the Council and NHSL. The CIA is also authorised to designate members of the audit team to have the same level of access when discharging their responsibilities and may engage experts to perform certain engagements which will be communicated to management.

- have free and unrestricted access to all EIJB Officers; the EIJB Audit and Assurance Committee; and the EIJB main Board;

- raise findings in relation to any control gaps identified that could expose the EIJB to significant risk where these are identified outwith the scope of audit reviews included in the IA annual plan; and

- review and report on the content of the annual governance attestations prepared by the EIJB to confirm whether the content in relation to effective management of risk and control appropriately reflects the outcomes of completed audit work and progress with implementation of agreed management actions.

Additionally, all Officers are required to assist Internal Audit in fulfilling its roles and responsibilities.

5. IA Objectives and Responsibilities

IA responsibilities include the requirement to independently review, evaluate and report on the following across all areas of the EIJB:

Page 457

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the risks facing the EIJB;

- the extent of compliance with relevance of, and financial effect of directions established by the EIJB and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;

- the extent to which EIJB assets and interests are acquired economically, used efficiently, accounted for, and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;

- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify measure, classify, and report such information;

- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud, and loss of all kinds; and that the process aligns with the EIJB's strategic goals;

- the follow-up action taken to remedy any weaknesses identified by IA review, ensuring that good practice is identified and communicated widely;

- the operation of the EIJB's corporate governance arrangements; and

- the risk of fraud as part of the audit work performed. Where required, the role of IA is to provide support to the officers appointed to investigate potential fraud cases.

6. Professionalism

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined; must make balanced assessments of all the relevant circumstances; and not be unduly influenced by their own or others interests in forming judgments.

To achieve this, IA will ensure that it conducts its work with due professional care and in line with the requirements of the PSIAS or other relevant professional standards.

IA will comply with the PSIAS mandatory guidance, including the Definition of Internal Auditing and the Code of Ethics (the Code). This mandatory guidance is set of principles detailing the fundamental requirements for IA professional practice and evaluating the effectiveness of IA's performance.

The four principles contained within the Code are: Integrity, Objectivity, Confidentiality and Competency.

Additionally, IA will comply with relevant EIJB policies and procedures and IA's standard operating procedures manual.

The CIA is expected to report on PSIAS compliance in the annual opinion presented to the EIJB Audit and Assurance Committee and subsequently referred to the main EIJB Board.

7. Internal Audit Plan

Annually, the CIA will submit to the EIJB Audit and Assurance Committee an IA plan for the following audit year, designed to support provision of an annual evidence-based opinion, for their review and approval.

This plan will be developed, based on a prioritisation of the EIJB audit universe using a risk-based methodology including input, as a minimum, from Elected Members; the Chief Officer; the Chief Finance Officer (statutory section 95 Chief Financial Officer); the Chief Risk Officer; and the EIJB Audit and Assurance Committee.

Changes to the IA Plan

The nature of evolving risks makes it likely that the audit assignments included annual plan may be subject to change.

The audit plan will be kept under review and any significant deviation from the approved internal audit plan (due to emerging risks, fraudulent activity or other factors that result in changes to planned Internal Audit or consulting activities) will be reported through the quarterly Internal Audit monitoring process to the Partnership's Executive team, and the Audit and Assurance Committee.

Working in Partnership

The PSIAS also notes that when preparing the annual plan, the CIA should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of effort.

IA will be cognisant of the partnership nature of the EIJB and will seek to work in partnership with IA teams of the EIJB's partners, the Council and NHSL. IA will also seek to work in partnership with the external auditors appointed to the EIJB; the Care Inspectorate and any other relevant assurance providers.

Where this approach is adopted, a consistent process for the basis of reliance should be established. Where reliance is placed on the work of others, the CIA remains accountable and responsible for ensuring that there is adequate support for conclusions and opinions reached where reliance has been placed on work performed by other assurance providers.

Consequently, when dealing with an external party, IA will clearly define the respective roles, responsibilities, and other expectations (including restrictions on distribution of results of the engagement and access to engagement records).

IA also reserves the right to raise findings on areas that have not been specifically included in the annual plan where significant or systemic control gaps are evident.

8. Resourcing

The CIPFA Local Government Application note for applying UK Public Sector Internal Auditing Standards states that 'No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage'.

Audit Scotland have advised that that they expect a risk-based IA plan to be prepared and that they would expect sufficient resources to be in place to accommodate all high-risk items identified.

The EIJB's internal audit plan will reflect Audit Scotland's requirements and include details of resources allocated to support the EIJB for the following year from the Council and NHSL.

Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to both the Partnership Executive team and the Chair of the EIJB Audit and Assurance Committee.

9. Management Responsibilities

Management will co-operate with IA on assignments and provide access to records, systems and staff as required within a reasonable timeframe following the request.

An IA journey map and key performance indicators (KPIs) have been developed and are included at Appendix 1. The purpose of the key performance indicators is to ensure that both IA and management support effective and timely delivery of the annual plan.

All audit and consulting assignments will be the subject of formal reports or formal management letters. Draft reports will be shared with management teams for agreement as to the factual accuracy of draft findings raised, and awareness of IA recommendations designed to address the control weaknesses identified.

It is management's responsibility to:

- accept the risk associated with not implementing IA recommendations (with supporting rationale); or

- agree to address the risks identified by adopting an alternative approach to that recommended by IA; or

- accept and fully implement all IA recommendations.

When a draft audit report is delivered, management is required to provide formal responses (agreed management actions) to all IA findings raised and supporting recommendations, including specifying responsibility and anticipated dates for the implementation of these actions, in line with timeframes specified in the KPIs included at Appendix 1.

Management is also responsible for the ensuring that agreed management actions are implemented and effectively sustained.

PSIAS also require the CIA to report to the EIJB Audit and Assurance Committee information about management's response to risk that (based on the CIA's judgement) may be unacceptable to the EIJB. Consequently, any High and Medium rated IA findings where management has accepted the risk will be highlighted in IA reports.

10. Follow up

IA will follow up and report progress with implementation of agreed management actions to support closure of findings raised on a regular basis and seek to confirm that they have been undertaken within agreed timescales.

IA does not currently apply a 'risk based' follow up approach based on the need to further improve risk and control awareness and embed the risk and control culture across the EIJB. Consequently, all agreed management actions will be subject to review by IA to confirm that they have been effectively implemented prior to closure. This approach will be reconsidered annually.

The follow up process involves review of evidence provided by management to support implementation of agreed management actions, and reperformance testing to confirm that they have been effectively implemented and sustained.

Additionally, IA may opt to include a 'validation' audit in the annual plan that will challenge and confirm whether historic management actions implemented to address control gaps and mitigate risks have been appropriately sustained and embedded.

11. Reporting

The CIA is also professionally responsible and accountable to EIJB Audit and Assurance Committee for IA performance, and reports regularly on the progress with, and results of its work to the EIJB Audit and Assurance Committee, enabling review and scrutiny of the following areas as required by PSIAS:

Report	Frequency
1. IA Annual Charter	annually
2. IA annual audit plan, including IA capacity and resourcing	annually
3. Plan delivery progress: • including achievement of IA and management KPIs) • audit outcomes • management's acceptance of risk	quarterly
4. Proposed changes to the IA annual plan	as required
5. Open and overdue IA findings and management actions	quarterly
6. Annual opinion including: • IA independence • conformance with Code of Ethics • conformance with PSIAS	annually

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13. Internal Audit Annual Opinion

The PSIAS specify that the CIA must deliver an annual IA opinion and report that can be used by the organisation to inform its annual governance statement.

This opinion is based on the outcomes of the audits included in the annual plan; progress with implementation of agreed management actions to support closure of IA findings; the result of any other IA activities that have identified control gaps that are exposing the EIJB to risk; and the professional judgement of the CIA

PSIAS specify that the IA annual opinion must:

- conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and

- include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

Details of the definitions applied by IA when preparing the annual opinion are included at Appendix 2.

14. Fraud and Corruption

Management is responsible for the prevention and detection of fraud or corruption.   IA will assist management in the discharge of this responsibility.

Audit procedures alone cannot guarantee that all fraud or corruption will be detected. IA will however exercise an appropriate level of professional skepticism during audit field work and be alert to risks and exposures that could allow fraud or corruption to occur.

Whilst IA should be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, IA will not perform specific fraud-related work. Instead, reliance will be placed on fraud-related work performed by the Council and NHSL teams.

Discovery of any fraud or irregularity that affects the EIJB's affairs should be reported immediately to the CIA.

15. Quality Assurance and Improvement Programme

IA will maintain a quality assurance and improvement programme that covers all aspects of IA activity. The programme will include an evaluation of IA's ongoing compliance with PSIAS requirements and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of IA and identifies opportunities for improvement.

The CIA is also responsible also for providing a periodic self-assessment of IA, as regards its consistency with the Audit Charter (purpose, authority, and responsibility) and performance relative to its Plan.

The CIA will communicate to the EIJB Audit and Assurance Committee on IA's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

16. Approval

This charter is subject to approval by the EIJB Audit and Assurance Committee annually.

Signed by:

Chief Internal Auditor:

Chief Officer, Edinburgh Health and Social Care Partnership:

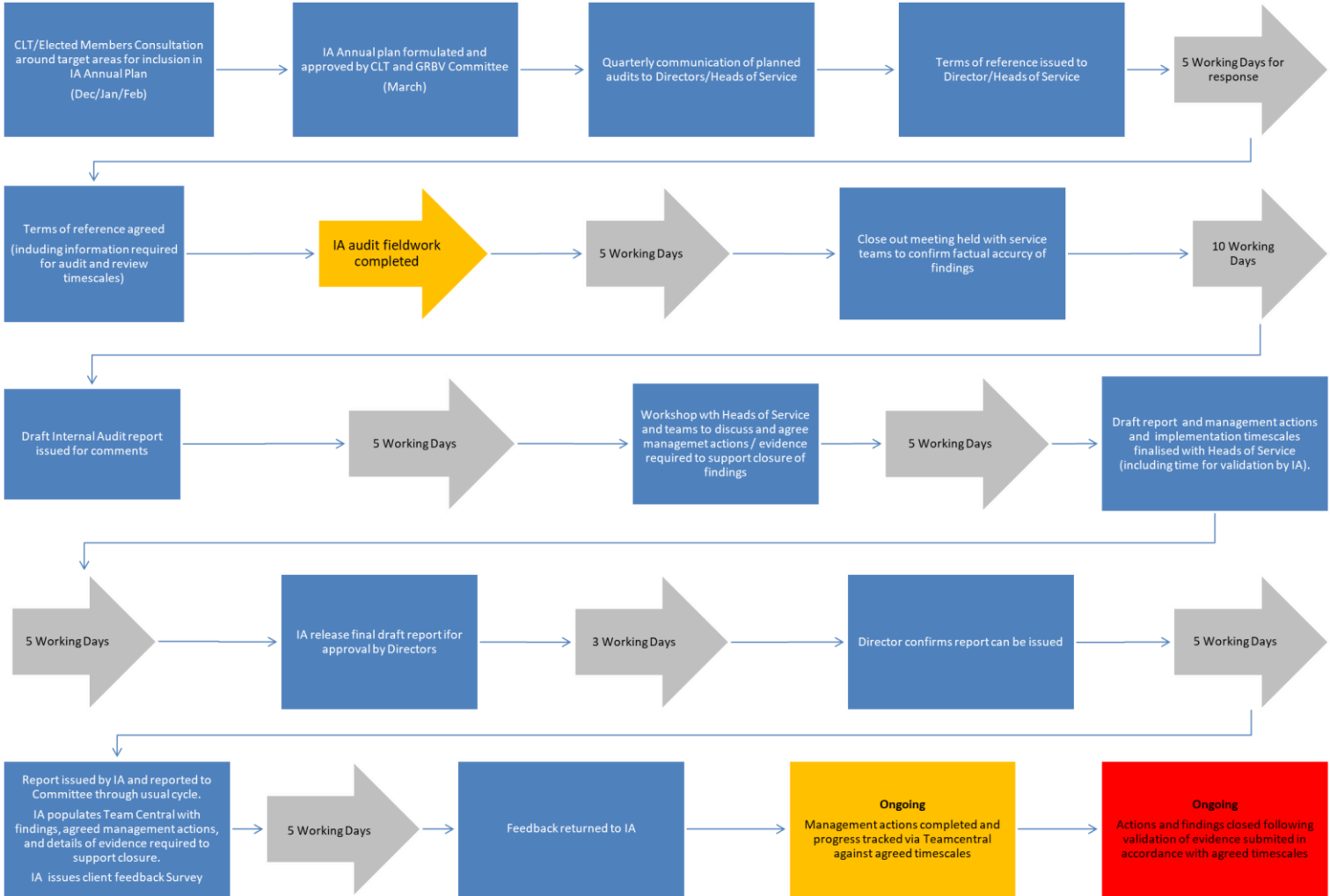Chair of the EIJB Audit and Assurance Committee:

Content approved by the EIJB Audit and Assurance Committee:

Convenor of the City of Edinburgh Council Governance, Risk, and Best Value Committee

Chair of the NHSL Lothian Audit and Assurance Committee

Appendix 1: Internal Audit journey map and key performance indicators

CLT/Elected Members Consultation around target areas for inclusion in IA Annual Plan (Dec/Jan/Feb) → IA Annual plan formulated and approved by CLT and GRBV Committee (March) → Quarterly communication of planned audits to Directors/Heads of Service → Terms of reference issued to Director/Heads of Service → 5 Working Days for response

Terms of reference agreed (including information required for audit and review timescales) → IA audit fieldwork completed → 5 Working Days → Close out meeting held with service teams to confirm factual accurcy of findings → 10 Working Days

Draft Internal Audit report issued for comments → 5 Working Days → Workshop wth Heads of Service and teams to discuss and agree managemet actions / evidence required to support closure of findings → 5 Working Days → Draft report and management actions and implementation timescales finalised with Heads of Service (including time for validation by IA).

5 Working Days → IA release final draft report ifor approval by Directors → 3 Working Days → Director confirms report can be issued → 5 Working Days

Report issued by IA and reported to Committee through usual cycle. IA populates Team Central with findings, agreed management actions, and details of evidence required to support closure. IA issues client feedback Survey → 5 Working Days → Feedback returned to IA → **Ongoing** Management actions completed and progress tracked via Teamcentral against agreed timescales → **Ongoing** Actions and findings closed following validation of evidence submited in accordance with agreed timescales

Appendix 2: Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

The approach set out below to support our assessment of the annual opinion for the Edinburgh Integration Joint Board came into effect from 1 April 2019. This involves an assessment against 4 possible opinion types:

1 Effective	**2 Some improvement required**
The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed and the EIJB's objectives should be achieved.	*Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the EIJB's objectives should be achieved.*
3 Significant improvement required	**4 Inadequate**
Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the EIJB's objectives should be achieved.	*The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the EIJB's objectives will not be achieved.*

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by virtue of paragraph(s) 1, 12, 15 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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