



Audit and Scrutiny Committee

Wednesday, 24 April 2019

NOTICE IS HEREBY GIVEN that a Meeting of the **Audit and Scrutiny Committee** is to be held at **Council Chambers, Council Office, High Street, Elgin, IV30 1BX** on **Wednesday, 24 April 2019** at **09:30**.

BUSINESS

1 Sederunt

2 Declaration of Group Decisions and Members Interests *

3 Resolution

Consider, and if so decide, adopt the following resolution:
"That under Section 50A (4) and (5) of the Local Government (Scotland) Act 1973, as amended, the public and media representatives be excluded from the meeting for Item 13 of business on the grounds that it involves the likely disclosure of exempt information of the class described in the relevant Paragraphs of Part 1 of Schedule 7A of the Act."

4 Minute of Meeting of 27 February 2019 **7 - 12**

5 Written Questions **

6 Internal Audit Plan - Year Ending 31 March 2020 **13 - 24**

Report by the Corporate Director (Corporate Services)

7 Public Sector Internal Audit Standards - External Quality **25 - 38**

Assessment of Internal Audit

Report by the Corporate Director (Corporate Services)

- | | | |
|----|---|---------|
| 8 | Accounts Commission Report - Local Government in Scotland - Challenges and Performance 2019
Report by the Corporate Director (Corporate Services) | 39 - 52 |
| 9 | Audit Scotland Paper - Withdrawal from the European Union
Report by the Chief Executive | 53 - 62 |
| 10 | Statement of Outstanding Business at April 2019
Report by the Chief Executive | 63 - 66 |
| 11 | Council Dredger - MV Selkie
Report by the Corporate Director (Economic Development, Planning and Infrastructure) | 67 - 70 |
| 12 | Question Time ***

Consider any oral question on matters delegated to the Committee in terms of the Council's Scheme of Administration. | |
| 13 | Council Dredger - MV Selkie [paras 8 and 9]

<ul style="list-style-type: none"> • Information on the amount of any expenditure proposed to be incurred by the Authority; • Information on proposed terms and/or expenditure to be incurred by the Authority; | |

Summary of Audit and Scrutiny Committee functions:

Audit Functions - Consider reports from the Council's internal auditor & Audit Scotland concerning Council Functions.

Scrutiny Functions - Scrutinising the policies of the Council and their effectiveness in meeting the action plans of the Council as set out in the Corporate Development Plan and evaluating the actions of Committees in implementing the action plans set out in the Corporate Development Plan.

Performance Monitoring - To receive reports on the performance of and trends within all of the Council's services in terms of service standards and performance information.

Standards - To ensure that the highest standards of probity and public accountability are demonstrated.

Any person attending the meeting who requires access assistance should contact customer services on 01343 563217 in advance of the meeting.

* **Declaration of Group Decisions and Members Interests** - The Chair of the meeting shall seek declarations from any individual or political group at the beginning of a meeting whether any prior decision has been reached on how the individual or members of the group will vote on any item(s) of business on the Agenda, and if so on which item(s). A prior decision shall be one that the individual or the group deems to be mandatory on the individual or the group members such that the individual or the group members will be subject to sanctions should they not vote in accordance with the prior decision. Any such prior decisions will be recorded in the Minute of the meeting.

** **Written Questions** - Any Member can put one written question about any relevant and competent business within the specified remits not already on the agenda, to the Chair provided it is received by the Proper Officer or Committee Services by 12 noon two working days prior to the day of the meeting. A copy of any written answer provided by the Chair will be tabled at the start of the relevant section of the meeting. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than 10 minutes after the Council has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he or she can submit it in writing to the Proper Officer who will arrange for a written answer to be provided within 7 working days.

*** **Question Time** - At each ordinary meeting of the Committee ten minutes will be allowed for Members questions when any Member of the Committee can put a question to the Chair on any business within the remit of that Section of the Committee. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than ten minutes after the Committee has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he/she can submit it in writing to the proper officer who will arrange for a written answer to be provided within seven working days.

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THE MORAY COUNCIL

Audit and Scrutiny Committee

SEDERUNT

Councillor Donald Gatt (Depute Chair)
Councillor James Allan (Member)
Councillor Frank Brown (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor Lorna Creswell (Member)
Councillor Tim Eagle (Member)
Councillor Ryan Edwards (Member)
Councillor Claire Feaver (Member)
Councillor Marc Macrae (Member)
Councillor Aaron McLean (Member)
Councillor Derek Ross (Member)
Councillor Amy Taylor (Member)

Clerk Name: Caroline Howie
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Minute of Meeting of the Audit and Scrutiny Committee

Wednesday, 27 February 2019

Council Chambers, Council Office, High Street, Elgin, IV30 1BX

PRESENT

Councillor James Allan, Councillor Frank Brown, Councillor Theresa Coull, Councillor John Cowe, Councillor Lorna Creswell, Councillor Tim Eagle, Councillor Ryan Edwards, Councillor Claire Feaver, Councillor Donald Gatt, Councillor Marc Macrae, Councillor Aaron McLean, Councillor Derek Ross, Councillor Amy Taylor

APOLOGIES

IN ATTENDANCE

The Chief Executive; the Head of Financial Services; the Audit Manager; Mr R MacDonald, Energy Officer; Ms M Bruce, External Auditor; and Mrs C Howie, Committee Services Officer as Clerk to the Meeting.

ALSO PRESENT

Councillor Leadbitter (ex-Officio)

1 Chair of Meeting

The meeting was chaired by Councillor Macrae.

2 Declaration of Group Decisions and Members Interests *

In terms of Standing Order 20 and the Councillors' code of Conduct, Councillor Brown declared an interest in Item 12 of the agenda 'Social Work Complaints Review Committee - Case Number CO201702' as those involved in the case were known to him. Thereafter the meeting noted there were no declarations from Group Leaders or Spokespersons in regard to any prior decisions taken on how Members will vote on any item on the agenda or any other declarations of Member's interests in respect of any item on the agenda.

3 Resolution

The meeting resolved that in terms of Section 50A (4) and (5) of the Local Government (Scotland) Act 1973, as amended, the public and media representatives be excluded from the meeting during consideration of the items of business appearing at the relevant paragraphs of this minute as specified below, so as to avoid disclosure of exempt information of the class described in the appropriate paragraphs of Part 1 of Schedule 7A of the Act.

4 Minute of Meeting of 4 December 2018

The Minute of the meeting of the Audit and Scrutiny Committee dated 4 December 2018 was submitted and approved.

5 Written Questions **

The Committee noted that no written questions had been submitted.

6 External Audit Plan for the Year Ending 31 March 2019

A report by the Corporate Director (Corporate Services) provided Committee with a copy of the External Auditor's annual plan for 2018/19.

Discussion took place on the requirement for longer term planning and how this can be accomplished when the amount of funding from the Government is advised annually.

The External Auditor advised that Audit Scotland was of the view that when funding changes annually it was more important to consider requirements for medium and long term planning, allowing for different scenarios.

Councillor Gatt sought clarification on the Council's preparations for EU withdrawal.

In response the Chief Executive advised he would brief Councillors in private on current preparations.

The External Auditor advised there was an Audit Scotland report on EU withdrawal preparations that draws attention to some areas that audited bodies might be interested in considering.

In response to a query from Councillor Brown on the external audit fee, Ms Bruce advised it was set having regard to the public audit model applied by audit Scotland.

Thereafter the Committee agreed to note the contents of the External Auditor's annual audit plan for 2018/19.

7 Report on the Work of the Internal Audit Section in the Period from 1 October 2018 to 31 December 2018

A report by the Corporate Director (Corporate Services) advised Committee on the work of the Internal Audit Section for the period from 1 October 2018 to 31 December 2018.

Councillor Feaver sought clarification on the percentage of placements carried out

outwith the Additional Resource Allocation Group (ARAG) process and if there may be a need to review the Policy.

In response the Audit Manager advised he was not aware of the exact number however it was relatively small in the context of the total number of placements. He further advised there was an intention to review the policy on care placements however any changes would be considered at the Service Committee, not at this Committee.

Councillor Brown sought clarification on the robustness of the ARAG as only Social Work and Education were involved with no involvement from NHS personnel.

In response the Audit Manager advised that while he understood there were no advisors from outwith the Council on the Group, information was available from professionals in partner agencies, where appropriate, to inform decision making processes.

Councillor Gatt sought clarification on advance payment for Out of Area placements as Appendix 2 of the report states at 5.3 that authorisation should be sought from the Head of Financial Services for advance payment, however in the Key Control it states no advance payment is allowed.

In response the Audit Manager advised the financial regulations provide for advance payment to be made in certain circumstances. The Head of Financial Services will look at the particular circumstances of a case and if there are exceptional circumstances it is then possible for an award to be made, however the general position adopted is that payment will only be made once services have been provided.

In response to a query from Councillor Ross in respect of supply teacher absence cover near a holiday period the Audit Manager advised it was for Head Teachers to determine if a supply teacher was required. In some cases, if near to the summer break and circumstances so dictated, they could decide not to call in a supply teacher.

Thereafter having considered the contents of the report and sought clarification where required the Committee agreed to note the report.

8 Local Government in Scotland Financial Overview 2017-18

A report by the Corporate Director (Corporate Services) informed Committee of Audit Scotland's report on the Financial Overview 2017/18, part of the Local Government in Scotland series of national reports.

Following discussion the Committee agreed to note Audit Scotland's Financial Overview 2017/18 report.

9 Scottish Public Services Ombudsman Recommendations Report

A report by the Chief Executive asked Committee to consider the Scottish Public Services Ombudsman (SPSO) Recommendations Report to demonstrate that SPSO recommendations are considered at a senior level.

Following consideration the Committee agreed to approve the report.

10 Statement of Outstanding Business at February 2019

A report by the Chief Executive asked Committee to consider progress and times in relation to follow-up reports and actions requested by the Committee at previous meetings.

In response to a query from Councillor Feaver, the Chief Executive advised either a report would be provided to the next meeting in regard to the feasibility of publishing hospitality records for staff or a completion date would be provided.

In response to a query from Councillor Gatt, the Chief Executive advised it was the intention to include all committee Chairs and Depute Chairs when considering the content of an Internal Scrutiny Charter.

Thereafter the Committee agreed to note progress and timescales in relation to follow-up reports requested by the Committee.

11 Question Time ***

Councillor Eagle sought clarification on whether the school bus contracts would be scrutinised by the Committee as he was aware of complications when setting up the contracts.

In response the Chief Executive said it would be for the Service Committee to scrutinise this in the first instance.

Councillor Gatt sought clarification on whether a report on the dredger would be coming to a public session of this Committee.

In response the Chair advised a report had been considered in the confidential session of the Economic Development and Infrastructure Services Committee on 19 February and that operational information would have to be removed before this could be considered in a public session. He further advised it was hoped a report would be available for the next meeting of this Committee.

Councillor Feaver sought clarification on the publishing of hospitality records for staff.

In response the Chief Executive advised workload had prevented this being moved forward and that either a response, or a date for completion, would be provided for the next meeting in April.

Councillor Leadbitter left the meeting at this juncture.

12 Social Work Complaints Review Committee - Case Number CO201702 [Paras 3 and 4]

Having declared an interest in this item Councillor Brown left the meeting at this juncture taking no part in the discussion or decision.

A report by the Corporate Director (Corporate Services) asked the Committee to approve the decision of the Social Work Complaints Review Committee in respect of Case Number CO201702 and to decide what action, if any, to take in respect of the complaint.

Following consideration the Committee agreed:

- i. to approve the decision of the Social Work Complaints Review Committee in respect of Case Number CO201702; and
- ii. that no further action was required in respect of the case.



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: INTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2020

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 This report provides the Committee with details of the planned internal audit coverage for the year ending 31 March 2020.
- 1.2 This report is submitted to Committee in terms of Section III (I) (6) of the Council's Scheme of Administration relating to reporting on Internal Audit's programme of work.

2. RECOMMENDATIONS

2.1 The Committee is asked to consider and:

- i) **note the proposed internal audit coverage for the 2019/20 financial year; and**
- ii) **seek clarification on any matters arising from the report or from the attached appendices.**

3. BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) applicable to Local Government in Scotland require the Internal Audit Manager to report functionally to the Audit and Scrutiny Committee on various issues relative to audit planning. This requirement includes preparing a risk based internal audit plan for submission to Committee, and providing the Committee with details of internal audit resourcing or other issues that may impact on the scope of audit work.

Internal Audit Plan

- 3.2 The internal audit plan is a means of determining the priorities of the internal audit activity and how these fit with the wider goals of the council. In developing the plan, regard is had to available information sources including the Local Outcomes Improvement Plan, the council's Corporate Plan and budget information. The Corporate Risk Register is also a reference source for possible audit topics and an 'audit universe' is being developed over time within the internal audit software package to rank audit area risks dependent on the outcomes from previous audit work, service staff changes or time elapsed since a prior audit. Internal Audit also reviews Committee agendas to

obtain an overview of policy developments across the council and to assess their potential impact on systems of control.

- 3.3 These various sources as well as inputs from managers inform the content of the plan, which is designed to enable the Internal Audit Manager to meet a requirement to provide an annual internal audit opinion on the adequacy and effectiveness of the systems of internal control, for inclusion in the annual governance statement published with the Council's annual financial statements.
- 3.4 Planned activity therefore takes account of the need to annually review elements of the Council's main financial systems (the risk here relating to materiality), together with a range of audits across selected service areas within Departments. The plan also takes in specific projects on which the external auditor will seek to place reliance on by reviewing the audit files and re-performing certain audit tests to validate the work completed. In line with the recently reported external audit plan this will take in
- Housing benefit payments subsidy claim (substantive testing).
 - Risk management arrangements
 - National Fraud Initiative (testing of data matches)
 - Governance and corporate initiatives (collation of management assurances for the annual governance statement.)
- 3.5 While the roles of internal audit and external audit are separate and distinct, internal audit maintains a close working relationship with the external auditor as required in order to secure an optimum combined benefit from the audit resource and avoid duplication. A recent external inspection report encourages internal audit to develop a more formal assurance mapping process to assess if there are other bodies whose work internal audit could place reliance on.
- 3.6 An additional element of the planning process takes place for the Moray Integration Joint Board (IJB), the council's internal audit manager having been appointed as the Board's Chief Internal Auditor for the period to March 2020. A Moray IJB Audit, Performance and Risk Committee has been established and a separate internal audit plan is prepared for the Board which has its own governance and accounting arrangements.
- 3.7 The audit role for the IJB involves providing assurances that governance and financial arrangements have been developed and are operating in line with policy and that selected systems and processes are suitably controlled. Planned audit inputs operationally to date have focused on community care services the council delivers under direction from the IJB. Links have been established with internal audit providers and finance managers in NHS Grampian, Aberdeen City and Aberdeenshire Councils and IJBs and the practice of ensuring appropriate assurances are available continues to be refined with audit processes being refined as the IJBs mature.
- 3.8 The council's internal audit service also undertakes internal audit work for Grampian Valuation Joint Board and this requires the provision of annual

assurances on the main financial systems operated for payroll, payments and income from funding requisitions from the constituent authorities and other sources. The Joint Board's systems align with those of the council but require annual review and testing in order to provide assurances for the separate annual financial statements the Board is required to prepare and publish.

- 3.9 While the prevention of fraud and error rests with management through the design and operation of suitable systems of control, the audit plan continues to provide time for internal audit to co-ordinate the Council's participation in the National Fraud Initiative, a data matching exercise involving a range of public sector bodies. This activity is viewed as complementary to other planned audit activities, and participation assists internal audit in assessing potential for the occurrence of fraud and related fraud risk.
- 3.10 A particular challenge in developing the plan is to recognise the extent of change taking place across the council as a consequence of service redesign, revised working practices and changes in staffing. This if anything is more marked than previously with services challenged to deliver services against a general background of reducing funding and increasing demands from service users. Change can have an impact on the effectiveness of established systems of control, more likely controls may be reviewed and revised where systems and processes are modernised and greater reliance is placed on technological solutions. While development of systems and associated controls would be expected to be taken forward together, change can elevate the risk that established controls are diluted or lost and this requires to be taken into consideration.
- 3.11 To accommodate any additional audit work that may be required to address any emerging issues or specific matters of concern the plan provides a number of audit days for this purpose. These days can also be used where completion of a planned project takes longer than anticipated either due to the complexity of the project or the identification of a need for additional testing. Recent experience has shown that there needs to be more flexibility in audit planning given the pace of change. Where at one time five year audit plans were commonplace, the PSIAS standards now advocate annual planning noting that 'the plan should be sufficiently flexible and kept up to date with the organisation and its changing risks and priorities'.
- 3.12 Sufficiently flexible is not defined; however, it suggests that 'contingency days' should be held to deal with emerging issues. Thus a proportion of the available audit days are being retained as contingency days which if not used can accommodate additional audit projects that may be brought into the audit plan later in the year. These projects may be identified by the Internal Audit Manager as an emerging issue or come from a recommendation from this Committee. Details of the available audit days are provided in **Appendix 1**.

Internal Audit Resourcing

- 3.13 The staff complement of the team is currently 3.8 FTE including the Internal Audit Manager who has a range of responsibilities including the management and supervision of the team, planning work, development of the service, servicing Committees, overseeing risk management, overseeing the work of a Corporate Investigations Officer and participating in the preparation of the annual governance statement. Allowing for overheads for holidays, training,

administration and the like, some 792 working days are available to be allocated for the 2019/20 year. This time is spread over a number of headings; principally audit projects but also work related to governance and risk management.

- 3.14 The days not utilised for core systems, risk management and supporting other corporate initiatives are allocated to audit areas within specific services and departments. Priority areas have been determined by internal audit and are listed in **Appendices 2 and 3**. The detailed scope of these projects will be further developed in consultation with the Director or Head of Service concerned. The planned use of days on Moray IJB / Social Care audits remains under development.
- 3.15 The PSIAS Standards require the Internal Audit Manager to consider whether or not the audit staffing resources are sufficient to meet the audit needs of the organisation, and where it is believed that the level of resources may impact adversely on the provision of the annual internal audit opinion, to draw that to the attention of the Committee. At this point in time all posts are filled and the team is suitably experienced, however, with the role extending to supporting good governance, risk management and controls assurances across all services the service is operating at capacity, albeit for now it is assessed as being sufficient to meet the needs of the council, the Moray IJB and the Grampian Valuation Joint Board.
- 3.16 In considering the sufficiency of the audit coverage, Committee is reminded that the responsibility for developing and maintaining a sound control environment rests with management and not with Internal Audit. It should also be noted that Internal Audit is not the only scrutiny activity within the Council, with services challenged through other mechanisms including external inspection, performance management reporting, and separate scrutiny reviews by this Committee.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

No direct implications.

(b) Policy and Legal

The activities of Internal Audit assist the organisation to demonstrate the control environment and risk management arrangements are consistent with good practice.

(c) Financial Implications

No direct implications.

(d) Risk Implications

The work of internal audit mitigates the risk of dilution of controls established within systems to ensure best value is secured in the use of public resources.

(e) Staffing Implications

No direct implications.

(f) Property

No implications.

(g) Equalities/ Socio Economic Impact

No impacts to report.

(h) Consultations

Planned audit work is informed throughout the year from various sources including service managers and the external auditor.

5. CONCLUSION

5.1 This report invites the Committee to consider and note the planned internal audit coverage for the 2019/20.

Author of Report: Atholl Scott
Background Papers: Internal audit files
Ref: AS/asc/240419

APPENDIX 1**MORAY COUNCIL****INTERNAL AUDIT****ANNUAL AUDIT PLAN – 2019/20**

Staff Resources		Available Days
3.8 FTE staff x 52 weeks x 5 days		988
Less:		
Overheads:		
Annual Leave (including public holidays)	148	
Training	19	
Sick Leave (Estimate)	19	
Administration	<u>10</u>	<u>196</u>
Available Days		<u>792</u>
Allocation of Days		
Core Financial Systems (Appendices 2 & 3)		180
Departmental Audit Projects (Appendices 2 & 3)		270
Moray Integration Joint Board		80
Management, Supervision and Service Development		52
Risk Management		50
Governance Statement / Corporate Initiatives		26
National Fraud Initiative (oversight and reporting)		30
Grampian Valuation Joint Board		10
Follow-up Work		20
Contingency		<u>74</u>
		<u>792</u>

APPENDIX 2

MORAY COUNCIL – INTERNAL AUDIT SERVICE
ANNUAL AUDIT PLAN 2019/20
LIST OF PROPOSED PROJECTS

CORE FINANCIAL SYSTEMS

Audit Area	Total Days
Financial Management System	20
Payroll Controls and Regularity Testing	20
Housing Benefits Subsidy Claim and Testing	30
Procurement and Creditor Payments	30
Debtors Management	25
Capital Plan	20
Year-end Stock Taking	15
Cyber Security	<u>20</u>
TOTAL - CORE SYSTEMS	<u>180</u>

OTHER SYSTEMS

Departmental Projects per Appendix 3	270
Risk Management	50
Governance and Corporate Initiatives	26
Management and Supervision	52
Moray Integration Joint Board	80
Grampian Valuation Joint Board	10
National Fraud Initiative	30
Follow up work	20
Contingency/ Consultancy	<u>74</u>
TOTAL – OTHER SYSTEMS	<u>612</u>
GRAND TOTAL	<hr/> 792 <hr/>

APPENDIX 3**MORAY COUNCIL****INTERNAL AUDIT SERVICE****ANNUAL AUDIT PLAN 2019/20 – DESCRIPTION OF PROPOSED PROJECTS**

CORE FINANCIAL SYSTEMS	
Area	Type of coverage
Financial Management System	Network review with specific reference to user access and activity monitoring arrangements.
Payroll	Regularity testing to include flow of information between HR and Payroll sections
Housing Benefits - Rent Rebates and Rent Allowances	Substantive testing of selected benefit claims to confirm the accuracy of the Council's benefit subsidy claim for 2018/19 year.
Procurement and Creditor Payments	Continuous auditing of samples of non pay expenditure to test compliance with procurement and payment processing regulations.
Debtors Management	To assess current systems for collection of fees and charges and sample testing of selected areas where fees and charges are levied.
Capital Plan	Audit testing of contract management arrangements for selected projects within the capital plan.
Stocks and stores - year end valuations	Attendance at stocktaking and reconciliation of stocks held to ledger balances
Cyber security	Identification and assessment of the potential threats to the council's ICT systems and how these are being managed
OTHER SYSTEMS	
Area	Type of coverage
Environmental Services: EU Unit /business development budget	Regularity audit of the use of funding assigned to this service area (15 days)
Environmental Services: Street Lighting	An audit of the street light replacement programme and associated costs (20)

Environmental Services – Grant Claims	Certification of grant claims as required: strategic timber; bus operators, regeneration schemes as appropriate. (20)
Environmental Services - Public Transport Unit	Audit of the school transport contractual arrangements. (20)
Environmental Services - School Catering	Review of costs incurred in the provision of the service(20)
Environmental Services - Housing and Property - Repairs to Council Housing and Buildings	Audit of works allocation, completion and inspection across response planned and capital programme repairs (20)
Corporate Services - HR - Absence Management	Audit of the arrangements for monitoring and managing staff absence within the authority (20)
Corporate Services - ICT - Hardware Asset Management	Review of systems and practices to record / monitor the location and use of ICT hardware (20)
Corporate services – Licensing	Review of collection and accounting for licensing fees15)
Environmental Services - Housing and Property - Stores	A review of the effectiveness of current arrangements for accounting for materials used in the repair and maintenance of council housing (20)
Education and Social Care - PPP Schools	Monitoring arrangements for the operation of the facilities contracts at schools funded under the public private partnership arrangement (10)
Education and Social Care - Pupil Equity Fund in Schools	Audit of utilisation of Pupil Equity Funds to assess how systems and processes have evolved since inception (15)
Education and Social Care - Integrated Childcare	Assessment of control over costs of foster care placements (15)
Education and Social Care - School Funds	Overview of annual returns (10)
Education and Social Care – Secondary Schools	Establishment visits as part of cyclical review (30)
Moray Integration Joint Board	
Health and Social Care	Programme of work to provide controls assurances on activities under direction of the IJB. (to be finalised) (80)



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: PUBLIC SECTOR INTERNAL AUDIT STANDARDS – EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 To provide the committee with details of a recent external quality assessment undertaken on the council's internal audit service.
- 1.2 This report is submitted to Committee in terms of Section III (I) (2) and (7) of the Council's Scheme of Administration relating to consideration of reports from the council's Internal Auditor and monitoring delivery of the audit service carried out by internal audit.

2. RECOMMENDATION

- 2.1 **That Committee considers and notes the report and the action plan prepared to address the issues raised in the external quality assessment of internal audit.**

3. BACKGROUND

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 at paragraph 7 require that 'a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing'.
- 3.2 The recognised standards adopted by all Scottish councils are the Public Sector Internal Audit Standards, (PSIAS) developed by standard setters including the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors. The standards include a requirement for an External Quality Assessment (EQA) of internal audit once every five years, and for the findings to be considered at a meeting of a council committee.
- 3.3 Through the Scottish Local Authorities Chief Internal Auditors' Group which the council participates in, it was agreed that the EQA requirement could be met through a peer review process. This required each council audit manager

to undertake a review at another council and receive a review in return. It was agreed by the group that to avoid any potential conflicts of interest reviews would not be carried out at or by a neighbouring authority. Fife Council was selected to undertake the assessment of Moray Council.

- 3.4 The assessment involved the Audit Manager and an Auditor from Fife and took place over two days in early February 2019. It involved the review of a portfolio of evidence, interviews with the Chair of the Audit and Scrutiny Committee, the Chief Executive, and the Corporate Director (Corporate Services) responsible for internal audit, as well as discussions and file reviews involving all staff in the audit team. A copy of the report detailing the audit findings together with an action plan containing recommendations is provided as **Appendix 1**.
- 3.5 The inspection was thorough and the report gives a useful external perspective of how the service performs as well as providing advice on areas where compliance with the standards can be strengthened. There is a couple of areas highlighted around audit planning where there is a need to do more to evidence the basis for selection of planned audit topics otherwise for the most part the recommendations will be readily implemented subject to time being made available to do so. Overall the positive comments around Moray Council audit working paper and reporting processes were welcomed as an endorsement of the combined efforts of all staff in the team.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcome Improvement Plan (LOIP))

No implications.

(b) Policy and Legal

Completion and reporting results of the external review secures compliance with the relevant statutory requirements and auditing standards.

(c) Financial Implications

No implications.

(d) Risk Implications

The findings from the independent review of internal audit mitigate the risk that the service operates without regard to the applicable professional standards.

(e) Staffing Implications

No implications.

(f) Property

No implications.

(g) Equalities/ Socio Economic Impacts

No implications.

(h) Consultations

There have been no consultations in respect of this report.

5. CONCLUSION

- 5.1 This report provides Committee with a summary of findings arising from an external quality assessment of the council's internal audit service.**

Author of Report:	Atholl Scott, Internal Audit Manager
Background Papers:	Public Sector Internal Audit Standards Self-Assessment Evaluation
Ref:	AS/asc/240419

Appendix 1

Moray Council

EXTERNAL QUALITY ASSESSMENT

OF THE

INTERNAL AUDIT SERVICE

Final Report

5 April 2019

Index and Report Distribution List

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Date of Visit	5 – 6 February 2019
Draft Report Issued	26 February 2019
Management Response Received	2 April 2019
Final Report Issued	5 April 2019

Draft Issued to:	Atholl Scott, Internal Audit Manager
Final Issued to	Atholl Scott, Internal Audit Manager
	Stakeholder Interviewees: Roddy Burns, Chief Executive, Denise Whitworth, Corporate Director (Corporate Services) Councillor Marc Macrae, Chair, Audit and Scrutiny Committee

1. EXECUTIVE SUMMARY

1.1 Introduction

The Public Sector Internal Audit Standards 2013 (PSIAS) require that an independent external quality assessment of compliance against the PSIAS (EQA) should be undertaken at least once every 5 years. This report has been prepared following a review of compliance with the PSIAS and the International Professional Practices Framework (IPPF) on which the PSIAS has been based. The purpose of this report is to provide an overview of Moray Council's arrangements for the operation and management of its Internal Audit service.

In terms of the PSIAS, the Internal Audit Manager performs the function of the Chief Audit Executive (CAE) and this terminology is referred to throughout this report. The PSIAS also refers to "the Board", for the purpose of this report the Board is the Audit and Scrutiny Committee of Moray Council.

The report details the findings from the EQA undertaken in February 2019, by the Service Manager, Audit & Risk Management of Fife Council.

1.2 Scope and Limitations

The methodology for this EQA, takes the form of a validated self-assessment. As such we have undertaken the following work in arriving at our opinion:

- review of the latest self-assessment and supporting evidence provided by the Chief Audit Executive (CAE);
- canvassed the opinions of key stakeholders such as Chair of the Audit and Scrutiny Committee and members of the Council's Corporate Management Team;
- undertook a series of tests using a standard checklist and undertook a review of guidance and process documents and a sample of files.

We have not undertaken any specific work to assess the effectiveness of the Council's Audit and Scrutiny Committee. Our view as to the extent of compliance with the PSIAS cannot be taken as any assurance on the strength of the control environment within Moray Council.

1.3 Areas of Good Practice Identified

- Good overall level of compliance with PSIAS and IPPF;
- The Internal Audit Charter is clear, concise and easy to follow. The purpose, authority and responsibility of Internal Audit, Senior Management and the Board is appropriately set out;
- Functional and administrative reporting lines for the CAE are appropriate;
- The Internal Audit team is appropriately qualified and experienced. It was acknowledged by key stakeholders that the team was knowledgeable and professional. All members of the team are aware of the professional and ethical standards required;
- Working papers system is effective for recording the Internal Audit work and reaching conclusions;
- Reports are concise and easy to follow.

1.4 Conclusion and Main Findings

The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and based on the work we have undertaken, it is our opinion that the Internal Audit Service **generally conforms** with the PSIAS. 4 of the 13 Assessment areas 'Fully Conforms', 7 'Generally Conforms' and 2 'Partially Conforms'. Our review has highlighted a few areas where improvements can be made, these being:

- The PSIAS requires reports to the Audit Committee to be submitted directly by the CAE. The reports are presented in the name of the Corporate Director, although the CAE is recorded as the author of the report.
- While Internal Audit staff are clearly aware of the Code of Ethics and do notify of potential conflicts of interest, there are no formal processes in place to evidence this.
- Informal processes have developed for planning and recording of training, and employee development records are not up-to-date. Formal processes should be put in place to evidence these areas and the documentation updated.
- The Fraud Policy and the Audit Manual have not been reviewed recently.
- Work programmes are not approved at set up, or if adjustments are made during the audit, meaning there is no evidence of agreement to proceed.
- There is a lack of evidence of how the audits are selected, and no mechanism to record reliance placed on other sources of assurance.
- The PSIAS 2400.2 requires that audit reports state that the audit has been 'conducted in accordance with PSIAS'. This is not currently included in audit reports.
- The PSIAS requires the CAE to present reports to the Board on the internal audit activity's performance relative to its Audit Plan and other matters. Performance measures are not reported to Audit and Scrutiny Committee during the year or in the Annual Report. Performance reporting is to Policy and Resources Committee as part of the Corporate Services performance management framework.

A detailed evaluation of each 'Standard' can be seen in Appendix A of the report.

2. FEEDBACK AND EQA FINDINGS

2.1 Purpose, Authority and Responsibility – Action Plan reference 3.1

The PSIAS 1000.2 requires the CAE to periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter contents were discussed with the Corporate Director, Corporate Services, prior to submission to the Audit and Scrutiny Committee (ASC), but were not communicated to other members of the Corporate Management Team (CMT).

2.2 Organisational Independence – Action Plan reference 3.2, 3.3 and 3.4

The PSIAS 1100.1 requires the CAE to present to the Audit Committee on the internal audit activity's performance relative to its Audit Plan and other matters. Reporting on audit activity is not included in the Annual Report, and while progress against plan is notified in the Report on the Work of the Internal Audit Section, this does not include performance measures. Performance reporting is to Policy and Resources Committee as part of the Corporate Services performance management framework.

The PSIAS 1100.1 requires reports from the CAE to be submitted to the Audit Committee directly by the CAE. Moray Council protocol requires all reports to Committee to be presented by a Director or Head of Service, therefore, while the CAE is the author of the reports, they are submitted to ASC in the name of the Corporate Director, Corporate Services.

The PSIAS 1100.4 suggests that the CAE's performance appraisals may include feedback from the Chief Executive and the Chair of the Board. Performance appraisals with the line manager do not currently include such feedback.

2.3 Individual Objectivity – Action Plan reference 3.5

The PSIAS 1100.6 requires that adequate arrangements are in place to inform individual auditors of their responsibilities in relation to potential conflicts of interest and promote impartial and unbiased behaviours. While it is accepted that staff notify of perceived conflicts of interest informally and are aware of the need to comply with the Code of Ethics and the Council's Code of Conduct for Employees, there is no formal process for reminding audit staff of their obligations in this regard.

2.4 Proficiency – Action Plan reference 3.6

The PSIAS 1200.5 requires confirmation that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes. An up-to-date job description was available for the auditor role, but the CAE and Senior Auditor roles require updating.

2.5 Continuing Professional Development – Action Plan reference 3.7

The PSIAS 1200.10 requires that audit staff participate in a programme of continual professional development. There are no standard training plans, recording of training is not consistent, and records are not up-to-date.

2.6 Planning and Co-ordination – Action Plan reference 3.8 and 3.9

The PSIAS 2000.2 requires the Audit Plan to be developed using an appropriate methodology. The approach is outlined in the Audit Plan report to ASC, but the use

of an audit planning checklist may be beneficial in evidencing the areas considered in producing the Audit Plan.

The PSIAS 2000.3 requires the risk-based Action Plan to take account of other sources of assurance and suggests this is likely to be evidenced by an assurance mapping exercise. No Assurance map is currently in place, but there are plans to look at assurance sources in 2018/19.

2.7 Policies and Procedures – Action Plan reference 3.10

The PSIAS 2000.12 requires internal audit policies, procedures and guidance documents to be up-to-date and reviewed regularly. The Fraud Policy and the audit manual require updating.

2.8 Engagement Planning – Action Plan reference 3.11 and 3.12

The PSIAS 2200.4 and 2200.5 require work programmes to be approved prior to the commencement of the engagement, and when any adjustments are subsequently made to the work programme. Approval is not currently formally documented.

The PSIAS 2200.6 requires, for audit engagements for parties outside the organisation, a documented agreement detailing roles and responsibilities of internal audit and the client and operational arrangements, such as access to engagement records, distribution of reports etc. No Service Level Agreement is in place and no reference is made to external bodies in the Internal Audit Charter.

2.9 Communicating Results of Engagements – Action Plan reference 3.13

The PSIAS 2400.7 suggests that audit reports should state that the engagement has been conducted in conformance with the PSIAS. Audit reports do not refer to the PSIAS.

2.10 Risk Management – Action Plan reference 3.14

We were able to confirm that the Internal Audit function is highly regarded and respected throughout the Council. It would enhance Internal Audit's planning and risk management if the Chief Audit Executive was able to attend the meetings of the Senior Management Team.

We would like to thank all staff and Members of Moray Council for the co-operation and goodwill we received during our review.

Avril Cunningham, FCCA MIIA
Service Manager, Audit and Risk Management Services
Fife Council

26 February 2019

3. ACTION PLAN

Ref. No.	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
3.1	The CAE should discuss any future updates of the internal audit charter with all members of CMT prior to submission to ASC for approval.	2	Agreed; in the past the charter has been discussed with the Corporate Director (Corporate Services) and in future will be taken through CMT	CAE	Dec 2019
3.2	The CAE should report on performance against the audit plan in the Annual Audit Report and provide ASC regularly with the results of key performance indicators.	2	Agreed, this can be incorporated into future reports to the Audit and Scrutiny Committee. Presently IA performance reporting is to Policy and Resources Committee along with other Corporate Services teams	CAE	Jun 2019
3.3	Audit reports should be submitted to ASC directly by the CAE.	2	Not agreed, currently council Financial Regulations require the Corporate Director (Corporate Services) to secure the provision of an internal audit service for the council. Also there are no provisions in the Scheme of Delegation to the Internal Audit Manager for a departure from current policy that requires committee reports to be issued in the name of a director or head of service. This will be reviewed again when the constitutional documents are next due for updating.	Corporate Director (Corporate Services)/CAE	By March 2020

3.4	Consideration should be given to seeking feedback from the Chief Executive and the Chair of the ASC for future CAE appraisals	3	Agreed, this will be done when the next appraisal (as part of the Employee Review and Development Programme) of the CAE is undertaken	Corporate Director (Corporate Services)/CAE	Sep 2019
3.5	The processes for documenting potential conflicts of interest and for retaining evidence of auditor knowledge of, and compliance with, the Code of Ethics should be formalised.	2	Agreed, this will be straight forward to implement and provide evidence that staff acknowledge the need to adhere to the audit code of ethics alongside professional codes and the council's code of conduct for employees	CAE	Apr 2019
3.6	Job descriptions for CAE and Senior Auditor posts should be up-dated.	3	Agreed, low priority but should be updated to reflect any changes in the roles	CAE	Nov 2019
3.7	A formal approach to planning and recording training should be put in place, and Employee Development Review Forms updated.	2	Agreed, a central training record will be developed –staff hold their own CPD records and to date this has not been seen as a priority	CAE	May 2019
3.8	An Audit Planning Checklist should be used to evidence the areas considered for inclusion in the Audit Plan.	2	Agreed, audit plans are derived from various sources as described in the audit plan report presented to Committee annually. The checklist will detail the sources consulted when determining items for inclusion in the plan	CAE	For 2020/21 plan
3.9	An Assurance Map should be developed to document the approach to using other sources of assurance.	2	Agreed, this would be a useful exercise to bring together the sources of assurance the internal audit team may be able to place reliance on and it is proposed this is developed over the next year	CAE	For 2020/21 plan


















3.10	The Fraud Policy and the Audit Manual should be updated, and thereafter regular reviews scheduled.	2	Agreed, the Fraud policy is being updated and the audit manual will be refreshed to reference changes to practice following purchase of new audit software	CAE	Jun 2019 Dec 2019
3.11	Work Programmes should be approved prior to commencement of the audit, and if any adjustments are made during the audit.	2	Agreed in part, for established and recurring audit areas e.g. schools where the parameters of the audit are known in advance. In other areas the audit scope may be developed as the audit progresses depending on initial findings. There is currently a dialogue around this which will be recorded in our systems.	CAE	May 2019
3.12	In the absence of a separate documented agreement, reference should be made to engagements for parties outside the organisation in the Moray Council Internal Audit Charter.	3	Agreed, this links to 3.1 above and reference to the MIJB and GVJB will be added into charter on its next update	CAE	Dec 2019
3.13	Audit reports should state that the engagement has been 'conducted in accordance with PSIAS'.	2	Agreed, this will now be added, given the results of this EQA review.	CAE	Apr 2019
3.14	The CAE should routinely attend the Senior Management Team meetings.	3	Agreed in part, this is an added demand on CAE time and having access to the meeting agendas and attending where appropriate is the preferred option.	Corporate Director (Corporate Services)/CAE	Apr 2019

Key to Grading of Recommendations

Priority: **1 – Critical**, **2 – Requires addressing**, **3 – Good Practice**, **4 – Value for Money**



SUMMARY OF CONFORMANCE WITH THE PSIAS – Appendix A

Reference	Assessment Area	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Section A	Definition of Internal Auditing				
Section B	Code of Ethics				
Section C	Attribute Standards				
1000	Purpose, Authority and Responsibility				
1100	Independence and Objectivity				
1200	Proficiency and Due Professional Care				
1300	Quality Assurance and Improvement Programme				
Section D	Performance Standards				
2000	Managing the internal Audit Activity				
2100	Nature of Work				
2200	Engagement Planning				
2300	Performing the Engagement				
2400	Communicating Results				
2500	Monitoring Progress				
2600	Communicating the Acceptance of Risks				



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: ACCOUNTS COMMISSION REPORT – LOCAL GOVERNMENT IN SCOTLAND – CHALLENGES AND PERFORMANCE 2019

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 To provide Committee with a recently published Accounts Commission report and checklist that considers challenges facing local government at the present time.
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to considering reports from Audit Scotland on council functions.

2. RECOMMENDATIONS

2.1 Committee is asked to:

- i) **note the key messages from the Accounts Commission around challenges facing all councils; and**
- ii) **agree that the scrutiny tool provided as a supplement to the report be circulated to all.**

3. BACKGROUND

Accounts Commission Paper

- 3.1 Audit Scotland recently prepared a report on behalf of the Accounts Commission entitled Local Government in Scotland - Challenges and performance 2019. The report acknowledges the challenging task that councils have in meeting national and local priorities, and managing increased demand for services at a time when finances are tight and likely to remain so going forward.

Challenges

3.2 The key messages drawn from the report findings are

- **The environment in which councils work in is increasingly complex, challenging and uncertain**, they have a key role in delivering high level public sector objectives including health and social care, and in engaging more with citizens around decision making processes
- **There is a need to consider more partnership working, and to look at how services can be delivered differently** to meet changing needs of communities while ensuring lines of accountability are maintained
- **Available funding has reduced** in real terms over the past six years, with national initiatives taking up an increasing proportion of council budgets. This **against an increasing demand for council services** given the changing demographic with all councils expecting an increase in the proportion of the population aged over 65.
- **Councils are making good progress in developing medium term financial plans** and managing their finances by securing savings and use of reserves. Increased income generation from council tax has been applied by all councils and some have looked at other options for raising additional income.
- **Effective workforce planning is crucial** to ensure council retain the capacity and skills among leaders and staff to deliver change. The report notes that recruitment into some service areas is becoming increasingly difficult and that an increasing proportion of the work force is nearing retirement.
- **Performance in councils overall is improving or being maintained** against the background of reducing funding and increasing demand, however it is suggested that **better use of data and benchmarking could lead to further improvement and efficiencies.**

3.3 A copy of the full report is available at http://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf

3.4 A supplement to the report provides a scrutiny toolkit which provides elected members with examples of questions they may wish to consider in the context of having a better understanding of the council's position and to scrutinise performance under the headings of;

- Factors affecting demand for services and council funding
- Governance and accountability
- Transformational change
- Financial Planning
- Generating income
- Partnership Working
- Integration Joint Boards
- Community Empowerment

- Workforce
 - Strategic priorities and performance reporting
 - Service performance.
- 3.5 These topics will have been covered separately in various reports to council committees and considered as part of the recent budget setting process, and a template has been made available for use by councillors to self-assess their awareness of the council's approach and identify any topics on which further information may be required.
- 3.6 The template is available at http://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance_supp1.pdf and is reproduced as **Appendix 1**.

Performance 2019

- 3.7 The report also provides as a separate annexe an on-line tool that provides performance information on a range of measures for all Scottish councils. This information in so far as it relates to Moray includes data forming part of the local government benchmarking framework. This will have been included in performance reports to service committees and is available for scrutiny at <http://www.audit-scotland.gov.uk/local-government-in-scotland-challenges-and-performance-2019>.
- 3.8 This information is presented interactively and will be considered further to determine whether there is merit in extracting any of the data for reporting in written form to a future meeting of this committee.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The Accounts Commission has broad oversight of local government in Scotland. The information it makes available is useful for the council and wider community planning partners in informing the content of strategic planning documents.

(b) Policy and Legal

The report highlights issues that may influence policy and practice.

(c) Financial implications

The report details the financial challenges the council is likely to face in future years with increased demand for services and reducing funding settlements.

(d) Risk Implications

The risks facing the council are well understood and continue to be kept under review through the regular updating by senior management of the Corporate Risk Register.

(e) Staffing Implications

The report highlights the importance of workforce planning to ensure the council retains the collective capacity, knowledge and skills required to deliver public services.

(f) Property

Asset management is being taken forward as part of the transformational change programme.

(g) Equalities/Socio Economic Impact

No direct implications.

(h) Consultations

The Chief Executive, Corporate Director (Corporate Services Resources), Head of Financial Services and the Monitoring Officer have been consulted and any comments received have been considered in writing the report.

5. CONCLUSIONS

5.1 The Accounts Commission report ‘Local Government in Scotland – Challenges and performance 2019’ highlights issues that councils are currently facing.

5.2 A supplement to the report has been published for elected members to use to assess areas where they feel further information would be useful to support them in fulfilling their role.

Author of Report: Atholl Scott

Background Papers: Accounts Commission Report – Local government in
Scotland – Challenges and performance 2019

Ref: AS /asc/240419

Local government in Scotland: Challenges and performance 2019

ACCOUNTS COMMISSION 



Key messages

- 1** Councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. Councils are also central to delivering many high-level public sector objectives, such as the integration of health and care services and involving citizens more in decisions about public services.
- 2** These reforms require councils to collaborate with partners, with the third sector and with communities, to think differently about how they deliver and fund services. Thinking differently about services is important to meet the growing and changing needs of their communities in the coming years. New ways of working can lead to increasingly complicated lines of accountability.
- 3** Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile. All councils expect an increase in the proportion of people aged over 65 and almost a third of councils expect an increase in the proportion of children under 15.
- 4** Councils have made good progress in developing medium-term financial planning and continue to manage their funding gaps through savings and use of reserves. All councils increased council tax to the maximum three per cent in 2018/19 and many increased their fees and charges to raise income. Some councils are looking at other options to raise income.

- 5 Councils need to ensure they have the staff, skills and leaders to deliver change. This requires effective workforce planning, but the quality of planning is inconsistent across councils. An increasing proportion of the workforce is nearing retirement. If there is insufficient succession planning, skills and knowledge will be lost as these people retire. Recruitment into some service areas is becoming increasingly difficult, but national workforce data is insufficient to clearly understand how individual services areas are affected.
- 6 Despite reducing funding and increasing demands, across local government most performance indicators are improving or being maintained, although some service areas show more strain. There remains performance variation among councils that cannot be readily explained by differences in context or spend. Better use of data and benchmarking could lead to further improvement and efficiencies.


Recommendations

While councils have continued to find ways to manage funding gaps and have made good progress with medium-term financial planning, they face an increasingly complex, changing and uncertain time ahead. To continue to improve the outcomes for their communities within this context, councils will need to be open to transformational change and implement new ways of working. To make effective progress, councils should:

- assure themselves that they have adequate leadership and management capacity in place. This should include development arrangements that prepare and support councillors and senior managers to respond to the challenging and changing local and national demands
- undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demands
- continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change

- improve data to:
 - help inform the difficult decisions councils have to make
 - support benchmarking, learning and sharing of experience and effective practice with others that will contribute to improving service quality, efficiency and outcomes for communities.
 - ensure they have workforce planning that is clear about the workforce needed now and in the future, where the gaps are and what training or other action is needed to fill them. This should be supported by better workforce data.
 - be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as how they are delivering against the national performance framework.
-

Scrutiny tool checklist for councillors

This scrutiny tool captures a number of potential questions for councillors and relates to our report [Local government in Scotland: Challenges and performance 2019](#) . It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's position and to scrutinise performance.

How well informed am I?		
Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Factors affecting demand for services and council funding		
Have you considered how policy and legislative change will affect how your council operates?		
What scenario planning has your council put in place for events such as EU withdrawal and increasing budget uncertainty?		
Do you have a clear understanding of the demographic circumstances within your council area?		
Do you know how effectively your council uses this information to decide how to provide services in the future?		
Governance and accountability		
Do you know if your council's governance and accountability structures are fit for purpose, given increasingly complex ways of working?		
If you sit on a board, do you fully understand your responsibilities to that board and the council?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Transformational change		
Do you understand how your council's approach to transformational change will improve services, benefit users and save money?		
How will you monitor and scrutinise progress of transformational projects?		
What is your council's risk appetite for transformational change? Are risks properly monitored?		
Do you know what the financial repercussions will be if your council's transformation activity fails to meet its savings targets?		
Is your council's transformation activity supported by good governance arrangements and robust management?		
Do you know if the governance arrangements factor in time needed to ensure projects are properly scoped?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Financial planning		
Does your council have medium and long-term financial planning in place?		
Does your council link budgets to plans and outcomes and report on these?		
Generating income		
Do you know what options your council is considering to maximise income?		
How is your council considering the impact that these changes might have on equalities?		
If your council is considering generating commercial income, do you know how it plans to mitigate the risks?		
Partnership working		
Does your councils consider sharing services in options appraisals and change programmes?		
Do you know if there are processes in place in your council to facilitate collaborative working on a local, regional or national basis?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Integrated joint boards		
Do you know how your council is ensuring the good governance and financial sustainability of its Integration Authority?		
Do you know what your council is doing to ensure that it works with partners to be more open and realistic about changes needed?		
Community empowerment		
Does your council engage with communities in decisions about services, budget proposals and priorities?		
Are you clear what community empowerment involves and what it means for your council?		
What is your council doing to implement community empowerment arrangements at a local level?		
Does the Local Outcome Improvement Plan focus on areas where the Community Planning Partnership can make the biggest impact?		
Do you know what your council is doing to reach out to 'seldom heard' and disadvantaged groups?		
What is your council doing to ensure that one per cent of revenue budgets is allocated through participatory budgeting by 2020/21?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Workforce		
What is your council doing to ensure that it has the right capacity, skills and leadership in its workforce?		
What training does your council make available to officers and councillors to ensure that they have the skills to deliver services in the future?		
Does the training you are offered meet your needs? If not, do you know who to speak to?		
Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs and skills of the actual and desired workforce?		
Do you know how your council is ensuring that changes to staff numbers and working practices do not have a negative impact on morale and wellbeing?		
Strategic priorities and performance reporting		
Does your council clearly link its budget setting to its strategic priorities and plans?		
Are you assured that performance reporting by your council is accurate and accessible?		
Can your council demonstrate progress in delivering its key outcome priorities?		

How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Service performance		
Does your council make use of the Local Government Benchmarking Framework data to consider where and how it might make improvements to service delivery?		
Have you considered what lessons you can learn from other councils who are delivering services well?		
Do you know the impact of spending reductions on the services your council provides?		
How is your council adjusting to meet changing demands for care services?		
How is this reflected in the performance data?		
Do you know what your council is doing to ensure that it understands how satisfaction with different services is changing?		
Is your council meeting its statutory duty to provide temporary and settled accommodation to households assessed as homeless?		



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REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: AUDIT SCOTLAND PAPER - WITHDRAWAL FROM THE EUROPEAN UNION

BY: CHIEF EXECUTIVE

1. REASON FOR REPORT

- 1.1 To provide Committee with information following consideration of a recent Audit Scotland paper on the implications for the public sector of the UK's withdrawal from the European Union (EU).
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to considering reports from Audit Scotland on council functions.

2. RECOMMENDATIONS

2.1 Committee is asked to:

- i) note that the council has been monitoring the potential impacts of 'Brexit' having regard to information contained in the Audit Scotland paper, and in line with additional guidance circulated by Scottish Government;
- ii) acknowledge that uncertainty will remain while negotiations between the EU and the UK government are progressed and potentially for an indeterminate period thereafter; and
- iii) agree that the council should continue to monitor national developments and take a proportionate risk based approach to mitigate any issues presenting that fall within the remit of the council to be managed.

3. BACKGROUND

Audit Scotland Paper

- 3.1 Audit Scotland published a paper in October 2018 entitled 'Withdrawal from the European Union' which considered key audit issues for the Scottish public sector.
- 3.2 The paper presented a number of issues that Audit Scotland believed councils and other public bodies should have under consideration in the lead up to the date of the UK leaving the EU, which, at that time, was scheduled to happen on 29 March 2019. A copy of the report is available at http://www.audit-scotland.gov.uk/uploads/docs/report/2018/paper_181011_eu_withdrawal.pdf
- 3.3 The paper considered the issues under three themes; People, Finance and Rules and Regulations, recognising that the risks and opportunities presenting as a consequence of EU withdrawal would likely vary markedly between organisations, and noting that uncertainty had created challenges for public sector bodies in terms of determining the extent of planning that would be necessary. The paper also noted that, as the effects of EU withdrawal became clearer, Audit Scotland would expect public bodies' preparations and responses to intensify.
- 3.4 At the time of drafting this report in early April 2019, there is still no certainty around what the UK's future relationship with the EU might look like. Various options remain under consideration at Westminster. Timescales for further deliberations were running short, increasing the risk of a 'no-deal Brexit', although a flexible extension period for negotiations to continue has now been granted through to 31 October 2019.
- 3.5 The Audit Scotland paper indicates that the UK government had allocated £37.3 million to Scottish Government to manage 'short term funding pressures' resulting from EU withdrawal noting that a large proportion of this money has been allocated to fund additional staff to help the Scottish Government and public bodies prepare for EU withdrawal.
- 3.6 It is understood the £37.3 million forms part of the Barnett consequential included within the total Scottish Government Budget, and the Local Government Settlement "reflects the maximum that can be allocated from within this". Government officers have stated that there is nothing specific set aside for local government Brexit costs within the Settlement or elsewhere in the Scottish Budget.
- 3.7 The Cabinet Secretary for Communities and Local Government has however indicated the Scottish Government would consider any quantified needs that Local Government has around Brexit preparations, and there is presently an indication through COSLA that Scottish Government may make up to £50k available to each local authority. This would be to fund a 'policy officer' type post where

councils deem this an appropriate means of assisting services with Brexit preparedness. In Moray, staff time is being utilised for this purpose and the council has expressed an interest in securing this funding.

People Issues

- 3.8 The Audit Scotland paper estimates that in 2017 around 20,000 non EU nationals were employed in the public sector for Scotland – the equivalent of 3% of all public sector employees. Data on the nationality of employees in individual public bodies is not routinely collected, however, Scottish Government estimates 4.4% of the total health and social care workforce are non-UK EU nationals (around 17,000 people), and Scottish Care estimates that between six and eight per cent of the workforce in the independent social care sector in Scotland are from the non UK European Economic Area.
- 3.9 The paper suggests that Brexit is likely to impact on recruitment and retention with some of those affected leaving the UK and others who may otherwise have intended to come to work here choosing not to do so. It also stresses the importance of public bodies giving consideration to how many non-UK EU nationals they employ and in which areas, and also on the likely impact of EU withdrawal on the workforces of organisations that provide services on the council's behalf.
- 3.10 In relation to people, concerns are also raised about the impact on the wider community and on economic development given the potential implications for some of the main employers in Moray.

Finance Issues

- 3.11 Between 2014 and 2020 Scotland expects to receive £2 billion in EU funding, equivalent to 14% of the UK's allocation albeit Scotland has around 8% of the UK's population. Most of the funding comes through the Common Agricultural Policy (81%), the remainder as European Structural Funds (17%), and the European Maritime and Fisheries Fund (2%).
- 3.12 Payments under the Common Agricultural Policy are made by Scottish Government; the Forestry Commission and Scottish National Heritage. The UK government has guaranteed the same 'cash total' in funds for farm support until the end of the current UK parliament, expected to be in 2022. The European Structural Fund (ESF) comprises European Regional Development Fund and the European Social Fund, both of which the council has accessed in the past to support economic development, skills and training, and business support and infrastructure developments. Again UK government has confirmed it will guarantee current levels of funding under ESF until the end of 2020.
- 3.13 There is little clarity about what will happen with the funding streams in the longer term. In particular it is noted that while some EU funding is presently targeted at specific rural areas such as Moray, this may not be the same going forward.

Rules and Regulations

- 3.14 EU rules and regulations affect all public bodies specifically around trade and customs. Should trade agreements with the EU not be achieved this could see an increase in the price of food and other imported goods and services. This would adversely impact on council budgets.
- 3.15 All public bodies have to comply with EU Regulations including in areas such as employment law health and safety and procurement. In the short term, in terms of the EU (Withdrawal) Act 2018 the existing legal framework will continue.

Questions for Consideration

- 3.16 The paper asks 14 key questions of public bodies across the three headings of People, Finance and Rules and Regulations. Some are quite specific, others are more challenging and in all cases the council's approach and actions taken are likely to evolve in response to emerging circumstances. Details of the questions and council responses are provided as **Appendix 1**.

Developments in the Interim

- 3.16 The situation is changing by the day at the time of drafting this report (in early April 2019), and the paper asserts that if the UK government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and organisations will need to respond immediately. Accordingly, the recommendation from Audit Scotland is that councils need to plan for this and have contingency plans to manage risks presenting.
- 3.17 The Scottish Government, recognising that the full extent of the impact of any changes is unknown, has provided councils with a number of planning assumptions to minimise risks to the delivery of council services under any given scenario. The Corporate Management Team has looked at these assumptions and set up a virtual working group comprising officers involved in business continuity, emergency planning and risk management along with those in services or within partnerships who may be directly affected in terms of the themes of people, finance and rules and regulations as outlined above.
- 3.18 The Council is working closely with local and regional resilience partners to ensure that robust plans for a no-deal exit are in place should these be necessary.
- 3.19 The Corporate Management Team / Senior Management Team has agreed to implement a horizon scanning and assessment system to identify, assess and respond to emerging risks; a proportionate response while uncertainty prevails.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The issues highlighted in this report may impact on the corporate plan and LOIP however the extent to which these plans need to be revised will depend on the terms of the agreement reached between the EU and UK government.

(b) Policy and Legal

The council's regulatory framework will be revised if and when required. There are no matters to report at the present time.

(c) Financial implications

No direct implications from this report although clearly there may be cost impacts in the event of changes in the labour market or an increase in the cost of goods and services purchased from the EU.

(d) Risk Implications

Brexit is a corporate risk given that the potential multiple effects as outlined in this report on staff, on costs and on regulation may impact on the council as a consequence of the UK's departure from the EU.

(e) Staffing Implications

There may be staffing issues relative to recruitment and retention of non UK EU nationals who for whatever reason either decide to leave the UK or not migrate into the UK post Brexit. This is considered to be low risk within the council's own staff complement and may have some limited impact in organisations the council contracts with e.g. in the care sector.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

It is not feasible to quantify any socio economic impacts at this stage.

(h) Consultations

The Chief Executive, Corporate Director (Economic Development and Infrastructure) Corporate Director (Corporate Services Resources), Head of Financial Services and the Monitoring Officer

have been consulted, any comments received have been considered in writing the report.

5. CONCLUSION

- 5.1 The council is taking proportionate steps to consider the potential impacts that may arise from Brexit while recognising that circumstances to be addressed may change quickly depending on how negotiations currently ongoing are finally concluded.**

Author of Report: Atholl Scott

Background Papers: Audit Scotland Paper - Withdrawal from the EU

Ref: AS /asc/240419

APPENDIX 1**Audit Scotland Paper - Withdrawal from the EU**

Key questions	Council /Other action
PEOPLE	
1) How are we communicating with staff about the potential EU withdrawal and preparing to support any employees who may be affected?	Letters have been issued to known potentially affected employees to offer advice. Some contact has been made with HR as a result. Information on Brexit has been posted on the council intranet (interchange) and in the staff newsletter, Connect. The information made available has included actions that may require to be taken by employees who are non UK EU nationals and who wish to remain in the UK post Brexit.
2) How are we reflecting the implications of EU withdrawal in our long term work- force planning?	Only small numbers of staff (circa 27) are potentially directly affected. Workforce planning meetings take place between HR and services are being held during April and May. Brexit is one of the issues that will be considered at that time where appropriate.
3) What are the workforce planning implications for the third sector and private organisations that provide services in partnership with the council or on its behalf?	There may be limited impacts in the delivery of care services directed by the Moray Integration Joint Board. The Board has recorded this as a risk issue and there is awareness that both cost pressures and recruitment issues could potentially affect the ability of contracted organisations to continue to deliver agreed services.
4) Which parts of the workforce are most at risk from the impact of EU withdrawal?	External to the council, the principal risk in terms of numbers of employees potentially affected is linked to the low skilled, low wage economy prevalent in Moray associated with manufacturing, food and drink, and agriculture. Professional posts may also be affected; e.g. medical practitioners where skill shortages are already evident.
5) How are we reflecting the implications for the local work force in our economic strategies?	A detailed report prepared by the Director of Economic Development Planning and Infrastructure on the impact of Brexit on the local economy was presented to the Community Planning Board at its meeting in September 2018

	Economic issues are also being looked at through the Highlands and Islands European Partnership and the Convention of Highlands and Islands. In addition the implications of Brexit are referenced in the revised Moray Economic Strategy and in the Moray Skills Investment Plan
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FINANCE	
6) What level of funding do we and our partners receive from the EU and through which funding streams	Indications are that across all partners and EU funding streams some £33 million was received during the 2007-13 programme period. This included ERDF and ESF funding, contributions to HIE and payments made including farm subsidies under the Scottish Rural Development Programme. A similar amount is expected to be secured in the current programme that runs to 2020.
7) What financial risks are associated with any changes after the UK has left the EU, during any transition period and beyond	Notwithstanding commitments made by UK government to maintain current levels of funding, the risk is that amounts available for distribution to councils and others diminish over time. The impacts cannot be quantified at this stage. Costs of certain goods and services purchased by the council may also increase. This has been highlighted in the Council's recently updated Reserves Policy as a risk should service budgets prove insufficient as a result of increasing costs.
8) How are we reflecting the implications of EU withdrawal in our long term financial planning?	As per the response to question 2 above this is but one of the issues the council needs to consider as it looks to secure financial sustainability in future years. Emerging issues likely to adversely affect the council's financial position will be taken into account as soon as impacts are known.
9) How can we capitalise on opportunities to access alternative funds or redesign replacement funding streams	The council already looks to obtain additional funds or to support access to such funds as a means of supplementing council monies where funding purposes are commensurate with the council's priorities. For example Historic Environment Scotland funding for town

	<p>centre regeneration schemes. It is expected this practice will continue although, at this stage, beyond indicating the council's commitment to seek such opportunities, it is not clear from where these alternative funds will be available. The government has committed to replace EU structural funds with a Shared Prosperity Fund post Brexit but details on this have still to be published.</p>
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RULES AND REGULATIONS	
<p>10) What are the potential implications of changes to trade and customs rules to our supply chains and the cost and availability of products</p>	<p>In the short term the UK will be adopting EU regulations around procurement so the extent of any 'rule changes' will depend on the outcomes of negotiations still taking place. Should barriers to trading emerge that impact on the free trade of goods this has the potential to affect supply chains. The impact will depend on the type of commodity and the nature of any disruption or delay. Local sourcing of provisions for use in preparation of school meals has been identified as a positive in terms of securing continuity of service but the risk remains that supply chains could be affected to some extent.</p>
<p>11) What EU regulations /legislation are directly relevant to our role? (e.g. monitoring compliance)</p>	<p>There are a multitude of EU Regulations relevant to the council's role that will be enshrined in UK legislation and thereafter be subject to negotiation. All have implications for the way services are monitored and controlled. Food is significant with respect to export and import regulatory frameworks but other issues concerning environment and state aid could also generate service pressures.</p>
<p>12) What impact would potential changes to regulation /legislation have on how we deliver services and our service users?</p>	<p>The impact will be entirely related to the final agreement that is reached and the council, like all other councils in Scotland, can only address this at some point in the future when more certainty emerges. The council is forecasting a continued growth in its population partly due to increased MOD presence, however the local development plan has</p>

	not accounted for Brexit as there is too much uncertainty to predict.
13) How can we capitalise on opportunities to streamline or improve the regulatory environment?	It is expected that either the UK or Scottish Governments will develop their own regulatory framework for distribution of funding of a nature similar to that provided currently by the EU. Should this happen the council may be consulted and have the opportunity to comment at the appropriate time. Some lobbying has already taken place through the Highland and Islands Economic Partnership.
14) How are we planning for the possibility that the UK government and the EU fails to reach an agreement or arrangement for the UK's exit from the EU?	CMT/SMT has established a working group to consider Brexit implications in the context of ensuring, so far as is practicable, that day to day business of the council can continue unaffected by whatever Brexit outcome may emerge. Discussions are also taking place with public sector partners locally and nationally. With the situation changing on a daily basis and considerable uncertainty remaining a proportionate approach has been adopted.



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: STATEMENT OF OUTSTANDING BUSINESS AT APRIL 2019

BY: CHIEF EXECUTIVE

1. REASON FOR REPORT

- 1.1 The Committee is asked to consider progress and timescales in relation to follow-up reports and actions requested by this Committee at previous meetings.
- 1.2 This report is submitted to Committee in terms of Section III (I) (11) of the Council's Scheme of Administration relating to evaluating the actions of Committees and implementing the Action Plan set out in the Corporate Development Plan.

2. RECOMMENDATION

- 2.1 **It is recommended that the Committee considers and notes progress and timescales in relation to follow-up reports requested by this Committee.**

3. BACKGROUND

- 3.1 A listing of follow-up reports generated from previous meetings is maintained and progress recorded. At the request of the Chair of the Audit and Scrutiny Committee, in order to assist in programming the work of the Committee, this information is presented in **Appendix 1**.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Performance reporting is linked to the Chief Executive's Office Service Plan in assisting with the monitoring and reporting of performance in line with the Council's Performance Management Framework.

(b) Policy and Legal

None.

(c) Financial implications

None.

(d) Risk Implications

None.

(e) Staffing Implications

None.

(f) Property

None.

(g) Equalities/Socio Economic Impact

An Equality Impact Assessment is not needed because the report is to inform the committee on performance issues.

(h) Consultations

Relevant officers have been consulted in relation to the reports and actions listed in **Appendix 1** relating to their service, any comments received have been considered when compiling this report.

5. CONCLUSION

5.1 The Committee considers progress and timescales in relation to follow-up reports requested by this Committee.

Author of Report: Roddy Burns, Chief Executive

Background Papers:

Ref:

STATEMENT OF OUTSTANDING BUSINESS AT APRIL 2019 – REPORTS

Date of Audit and Scrutiny Meeting	Subject & Committee Decision	Update	Responsible Officer	Date to be Completed	Completed
4 December 2018	Internal Audit Charter (Terms of Reference) Seek a report providing a draft Internal Scrutiny Charter for consideration	Draft report under development	Corporate Director (Corporate Services)	TBC	
4 December 2018	The National Fraud Initiative in Scotland That the policy to combat fraud and corruption will be updated and submitted for approval to the next meeting of the Policy and Resources Committee	Due to workload pressures this has been deferred until the meeting in April	Corporate Director (Corporate Services)	April 2019	
4 December 2018	Corporate Integrity Group Update Action - Seek clarification on the feasibility of publishing hospitality records for staff	Will be addressed as priorities dictate.	Corporate Director (Corporate Services)	June 2019	
4 December 2018	Question Time That a report detailing the income and expenditure of the dredger since its purchase, including capital and an evaluation of its performance against the projected benefit and/or business case to the Council at the time of approval is written and brought before the Committee.	A report will be submitted to the meeting of this Committee in April.	Corporate Director (Economic Development, Planning and Infrastructure)	April 2019	

STATEMENT OF OUTSTANDING BUSINESS – ANNUAL REPORTING

Date of Audit and Scrutiny Meeting	Subject & Committee Decision	Update	Responsible Officer	Date to be Completed	Completed
22 March 2017	Update on Progress: Customer Focus Strategy and Charter	Annual update on progress against strategy and charter	Corporate Director (Corporate Services)	April 2019	
	Local Outcome Improvement Plan (LOIP)	Annual report across all priorities. LOIP and Performance Management Framework agreed. Partnership considering actions, measures and timescales against priorities.	Chief Executive	April 2019	



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: COUNCIL DREDGER – MV SELKIE

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT,
PLANNING AND INFRASTRUCTURE)**

1. REASON FOR REPORT

- 1.1 To inform the Committee of the business case and operation of the Council owned dredger MV Selkie.
- 1.2 This report is submitted to Committee in terms of Section III (I) (10) of the Council's Scheme of Administration relating to scrutiny of the effectiveness of policies of the Council.

2. RECOMMENDATION

- 2.1 **It is recommended that Committee considers and notes the update on the dredger's operation.**

3. BACKGROUND

- 3.1 At a meeting of the Economic Development & Infrastructure Services Committee (ED&I) on 19 February 2019 the Committee considered and noted the update on the dredger's commercial operation (para 17 of the draft Minute refers).
- 3.2 On 28 August 2012 a meeting of ED&I Committee agreed to commence the process of procuring a new dredger as a replacement of the previous vessel, MV Shearwater (para 20 of the minute refers). This was following a number of reports to committee in 2011 and 2012 setting out the increasing costs of maintaining and operating the Shearwater.
- 3.3 The August 2012 decision was on the basis of a report to ED&I on 24 January 2012 (para 23 of the minute refers), which set out a number of options the Council could pursue. Each option had a net annual cost to the Council. These options ranged from ceasing dredging entirely (with resultant impact on commercial harbour activity at Buckie and Burghead), through the use of external contractors, to various vessel replacement options.

- 3.4 The options included repairs and refurbishment of the previous dredger MV Shearwater, however, this options was not considered cost effective given the scale of immediate, medium term and long term repairs in addition to known refurbishment requirements.
- 3.5 Each option presented to the Council had an annual net cost (over 25 years) of at least £200k – taking into account any income generation from the option.
- 3.6 The preferred option which was as per the 28 August 2012 Committee decision was to purchase a new build, small, dredger, with a stated net annual cost of £376k per annum after all costs and income. This figure was presented in the report as a £9.4m total cost over 25 years, but has been disaggregated for this report to help compare with other annual expenditure / income.
- 3.7 The reports relied on by Committee in reaching this decision explicitly stated that no external income was anticipated from a small 20-25m dredger, but any income would improve the business case presented.
- 3.8 Subsequent to the Committee decision to purchase a new dredger at a net annual cost to the Council the expenditure was incorporated into the Capital Plan, and a full procurement exercise was undertaken for the design and build contracts for such a vessel.
- 3.9 Although the Shearwater operated in Buckie and Burghead until early 2012, in 2011 the only external dredging work carried out was in Macduff, and 2010 was the last year that meaningful external work was undertaken for 3rd party harbours by a Moray Council owned dredger.
- 3.10 Currently the Selkie is operating at a budgeted net annual cost to the Council of £200k revenue costs and £100k capital costs (based on a 40 year depreciation period).
- 3.11 This net cost is before the benefit of internal dredging at a budgeted cost of £180k to the Harbours is taken into consideration. This equates to 60 days of operation.
- 3.12 Financial analysis demonstrates that to dispose of the dredger would increase revenue costs to the Council by a minimum of £50k per annum.
- 3.13 The costs of external dredging are based on previous costs incurred to carry out essential dredging at Buckie and Burghead between the disposal of the MV Shearwater and the operation of MV Selkie. The Council as Statutory Harbour Authority has a legal duty of conservancy i.e. maintaining appropriate navigation channels into / around the harbours. This level of dredging is therefore the minimum for compliance at the Council's commercial harbours, and over future years is likely to increase and include the Council's leisure harbours. As an alternative assumption for the cost of dredging the Council's harbours using an external resource, the 2012 business case on dredging options for the Council (referred above) assumed an annual cost of £313k for external dredging of harbours, recognising that dredging of the smaller harbours was unlikely to be achieved with an external contractor.

- 3.14 In relation to capital costs, the full cost of the dredger was £2.8m in line with the approved capital budget. If the vessel were to be disposed of it would likely generate £1.5m (price provided by Macduff Ship Design). Depending on how the capital receipt of £1.5m were to be treated gives different scenarios on capital impact, however, none of these scenarios has a positive revenue impact, or fully recovers the cost of the vessel.
- 3.15 Separately to the financial case for the Council owning and operating a dredger, and the current external workload, there have been staffing issues over Q2 and Q3 2018/19 which have impacted on the Council's ability to crew the vessel. These issues are being resolved. As of 4th April 2019 dredging operations have recommenced with an interim staffing arrangement from the harbours team and agency crew. The external costs are within budget available from vacant posts. The longer term crewing position is being reviewed with options currently being assessed prior to implementation.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Sustainable harbours with improved infrastructure contribute to the economic development of Moray.

(b) Policy and Legal

In relation to the business case for internal dredging works the Council must comply with its legal duties as a Statutory Harbour Authority.

(c) Financial implications

In compliance with State Aid rules the Council are required to recover costs for the use of the dredger in the private sector.

(d) Risk Implications

No specific risk implications from this report

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

There are no property implications arising from this report.

(g) Equalities/Socio Economic Impact

There are no specific equalities matters

(h) Consultations

The Corporate Director (Economic Development, Planning and Infrastructure), The Legal Services Manager, Principal Accountant (P Connor), Committee Services Officer (C Howie), and Equalities Officer have all been consulted and their comments incorporated into this report.

5. CONCLUSION

- 5.1 The dredger continues to operate as set out in the original business case determining the purchase of the vessel.**
- 5.2 Operating the MV Selkie is a more cost effective solution to externally procured dredging services for the conservancy of Moray's harbours.**

Author of Report: Nicola Moss, Transportation Manager

Background Papers: None

Ref: