DATA LABEL: Public

West Lothian Integration Joint Board Audit, Risk and Governance Committee

West Lothian Civic Centre
Howden South Road
LIVINGSTON
EH54 6FF

18 February 2021

A meeting of the **West Lothian Integration Joint Board Audit, Risk and Governance Committee** will be held within the **Webex Virtual Meeting Room** on **Wednesday 24 February 2021** at **2:00pm**.

For Chief Executive

BUSINESS

Public Session

1. Apologies for Absence

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

3. Order of Business, including notice of urgent business and declarations of interest in any urgent business

4. Confirm Draft Minutes of Meeting of West Lothian Integration Joint Board Audit, Risk and Governance Committee held on Wednesday 02 December 2020 (herewith)

5. Timetable of Meetings 2021/22 (herewith)

6. IJB Risks - report by Chief Officer (herewith)

7. Data Protection Compliance - report by Chief Officer (herewith)

8. Internal Audit of Financial Planning - report by IJB Internal Auditor (herewith)

9. External Audit Plan 2020/21 - report by Chief Finance Officer (herewith)

10. IJB Internal Audit Plan - report by IJB Internal Auditor (herewith)

11. Local Government in Scotland - Financial Overview 2019/20 - report by Chief Finance Officer (herewith)

12. CIPFA Financial Management Code - report by Chief Finance Officer (herewith)

13. IJB Best Value Framework Review - report by Chief Finance Officer (herewith)

14. Workplan (herewith)

NOTE **For further information please contact Val Johnston, TelNo.01506 281604 or email val.johnston@westlothian.gov.uk**

MINUTE of MEETING of the WEST LOTHIAN INTEGRATION JOINT BOARD AUDIT, RISK AND GOVERNANCE COMMITTEE held within WEBEX VIRTUAL MEETING ROOM, on 2 DECEMBER 2020.

Present – Present – Martin Connor (Chair) and Bill McQueen; Councillors George Paul and Damian Timson; and Caroline McDowall

In Attendance – Allister Short (Chief Officer), Lorna Kemp (Policy Officer), Jo MacPherson (Head of Social Policy), James Millar (Standards Officer), Kenneth Ribbons (Internal Auditor), Stevie Dunn (Staff Representative)

Apologies –Caroline McDowall, Stephen Reid (EY External Auditor), Patrick Welsh (Finance Officer)

1. DECLARATIONS OF INTEREST

There were no declarations of interest made.

2. MINUTE

The committee confirmed the Minute of its meeting held on 9 September 2020 as a correct record.

3. RISK MANAGEMENT - HIGH RISKS

The committee considered a report (copies of which had been circulated by the Chief Officer advising of the IJB's Risk Register.

It was recommended that the committee consider the risks identified, the control measures in place and the risk actions in progress to mitigate their impact

Decision

To note the terms of report.

4. GOVERNANCE ISSUES 2019/20 - UPDATE ON PROGRESS

The committee considered a report (copies of which had been circulated) by the Standards Officer providing an update on issues identified for attention through the annual governance statement for 2019/20 and on others matters arising since.

The report recommended that the committee note the update on governance issues of concern being progressed in 2020/21 and that further updated information will be included in the annual governance statement for 2020/21 and its covering report.

Following discussions and a number of questions the committee agreed the following.

Decision

1. To note the update on governance issues of concern being progressed in 2020/21.

2. To note the additional information proceeded in relation to items 4(17/18), 4(18/19), 7(18/19), 24(17/18), 9(19/20), 16(19/20) and 18(19/20) in the Appendix.

3. To agree the most urgent items requiring to be progressed were 4(17/28), 4918/19) and 24(17/18) and to note that they were highlighted in the Internal Audit report on IJB Governance at Item 08 on the agenda.

4. To recommend to the Board that items 6(18/19), 10(19/20), 16(19/20), 19(19/20), 20(19/20) and 23(19/20) are incorporated immediately in its workplan and reporting cycle to enable them to be removed from the list of issues to be further progressed.

5. To agree that a report on the lessons to be learned from the Accounts Commission Report on Fife integration Joint Board (Audit Scotland, 2 March 2020) (9(19/20)) should be brought to the committee for consideration.

5. COMMITTEE SELF-ASSESSMENT RESULTS

The committee considered a report (copies of which had been circulated) by the Chief Officer to inform the Audit Risk and Governance Committee on the results of the self-assessment survey of the Committee's administrative arrangements and activity.

The report recommended that the committee:

1. Note the results of the self-assessment questionnaire; and

2. Discuss if any actions should arise from the results.

Decision

To note the terms of the report.

6. INTERNAL AUDIT OF IJB GOVERNANCE

The committee considered a report (copies of which had been circulated by the Internal Auditor advising of the outcome of an internal audit of the IJB's governance arrangements.

The report recommended that the committee notes that control was considered to be effective.

Discussions took place with regard to the provision of a GDPR officer and it was advised that work was underway to establish what arrangements existed in other IJB's and consider how appropriate provision could be made. It was also noted that the Chief Officer made an undertaking to report back to the next meeting of the committee.

Decision

To note the terms of the report.

7. INTERNAL AUDIT OF IJB PERFORMANCE MANAGEMENT

The committee considered a report (copies of which had been circulated) by the Internal Auditor advising of the outcome of an internal audit of the IJB's performance management arrangements.

The report recommended that the committee notes that control was considered to be effective.

Decision

To note the terms of the report.

8. COVID-19: GUIDE FOR AUDIT AND RISK COMMITTEES

The committee considered a report (copies of which had been circulated) by the Chief Officer informing the committee of the report by Audit Scotland "Covid-19: Guide for Audit and Risk Committees.

The report recommended that the committee considers the themes and messages in the report.

Decision

To note the terms of the report.

9. EUROPEAN UNION EXIT UPDATE

The committee considered a report (copies of which had been circulated) by the Chief Officer providing an update on potential EU Exit implications for health and social care service delivery and work being undertaken by officers across health and social care to assess risks and identify options for mitigation.

The report recommended that the committee

1. Notes that there was an increasing amount of guidance and collaborative working on understanding EU Exit issues;
2. Notes that there was still uncertainty on the final arrangements

associated with the EU Exit at the end of December 2020;

3. Notes the potential risks to delivery of health and social care functions that may impact on the IJB’s strategic planning role; and

4. Notes the work being undertaken by partner bodies and officers supporting the IJB on EU Exit preparations related to health and social care functions.

During discussions concerns were raised with regard to supply of vaccine/medicines when the UK left the EU in January. The Chief Officer advised that he would seek assurances from those responsible at a national level that this would not be a problem.

Decision

To note the terms of the report.

10. WORKPLAN

A workplan and reporting cycle had been circulated for information.

Decision

1. To note the workplan;

2. To agree that officers consider how the workplan could show work completed as well as work to be done in future.

Date of Meeting: 24 February 2021
Agenda Item: 5

IJB Audit, Risk & Governance Committee Timetable of Meetings 2021/22

Deadline for submission of finalised reports	Committee agenda issue	Committee meeting	Venue
Tuesday 31 August 2021	Wednesday 1 September 2021	**Wednesday 8 September 2021**	TBC
Tuesday 23 November 2021	Wednesday 24 November 2021	**Wednesday 1 December 2021**	TBC
Tuesday 15 February 2022	Wednesday 16 February 2022	**Wednesday 23 February 2022**	TBC
Tuesday 14 June 2022	Wednesday 15 June 2022	**Wednesday 22 June 2022**	TBC

All meetings will commence at 2.00pm, unless otherwise advised.

Date	24 February 2021
Agenda Item	6

INTEGRATED HEALTH AND SOCIAL CARE
WEST LOTHIAN
WORKING FOR WELLBEING

Report to Audit Risk and Governance Committee

Report Title: IJB Risks

Report By: Chief Officer

Summary of Report and Implications		
Purpose	This report: (tick any that apply).	
	- seeks a decision	☐
	- is to provide assurance	☐
	- is for information	✓
	- is for discussion	✓
	To inform the Committee of the IJB's risks.	
Recommendations	It is recommended that the Audit, Risk and Governance Committee considers the risks identified, the control measures in place, and the risk actions in progress to mitigate their impact.	
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.	
Resource/ Finance/ Staffing	None.	
Policy/Legal	The IJB's Policy is to effectively mitigate risks to the achievement of its objectives by implementing robust risk management strategies, policies and procedures, which enable managers to effectively identify, assess, and mitigate risk.	
Risk	Directly relevant. This report sets out the IJB's risks.	

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	Effective risk management is a pre-requisite for effective performance and outcomes.
Locality Planning	None.
Engagement	IJB Senior Management Team.

Terms of Report

1.1 In accordance with the Risk Management Strategy approved by the IJB on 26 June 2018, the Audit, Risk and Governance Committee is required to review the risk register at least twice per annum.

1.2 The IJB has eight risks which are set out in appendix one. There are two high risks, IJB002 and IJB004, with the following changes having been made since the last report:

- Risk IJB002 "Failure to Effectively Implement the Strategic Plan" is now a high risk with a score of 12.
- Risk IJB006 "Workforce Planning" is no longer a high risk with a score of 9

Risk IJB004 "Inadequate Funding to Deliver the Strategic Plan" remains a high risk.

1.3 In relation to appendix one:

- The traffic light icon represents the risk ranking based on the score; these are explained further in the table at the start of Appendix 1;
- There is a code, title and description for each risk;
- The original risk score represents the uncontrolled risk, that is to say the risk without controls in place, and provides an appreciation of the potential impact if controls are absent or fail;
- The current risk score represents the current risk, i.e. assuming that current controls are in place and effective;
- The internal controls are those processes in place to reduce the risk from original risk score to current risk score;
- The risk actions are those measures which are intended to further reduce the current risk. The report only includes those risk actions which are in progress.

1.4	Appendix two sets out in more detail the risk actions which are not yet complete.
1.5	The standard risk assessment methodology is attached as Appendix 3.

Appendices	1. IJB Risks 2. IJB Outstanding Risk Actions 3. Risk Management Methodology
References	None
Contact	Kenneth Ribbons Kenneth.ribbons@westlothian.gov.uk 01506 281573

Appendix 1 IJB Risks

Report Author: Kenneth Ribbons
Generated on: 12 February 2021 14:35
Report Layout: .. 11 (previously R09d) Original Score, Current Score, Target Score, Internal Controls with linked actions (outstanding only)

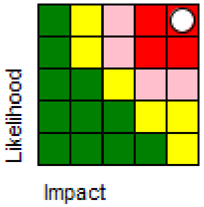
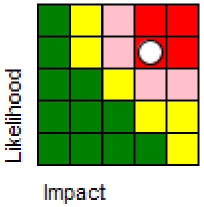
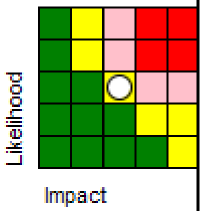
Key to Risk Scores

Icon	Score	Meaning
	16-25	High
	12-15	Medium High
	5-10	Medium
	1-6	Low

Key to Action Status

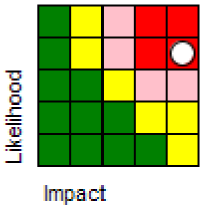
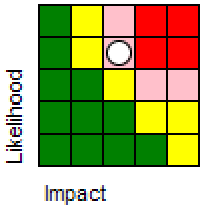
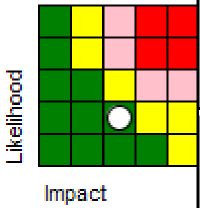
Icon	Status
	Overdue
	Approaching Due Date
	In progress

	IJB004 Inadequate Funding to Deliver the Strategic Plan	Financial implications of Covid-19 are not met by additional funding provided by Scottish Government. Core funding provided by partner bodies is inadequate, or is not effectively prioritised, including through the development of financial recovery plans, leading to failure to achieve a sustainable budget position and meet strategic objectives.
	Internal Controls:	**Covid-19 Pandemic** Lothian Covid-19 Finance Group set up and meeting regularly to ensure there is a joined up approach to identifying the financial implications arising from the pandemic. Regular updates to Scottish Government and IJB on Local Mobilisation Plan costs associated with the pandemic and additional funding received **Failure to effectively manage the financial plan** Chief Finance Officer (S95 officer) Due diligence by S95 officer on budget contributions from partner bodies each year as part of annual budget process Approval of resource allocations by IJB Monitoring / reporting of progress regarding outturn and delivery of savings reported regularly to IJB Financial reports to IJB include updates to key risks and uncertainties Scrutiny by Audit, Risk and Governance Committee Internal audit and external audit oversight. Financial Regulations in place WL Integration Scheme – agreed financial and budgetary responsibilities including for overspends against delegated IJB functions Ongoing development of medium term financial plan 2019/20 to 2022/23 submitted to the IJB on 23 April 2019 and further update provided to the IJB board on 30 June 2020 Reserves policy in place Regular updates to IJB Chief Officer group on key financial and budget matters relating to delivery of health and social care services **Unbudgeted and emergency budgeted pressures** Financial reports to IJB include updates to key risks and uncertainties WL Integration Scheme – agreed financial and budgetary responsibilities including for overspends against delegated IJB functions Reserves policy in place

						Regular updates to IJB Chief Officer group on key financial and budget matters relating to delivery of health and social care services				
Risk Score	**Original Risk Matrix**	**Risk Score**	**Current Risk Matrix**	**Risk Score**	**Target Risk Matrix**	**Linked Risk Actions**	**Original Due Date**	**Due Date**	**Progress**	**Description**
25		**16**		**9**		IJB19002_Ar Development of Updated Medium Term Financial Plan	30-Jun-2020	30-Jun-2021	50%	Assessment of 2021 Scottish Budget and work collaboratively with LG and NHS partners to develop updated IJB medium term financial plan taking account of Covid-19 and other key issues impacting on the wider economy and public sector.
						IJB19021_Are MTFP savings gap	31-Mar-2020	30-Jun-2021	50%	Further development of IJB Medium Term Financial Strategy and savings proposals will be undertaken during 2020/21. This will involve close partnership working with partner bodies and finance and will take account of Covid-19 impacts. As well as existing arrangements in place, this will be supported through joint Lothian Finance Group established comprising of NHS Lothian Director of Finance, Lothian Local Authority Section 95 officers and Lothian IJB Chief Finance Officers. A key area being progressed by the group is developing a more joined up approach to financial planning. EY annual audit report action plan item 2 refers.

				IJB19003_Ar Financial Implications of COVID-19 (IJB)	31-Mar-2021	31-Mar-2021	80%	Identification and monitoring the financial implications of COVID-19 on the IJB's funding and expenditure.

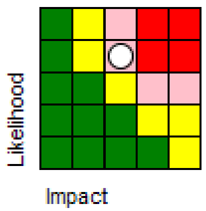
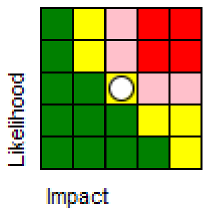
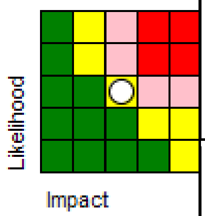
IJB002 Failure to effectively implement the Strategic Plan	The Strategic Plan sets out how the IJB intends to deliver the nine national health and well being outcomes through our strategic priorities and transformational change programmes. Failure to effectively develop and implement strategic commissioning plans for specific care groups within medium term financial planning framework may lead to key objectives not being achieved. The Covid-19 pandemic is likely to impact full delivery of the plan and is likely to delay the timeframe of some actions outlined in supporting strategic commissioning plans.
Internal Controls:	Extensive consultation on the strategic plan Strategic plan based on national and local policy Review of the strategic plan by IJB SMT Revised strategic plan approved by the IJB on 23/4/19 Associated strategic directions Revised strategic planning structure Strategic Planning group Health Care Governance group Revised monthly management performance report Covid reflections SPG workshops Commissioning plans reviewed and revised to reflect impact of Covid-19

Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked Risk Actions	Original Due Date	Due Date	Progress	Description
20		12		6		IJB19010_Ar Strategic Commissioning Plan Mental Health	31-Mar-2023	31-Mar-2023	35%	Ensure implementation of 3 year Strategic Commissioning Plans for Mental Health as approved by IJB on 21 January 2020
						IJB19011_Ar Strategic Commissioning Plan Older People	31-Mar-2023	31-Mar-2023	25%	Further develop and implement the Strategic Commissioning Plan for Older People as approved by IJB on 21 January 2020

				IJB19012_Ar Strategic Commissioning Plan Physical Disability	31-Mar-2023	31-Mar-2023	25%	Implement Strategic Commissioning Plan for Physical Disability as approved by IJB on 21 January 2020
				IJB19013_Ar Strategic Commissioning Plan Learning Disability	31-Mar-2023	31-Mar-2023	30%	Develop and implement Strategic Commissioning Plan for Learning Disability as approved by IJB on 21 January 2020
				IJB19014_Ari Strategic Plan Progress Reporting	30-Jun-2020	31-Jul-2021	70%	Review of arrangement for reporting on progress of the Strategic Plan 2019-2023: - cycle of reports for the IJB to be reviewed and will include a commitment to formally updating the IJB on progress in relation to strategic commissioning plans twice per year. Strategic commissioning plans are the mechanism through which the strategic objectives of the IJB will be delivered. Revised cycle of reports to be submitted to IJB in January 2020. - a performance management framework will be developed to underpin commissioning plans and to provide a mechanism for monitoring impact and progress in relation to strategic objectives. The performance framework will be submitted to the IJB along with

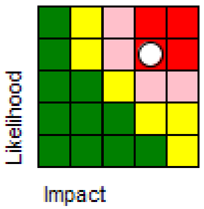
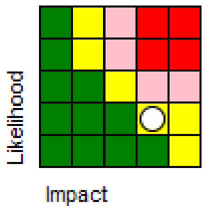
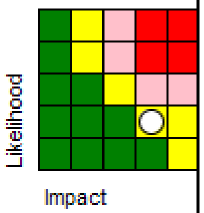
								progress reports. Framework to be in place by June 2020.

	IJB006 Workforce Planning	Lack of effective workforce planning leading to a failure to develop a sustainable workforce which has an adverse impact on performance and the ability of the IJB to achieve its strategic objectives.
	Internal Controls:	NHS and WLC workforce plans NHS and WLC recruitment policies Monitoring via review of performance in relation to staff absence, recruitment / turnover Training and development Performance review Strategic workforce planning framework approved by the IJB on 21 November 2018. Workforce planning group

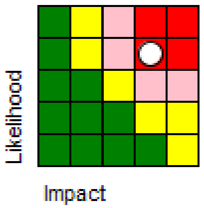
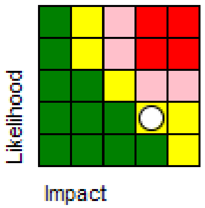
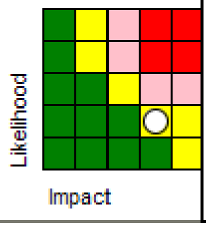
Risk Score	**Original Risk Matrix**	**Risk Score**	**Current Risk Matrix**	**Risk Score**	**Target Risk Matrix**	**Linked Risk Actions**	**Original Due Date**	**Due Date**	**Progress**	**Description**
12		**9**		**9**		IJB19016_Ari Workforce Planning Action Plans	30-Jun-2020	30-Sep-2021	25%	Preparation of workforce planning action plans which are aligned to the IJB Strategic Plan and Commission Plans. The action plans will clearly state the action owners and will include progress and performance measures. Agreed action for finding 3.2 in audit report EX1905 issued on 25 February 2020.
						IJB19019_Ari Employee Communication and Engagement Plan	30-Jun-2020	30-Sep-2021	15%	To develop and present to the IJB for approval an Employee Communication and Engagement Strategy/Plan. Agreed action for finding 3.1 in audit report EX1905 issued on 25 February 2020.

				IJB19018_Ari Aligning Workforce Plans	30-Dec-2020	30-Apr-2021	30%	West Lothian Council to give consideration to the development of workforce plans for Social Policy which align more closely with NHS Lothian workforce plans and the IJB Strategic Plan. Agreed action for finding 3.4 in audit report EX1905 issued on 25 February 2020.
				IJB19017_Ari Staff Governance Reporting	30-Apr-2020	31-Mar-2021	75%	The format of staff governance reports to be reviewed to ensure consistency of reporting across the health and social care partnership. Staff governance reports will remain as items for regular review by the health and social care management team. Agreed action for finding 3.3 in audit report EX1905 issued on 25 February 2020.

IJB007 Sustainability of Primary Care	There is a risk that GP service provision will be disrupted, restricted or unavailable because of increasing capacity and demand issues as a result of population growth and/or GP practices experiencing difficulties in recruitment, retention or absence of medical staffing leading to significant capacity issues and inadequate and insufficient service provision.
Internal Controls:	Risk register at HSCP level of all practices identifying vulnerability rating Programme of support measures developed and available to be tailored to each practices individual circumstances to increase their resilience and maintain service provision Additional investment to support practices through LEGUP, primary care investment fund Buddy practice arrangements in place across all practices; Cluster working arrangements established Primary Care Implementation and Improvement Plan prepared and submitted to the IJB on 26/6/18.

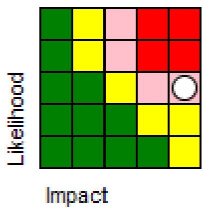
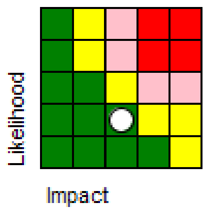
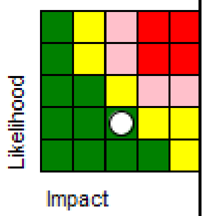
Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked Risk Actions	Original Due Date	Due Date	Progress	Description
16		**8**		**8**		IJB18011_Ar Implementation of Primary Care Improvement Plan 2018-2021	30-Sep-2021	30-Sep-2021	65%	Phased investment and improvement plan to support implementation of the new 2018 GMS contract with focus on development of new roles and professionals within the wider Primary Health Care Team, transfer of vaccination services and development of community treatment and care centres, development of mental well-being hubs, use of technology and support of leadership development of GP and practice teams.

IJB008 Delayed Discharge	There is a risk that patients are not being discharged in a timely manner resulting in suboptimal patient flow, impacting on poor patient and staff experience and poorer outcomes of care.
Internal Controls:	Community health and social care teams working with discharge hub to facilitate timely discharge; daily MDT meetings Frail Elderly Programme to take forward key actions designed to improve performance Care at Home contract in respect of adequate supply and responsiveness of provision. National Care Home Contract in respect of adequate supply of provision Contract monitoring procedure Regular reports to Contracts Advisory Group Regular meetings with providers and Scottish Care Escalation of high cost packages to Depute CEO and Head of Finance Review of contract rates Joint Commissioning Plans Close partnership working with St John's hospital and other NHS Lothian colleagues. Strategic Commissioning Plan for Older People. Quarterly performance reports to Community Care Management Group Monthly performance reports to SMT Performance reports to IJB Single point of access for acute care Changes in eligibility criteria for social care Integrated discharge hub now operational

Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked Risk Actions	Original Due Date	Due Date	Progress	Description
16		8		8		IJB18014_Ar Intermediate Care	31-Dec-2020	30-Jun-2021	75%	Review intermediate care provision and determine future requirements to establish the type and capacity of intermediate care to be commissioned to meet the population needs.

				IJB19008_Ar Adults with Incapacity	31-Oct-2020	30-Jun-2021	80%	Whilst fewer in number the length of delay can be significant for those requiring guardianship. Review the policy and procedures for Adults with Incapacity to ensure effective decision making supporting use of least restrictive options and coordinate guardianship process where required
				IJB19007_Ar Care Home Placements	31-Oct-2020	30-Apr-2021	60%	Review policies on Choice and Moving On to improve effectiveness and manage expectations. Review assessment times and facilitate discharges in timeous manner.

IJB001 Governance Failure	Appropriate internal processes and procedures are either not in place or are ineffective, leading to a lack of leadership, accountability or scrutiny, resulting in a failure to meet key objectives, financial overspends or reputational damage.
Internal Controls:	Chief Officer Chief Finance Officer (S95 officer) Standing orders Scheme of administration Standards Officer Local code of corporate governance Code of conduct Audit, Risk and Governance Committee Internal auditor and annual audit plan Procedures for assessing disputes re resource allocations Risk management policy and strategy Annual risk management report by IJB risk manager Development sessions / training for IJB members

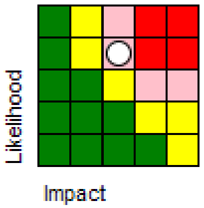
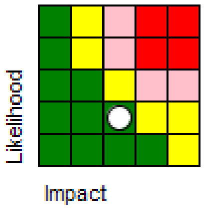
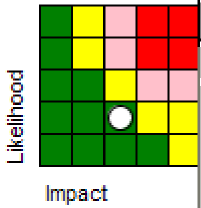
Risk Score	**Original Risk Matrix**	**Risk Score**	**Current Risk Matrix**	**Risk Score**	**Target Risk Matrix**	**Linked Risk Actions**	**Original Due Date**	**Due Date**	**Progress**	**Description**
15		6		6		IJB20001_Ari Data Protection	31-Dec-2020	31-Jul-2021	10%	It is understood that work is currently in progress to review the IJB's data protection arrangements and to ensure it fully meets with the requirements of GDPR and the Data Protection Act 2018. This should be concluded as soon as possible. Internal audit report IJB2002 item 3.3 refers.

				IJB20002_Ari External reports with recommendations for IJB's	31-Dec-2020	31-Mar-2021	0%	A clear process should be put in place for monitoring the progress of agreed recommendations in external reports, and assurances should be provided that the recommendations have either been completed, are in progress or have been superseded. Internal audit report EX2002 item 3.3 refers.

IJB003 Inadequate Performance Management

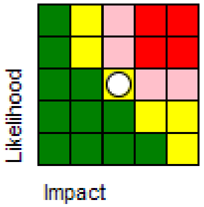
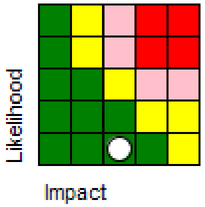
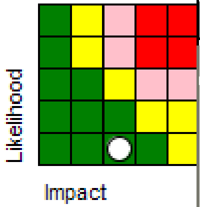
Processes for the review and scrutiny of health and council performance are either not in place or are ineffective, leading to less than robust scrutiny arrangements, and resulting in failure to identify, challenge, or rectify poor performance. Ultimately will have an adverse impact on ability to achieve ley objectives.

Internal Controls:
Agreed outcomes / performance measures
Robust performance management within WLC / NHS
Regular monitoring by IJB SMT
Regular reporting of performance to IJB including local indicators and balanced scorecard
Annual performance report

Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix
12		6		6	

Linked Risk Actions		Original Due Date	Due Date	Progress	Description

✔	**IJB005 Community Planning Failure**	Inability to work effectively with partners leading to poorer outcomes. Community Planning officers from the council are represented on the Locality Groups to ensure a partnership approach to working and prevent duplication of effort where possible.
	Internal Controls:	Participation in Community Planning arrangements - Chief Officer is a member of the CPP Board. Strategic Plan. Community Planning officers from the council are represented on the Locality Groups to ensure a partnership approach to working and prevent duplication of effort where possible.

Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix
9		3		3	

Linked Risk Actions	Original Due Date	Due Date	Progress	Description

Appendix 2 Outstanding IJB Risk Actions

Report Type: Actions Report
Report Author: Kenneth Ribbons
Generated on: 12 February 2021 14:55
Report Layout: Actions progress summary with original due date, due date

Rows are sorted by Due Date

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB19003_Ar Financial Implications of COVID-19 (IJB)	Identification and monitoring the financial implications of COVID-19 on the IJB's funding and expenditure.	31-Mar-2021	31-Mar-2021	80%	Patrick Welsh	IJB004 Inadequate Funding to Deliver the Strategic Plan
	IJB19017_Ari Staff Governance Reporting	The format of staff governance reports to be reviewed to ensure consistency of reporting across the health and social care partnership. Staff governance reports will remain as items for regular review by the health and social care management team. Agreed action for finding 3.3 in audit report EX1905 issued on 25 February 2020.	30-Apr-2020	31-Mar-2021	75%	Allister Short	IJB006 Workforce Planning
	IJB20002_Ari External reports with recommendations for IJB's	A clear process should be put in place for monitoring the progress of agreed recommendations in external reports, and assurances should be provided that the recommendations have either been completed, are in progress or have been superseded. Internal audit report EX2002 item 3.3 refers.	31-Dec-2020	31-Mar-2021	0%	Lorna Kemp	IJB001 Governance Failure

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB19007_Ar Care Home Placements	Review policies on Choice and Moving On to improve effectiveness and manage expectations. Review assessment times and facilitate discharges in timeous manner.	31-Oct-2020	30-Apr-2021	60%	Pamela Main	IJB008 Delayed Discharge
	IJB19018_Ari Aligning Workforce Plans	West Lothian Council to give consideration to the development of workforce plans for Social Policy which align more closely with NHS Lothian workforce plans and the IJB Strategic Plan. Agreed action for finding 3.4 in audit report EX1905 issued on 25 February 2020.	30-Dec-2020	30-Apr-2021	30%	Allister Short	IJB006 Workforce Planning
	IJB18014_Ar Intermediate Care	Review intermediate care provision and determine future requirements to establish the type and capacity of intermediate care to be commissioned to meet the population needs.	31-Dec-2020	30-Jun-2021	75%	Fiona Wilson	IJB008 Delayed Discharge
	IJB19002_Ar Development of Updated Medium Term Financial Plan	Assessment of 2021 Scottish Budget and work collaboratively with LG and NHS partners to develop updated IJB medium term financial plan taking account of Covid-19 and other key issues impacting on the wider economy and public sector.	30-Jun-2020	30-Jun-2021	50%	Patrick Welsh	IJB004 Inadequate Funding to Deliver the Strategic Plan
	IJB19008_Ar Adults with Incapacity	Whilst fewer in number the length of delay can be significant for those requiring guardianship. Review the policy and procedures for Adults with Incapacity to ensure effective decision making supporting use of least restrictive options and coordinate guardianship process where required	31-Oct-2020	30-Jun-2021	80%	Nick Clater	IJB008 Delayed Discharge

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB19021_Are MTFP savings gap	Further development of IJB Medium Term Financial Strategy and savings proposals will be undertaken during 2020/21. This will involve close partnership working with partner bodies and finance and will take account of Covid-19 impacts. As well as existing arrangements in place, this will be supported through joint Lothian Finance Group established comprising of NHS Lothian Director of Finance, Lothian Local Authority Section 95 officers and Lothian IJB Chief Finance Officers. A key area being progressed by the group is developing a more joined up approach to financial planning. EY annual audit report action plan item 2 refers.	31-Mar-2020	30-Jun-2021	50%	Patrick Welsh	IJB004 Inadequate Funding to Deliver the Strategic Plan

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB19014_Ari Strategic Plan Progress Reporting	Review of arrangement for reporting on progress of the Strategic Plan 2019-2023: - cycle of reports for the IJB to be reviewed and will include a commitment to formally updating the IJB on progress in relation to strategic commissioning plans twice per year. Strategic commissioning plans are the mechanism through which the strategic objectives of the IJB will be delivered. Revised cycle of reports to be submitted to IJB in January 2020. - a performance management framework will be developed to underpin commissioning plans and to provide a mechanism for monitoring impact and progress in relation to strategic objectives. The performance framework will be submitted to the IJB along with progress reports. Framework to be in place by June 2020.	30-Jun-2020	31-Jul-2021	70%	Yvonne Lawton	IJB002 Failure to effectively implement the Strategic Plan
	IJB20001_Ari Data Protection	It is understood that work is currently in progress to review the IJB's data protection arrangements and to ensure it fully meets with the requirements of GDPR and the Data Protection Act 2018. This should be concluded as soon as possible. Internal audit report IJB2002 item 3.3 refers.	31-Dec-2020	31-Jul-2021	10%	Lorna Kemp	IJB001 Governance Failure

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB18011_Ar Implementation of Primary Care Improvement Plan 2018-2021	Phased investment and improvement plan to support implementation of the new 2018 GMS contract with focus on development of new roles and professionals within the wider Primary Health Care Team, transfer of vaccination services and development of community treatment and care centres, development of mental well-being hubs, use of technology and support of leadership development of GP and practice teams.	30-Sep-2021	30-Sep-2021	65%	Fiona Wilson	IJB007 Sustainability of Primary Care
	IJB19016_Ari Workforce Planning Action Plans	Preparation of workforce planning action plans which are aligned to the IJB Strategic Plan and Commission Plans. The action plans will clearly state the action owners and will include progress and performance measures. Agreed action for finding 3.2 in audit report EX1905 issued on 25 February 2020.	30-Jun-2020	30-Sep-2021	25%	Yvonne Lawton	IJB006 Workforce Planning
	IJB19019_Ari Employee Communication and Engagement Plan	To develop and present to the IJB for approval an Employee Communication and Engagement Strategy/Plan. Agreed action for finding 3.1 in audit report EX1905 issued on 25 February 2020.	30-Jun-2020	30-Sep-2021	15%	Yvonne Lawton	IJB006 Workforce Planning
	IJB19010_Ar Strategic Commissioning Plan Mental Health	Ensure implementation of 3 year Strategic Commissioning Plans for Mental Health as approved by IJB on 21 January 2020	31-Mar-2023	31-Mar-2023	35%	Nick Clater	IJB002 Failure to effectively implement the Strategic Plan

Status	Action Code & Title	Description	Original Due Date	Due Date	Progress Bar	Assigned To	Linked Risks Code & Title
	IJB19011_Ar Strategic Commissioning Plan Older People	Further develop and implement the Strategic Commissioning Plan for Older People as approved by IJB on 21 January 2020	31-Mar-2023	31-Mar-2023	25%	Pamela Main	IJB002 Failure to effectively implement the Strategic Plan
	IJB19012_Ar Strategic Commissioning Plan Physical Disability	Implement Strategic Commissioning Plan for Physical Disability as approved by IJB on 21 January 2020	31-Mar-2023	31-Mar-2023	25%	Robin Allen	IJB002 Failure to effectively implement the Strategic Plan
	IJB19013_Ar Strategic Commissioning Plan Learning Disability	Develop and implement Strategic Commissioning Plan for Learning Disability as approved by IJB on 21 January 2020	31-Mar-2023	31-Mar-2023	30%	Robin Allen	IJB002 Failure to effectively implement the Strategic Plan

APPENDIX 3

RISK ASSESSMENT METHODOLOGY

RISK MATRIX

PROBABILITY	Almost Certain 5	5 Low	10 Medium	15 High	20 High	25 High
	Very Likely 4	4 Low	8 Medium	12 High	16 High	20 High
	Likely 3	3 Low	6 Low	9 Medium	12 High	15 High
	Possible 2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Unlikely 1	1 Low	2 Low	3 Low	4 Low	5 Medium
		Insignificant 1	Minor 2	Significant 3	Major 4	Catastrophic 5
		IMPACT				

PROBABILITY TABLE

Score	Description	Estimated Percentage Chance
1	Unlikely	0-10
2	Possible	10-50
3	Likely	50-70
4	Very Likely	70-90
5	Almost Certain	90-100

Each risk is scored 1-5 for likelihood.

In assessing probability consider a three year time horizon.

In assessing probability managers should use their and knowledge and experience of previous issues, both within the council and elsewhere.

IMPACT TABLE

Impact Risk Assessment - Each column is independent. Use the highest score.

Hazard / Impact of Risk	Personal safety	Property loss or damage	Regulatory / statutory / contractual	Financial loss or increased cost of working	Impact on service delivery	Personal privacy infringement	Community / environmental	Embarrass-ment
Insignificant 1	Minor injury or discomfort to an individual	Negligible property damage	None	<£10k	No noticeable impact	None	Inconvenience to an individual or small group	Contained within service unit
Minor 2	Minor injury or discomfort to several people	Minor damage to one property	Litigation, claim or fine up to £50k	£10k to £100k	Minor disruption to services	Non sensitive personal information for one individual revealed / lost	Impact on an individual or small group	Contained within service
Significant 3	Major injury to an individual	Significant damage to small building or minor damage to several properties from one source	Litigation, claim or fine £50k to £250k.	>£100k to £500k	Noticeable impact on service performance.	Non sensitive personal information for several individuals revealed / lost	Impact on a local community	Local public or press interested
Major 4	Major injury to several people	Major damage to critical building or serious damage to several properties from one source	Litigation, claim or fines £250k to £1m	>£500k to £2m	Serious disruption to service performance	Sensitive personal information for one individual revealed / lost	Impact on several communities	National public or press interest
Catastrophic 5	Death of an individual or several people	Total loss of critical building	Litigation, claim or fines above £1m or custodial sentence imposed	>£2m	Non achievement of key corporate objectives	Sensitive personal information for several individuals revealed / lost	Impact on the whole of West Lothian or permanent damage to site of special scientific interest	Officer(s) and/or members dismissed or forced to resign

Date	24 February 2021
Agenda Item	7

INTEGRATED HEALTH AND SOCIAL CARE
WEST LOTHIAN
WORKING FOR WELLBEING

Report to West Lothian Integration Joint Board Audit, Risk and Governance Committee

Report Title: Data Protection Compliance

Report By: Chief Officer

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ✓ - is to provide assurance ✓ - is for information ✓ - is for discussion ☐ The purpose of this report is to update the Committee on compliance with data protection law and to recommend that the Chief Officer formally writes to both council and health board to request that a Data Protection Officer is appointed to the IJB as a necessary support service.
Recommendations	It is recommended that the Committee: 1. Note the impact of the EU Exit on data protection law is minimal; 2. Note that the IJB is largely compliant with data protection law and has limited exposure to personal data; 3. Note the appointment of a suitable Data Protection Officer (DPO) remains outstanding; 4. Note the DPO arrangements in other Integration Authorities; and 5. Agree that the Chief Officer will formally request support in the form of an appointed DPO from council and health board.
Directions to NHS Lothian and/or West Lothian Council	A direction(s) is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	Data Protection Act 2018
Risk	Minimal if compliant with the legislation.

West Lothian Council
NHS Lothian

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	None.
Locality Planning	None.
Engagement	Relevant officers in NHS Lothian and West Lothian Council.

Terms of Report	
1.	**Background**
1.1	On 26 May 2018, the Data Protection Act 1998 was replaced by the General Data Protection Regulation (GDPR) (Regulation) (EU) 2016/679), which introduced new rules on how organisations collect and process personal data. This was enshrined in UK law as the Data Protection Act 2018.
1.2	It aimed to give individuals more power and control over their personal data by strengthening and unifying data protection for all EU individuals, giving people more rights and control over how their personal data is handled by organisations such as the IJB, Scottish Government, NHS Lothian and the council.
2.	**EU Exit**
2.1	Following the end of the transition period on 31 December 2020, the Data Protection Act 2018 (DPA 2018) continues to apply. The provisions of the EU GDPR were incorporated directly into UK law at the end of the transition period. The UK GDPR sits alongside the DPA 2018 with some technical amendments so that it works in a UK-only context. The key principles, rights and obligations all remain the same.
2.2	The key areas where the UK amendments make a difference are in the provisions on territorial scope and international transfers, which are not relevant to the IJB.
2.3	The data protection provisions set out in the Withdrawal Agreement stipulate that organisations will need to comply with EU data protection law (as it stands on 31 December 2020) when processing personal data that was gathered before the end of the transition period.
3.	**Compliance with Data Protection Act 2018 / UK GDPR**
3.1	Historically, there have been limited implications for the IJB, which would not usually hold or process personal information. Where personal information is held and processed as part of functions delegated to the Board, this is likely to be by one of the parent organisations when a service is accessed.
3.2	Personal information is collected that pertains to Board Members, for example, information that is part of the Register of Interests. This information is then held on a council system and processed

by council officers supporting the Board, but it is the IJB that is required to collect the information and so it is the IJB that retains responsibility as 'data controller'. Where there is a misuse or breach of personal data, it would be up to the Information Commissioners Office (ICO) to determine which organisation was responsible for the infringement.

3.3 Under the new Data Protection Act and since May 2018, the requirement for a privacy statement on communications is significantly enhanced and more information on any forms, paper and electronic, is required. This needs to include details of what is being processed, the legal basis for doing so, how long we keep information and who we share it with, along with a contact point for any queries regarding our processing of this data (the Data Protection Officer).

3.4 This is relevant where the Board instructs officers of either parent organisation to engage with stakeholders on its behalf. Only once have officers collected personal information from stakeholders on behalf of the IJB for the Strategic Plan and Locality Plans consultations and a privacy statement was published in line with the GDPR regulations with a dedicated email address for enquiries to the Data Protection Officer.

3.5 As Integration Authorities and the role of Chief Officers evolve and as we await the Scottish Government's response to the Independent Review of Adult Social Care, it would be prudent to review compliance with the Data Protection Act 2018 in more detail, once a permanent Data Protection Officer is appointed.

4. Data Protection Officer

4.1 On 1 May 2018, the IJB appointed the Project Officer as interim Data Protection Officer until more satisfactory arrangements could be made. This has been an outstanding issue of compliance in the running log of governance issues, most recently reported to the Committee on 2 December 2020.

4.2 Importantly, the DPO:

- Must be appointed on the basis of professional qualities and, in particular, expert knowledge on data protection law and practices
- May be a staff member or an external service provider
- Contact details must be provided to the relevant Data Protection Authority
- Must be provided with appropriate resources to carry out their tasks and maintain their expert knowledge
- Must report directly to the highest level of management
- Must not carry out any other tasks that could results in a conflict of interest.

4.3 The interim DPO lacks the expert knowledge on data protection law and practices required of the role, however, informal discussions with the council who provide the vast majority of support services to the IJB have not reached a satisfactory conclusion.

4.4 A survey of other Integration Authorities was conducted to explore what arrangements other IJB's have in place and 14 responded:

- 1 IJB had no DPO in place
- 6 IJBs shared a DPO with either the council or health board
- 3 IJBs draw on support from both council and health board's DPO as required
- 1 IJB shared a single DPO between all three parties
- 2 IJBs had their own DPO "seconded" into the role
- 1 IJB had a DPO provided by the council but it was not clear if it was a shared role

4.5 The majority of respondents indicated that they have some sort of support from either council or health board, whether that be advice as and when required or sharing the DPO with one or in one instance both organisations.

4.6	It is recommended that the Chief Officer formally write to the council and health board to highlight the gap in the support currently provided to the IJB in relation to the appointment of a suitable Data Protection Officer, and to request that they consider providing this support.

Appendices	None.
References	IJB Audit Risk and Governance Committee meetings of 1 May 2018; 2 December 2020 Data Protection Act 2018
Contact	Lorna Kemp – Project Officer lorna.kemp@westlothian.gov.uk 01506 283519

Date	24 February 2021
Agenda Item	8

Report to Audit Risk and Governance Committee

Report Title: Internal Audit of Financial Planning

Report By: IJB Internal Auditor

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ☐ - is to provide assurance ☑ - is for information ☐ - is for discussion ☑ To inform the Committee of the outcome of an internal audit of the IJB's financial planning arrangements.
Recommendations	It is recommended that the Committee notes that control is considered to be effective.
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	None.
Risk	Directly relevant to risk IJB004 "Inadequate Funding to Deliver the Strategic Plan".

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	Indirectly linked to the IJB's other plans via the audit of processes which may impact on their effectiveness.
Locality Planning	None.
Engagement	IJB Chief Finance Officer as part of the audit process.

Terms of Report	
1.	**Background**
1.1	In accordance with the internal audit plan for 2020/21, we have undertaken an audit of the IJB's financial planning arrangements, and concluded that control is effective. The resultant audit report is appended. There are no audit findings, and therefore no action plan.

Appendices	1. Internal audit report dated 1 February 2021: IJB Financial Planning
References	None
Contact	Kenneth Ribbons, IJB Internal Auditor Kenneth.ribbons@westlothian.gov.uk 01506 281573

EX2004

INTERNAL AUDIT REPORT

IJB FINANCIAL PLANNING

1 February 2021

West Lothian Council

NHS Lothian

CONTENTS

1.0 EXECUTIVE SUMMARY

1.1 In accordance with the Integration Joint Board (IJB) annual audit plan for 2020/21, we have undertaken a review of the IJB's financial planning arrangements and conclude that control is effective.

1.2 *Risk IJB004: Inadequate funding to deliver the Strategic Plan* is currently recorded in the IJB risk register as a 'high' risk with a probability score of 4 (very likely) and an impact score of 4 (major).

1.3 The audit remit is set out in section two.

1.4 The West Lothian IJB was formally constituted on 21 September 2015 upon the approval of the Integration Scheme by the Scottish Government. West Lothian IJB has achieved a balanced budget in each year since its constitution.

1.5 The key findings from the audit review are as follows:

- the internal controls recorded in Pentana to mitigate risk IJB004 were reviewed and it was confirmed that these are in place as stated. These include having processes in place for financial governance, due diligence, resource allocation, identification and review of financial risks and financial reporting. There is scope for the internal controls to be reviewed and to be updated to reflect some of the joint working arrangements in place.

- three risk actions are linked to risk IJB004, which are all recorded as being in progress. These are regularly reviewed and updated.

- budget update reports providing forecasts on the financial position of the West Lothian Council and NHS Lothian activities delegated to the IJB are presented regularly to the Board. These include an overview of key budget issues and pressures, a financial risk schedule, progress updates on the delivery of savings and updates on future year budgets. Since June 2020 the budget update reports have included information on the impact of Covid-19 on the IJB budgets.

- there are good arrangements in place for sharing information and joint working with the partner organisations with Chief Officer meetings, Senior Officer catch up meetings, and NHS Senior Finance Team meetings which are attended by the IJB Chief Finance Officer. The IJB Chief Finance Officer has confirmed there are good working relationships and communications in place between officers from the partner organisations, and that the IJB's response to the Covid-19 pandemic has also demonstrated how officers can effectively work together to ensure the continuity of services.

- an IJB Transformation Board was formed in July 2020, with the remit to take forward the IJB's Transformation Programme which includes the identification and delivery of savings programmes across the IJB. Progress of the activities Board has to some extent been delayed due to Covid-19, but its role will be key going forward, and will be closely linked to IJB financial planning.

1.6 A medium-term financial plan covering the period 2019/20 to 2022/23 was presented to the Board on 23 April 2019, with the intention of providing an update on medium term financial planning during 2020, after the announcement of multi-year budget statements by the Scottish Government. However due to external factors such as uncertainties around Brexit and the Covid-19 pandemic multi-year budget statements have not been announced by the Scottish Government, and the medium-term financial planning update did not progress as planned. An update on the IJB budget from 2020/21 to 2022/23, based on existing partner planning assumptions, was provided to the Board on 30 June 2020.

1.7 The IJB Chief Finance Officer has advised that further updates will be provided to the Board over the coming months on the 2021/22 and 2022/23 budgets, and going forward there will be a focus on developing a medium-term financial planning framework which is intended to be aligned to the next strategic plan and commissioning plans, and will cover the period from 2023/24 to 2027/28. In developing the framework the objective will be for the IJB to move towards a more integrated approach to financial planning across health and social care.

1.8 During the course of the audit a review was undertaken of the Accounts Commission Report on Fife IJB where serious financial concerns were raised around the operation of the IJB. Having reviewed the issues detailed in the report in our opinion there are no similar significant issues apparent within the operation of the West Lothian IJB.

1.9 The joint inspection report on the Effectiveness of strategic planning in West Lothian Health and Social Care Partnership by Health Improvement Scotland and the Care Inspectorate, was issued in September 2020. It noted that:

- *'…. Whilst there was clear communication between officers of the integration joint board and the partner agencies in relation to finance, reporting on finance was separate, making it more challenging to plan… More positively, there was a sense of common understanding between the most senior officers on the board, in NHS Lothian and West Lothian Council about the financial situation, and how any overspend or shortfall would be addressed so the board could balance its budget*
- *the board was provided with good information about financial affairs. It had acceptable processes in place to guarantee effective financial governance and this was confirmed by the 2018/19 external audit report'.*

1.10 Two findings were raised in the Joint inspection Report in relation to financial planning and reporting i.e. '*Develop a framework for integrated financial planning that will better support transformation and commissioning plans'* and *'To ensure the next iteration of the Strategic Plan is fully aligned to a medium-term financial strategy agreed across the partnership'.*

1.11 No audit findings were identified from our audit work.

1.12 Appendix A includes information on the definition of audit findings and the audit opinion.

1.13 We appreciate the assistance of Patrick Welsh during the conduct of our audit. Should you require any further assistance please contact Sharon Leitch.

Kenneth Ribbons
IJB Internal Auditor

2.0 REMIT

2.1 The objective of the audit was to review the internal controls and risk actions in place to mitigate risk IJB004: Inadequate funding to deliver the Strategic Plan. This included a review of medium-term financial planning for the IJB.

2.2 No internal audit report can provide absolute assurance as to the effectiveness of the system of internal control. Our review concentrated on the key controls and our testing was undertaken on a sample basis. Therefore, the weaknesses we have identified are not necessarily all those which exist.

2.3 We agreed the draft report for factual accuracy with Patrick Welsh, West Lothian IJB Chief Finance Officer on 29 January 2021.

2.4 The Chief Officer of West Lothian Health and Social Care Partnership is responsible for both the implementation of agreed actions and the risk arising from not acting on any agreed actions in this report.

2.5 We carry out follow-up reviews on a risk based approach. The IJB Auditor will determine the need for a follow-up review of this report.

2.6 In accordance with the IJB's risk management arrangements internal audit findings graded as being of 'high' or 'medium' importance are recorded in Pentana as risk actions and linked to the corresponding risks.

2.7 Audit findings ranked as being of 'high' or 'medium' importance that are not implemented will be reported to the Audit Risk and Governance Committee and considered for inclusion in the Annual Governance Statement.

DEFINITIONS OF AUDIT FINDINGS & AUDIT OPINION

AUDIT IMPORTANCE LEVELS

Importance levels of '**High'**, '**Medium'** or '**Low'** are allocated to each audit finding within the action plan.

These reflect the importance of audit findings to an effective system of internal control and must be considered in the context of the business processes being audited (Section 2 – Audit Remit).

AUDIT OPINION

Our overall opinion on the controls in place is based on the level of importance attached to the findings in our audit report. The overall audit opinions are as follows:

Overall Opinion	Definition
EFFECTIVE	No findings ranked as 'High' importance. There may be a few 'Low' and 'Medium' ranked findings.
SATISFACTORY	No findings ranked as 'High' importance however there are a moderate number of 'Low' and 'Medium' ranked findings.
REQUIRES IMPROVEMENT	A few findings ranked as 'High' importance. There may also be a number of findings ranked as 'Low' and 'Medium' importance.
UNSOUND	A considerable number of findings ranked as 'High' importance resulting in an unsound system of control. There may also be a number of findings ranked as 'Low' and 'Medium' importance.

Date	24 February 2021
Agenda Item	9

Report to West Lothian Integration Joint Board Audit Risk and Governance Committee

Report Title: EXTERNAL AUDIT PLAN 2020/21

Report By: CHIEF FINANCE OFFICER

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ☐ - is to provide assurance ☐ - is for information ☐ - is for discussion ☑ The purpose of this report is to inform the committee of the external auditor's 2020/21 annual audit plan.
Recommendations	It is recommended the Committee notes and considers the external auditor's 2020/21 annual audit plan.
Directions to NHS Lothian and/or West Lothian Council	A direction(s) is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	Under the Local Government (Scotland) Act 1973, the Account Commission is responsible for appointing the external auditors of local government bodies including councils, joint boards and bodies falling within section 106 of the Act. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the 1973 Act.
Risk	None.
Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.

Strategic Planning and Commissioning	None
Locality Planning	None
Engagement	Relevant officers in NHS Lothian and West Lothian Council.

Terms of Report	
1.	**Background**
1.1	In May 2016, the Accounts Commission appointed Ernst and Young (EY) LLP as the IJB's external auditor for the five year period to 2020/21. This has now been extended to 2021/22 as a result of the impact of the pandemic. EY's annual plan, which is appended, sets out the work they propose to undertake in relation to the 2020/21 audit.
2.	**Annual Audit Plan**
2.1	As set out in the EY audit plan, auditors in the public sector give an independent opinion on the 'truth and fairness' of the financial statements. The Annual Audit Plan sets out the proposed approach for the audit of the financial year ending 31 March 2021.
2.2	Section 1 sets out the Executive Summary summarising the purpose and key information for the 2020/21 audit. Section 2 notes that in accordance with the principles of the Code of Audit practice, EY's audit work will consider key developments in the sector including wider political factors and recent external reports relevant to IJBs. Section 3 covers Financial Statements Risk and sets out the basis upon which the audit of the financial statements will be conducted and the audit opinion. The approach to the audit and key audit materiality levels are also set out. One significant risk associated with the financial statements in relation to expenditure recognition is set out, as required under ISA 240. The impact of Covid-19 on the financial statements will also be a key area in terms of this year's audit.
2.3	Section 4 of the plan sets out the wider scope audit areas of financial sustainability, financial management, governance and transparency and value for money. Against each of these wider scope issues, a number of key areas of audit work are included.
2.4	The wider scope audit work that will be undertaken, and the judgements and conclusions reached in these areas, will contribute to the overall assessment and assurance of the achievement of Best Value by the IJB. It is noted that commentary will be included in EY's Annual Audit Report on how the IJB demonstrates that it is meeting Best Value duties, in line with Audit Scotland planning guidance.
2.5	Following the impact of Covid-19 on the financial statement preparation and audit process for 2020, Audit Scotland has set its reporting deadline for local government bodies at 31 October 2021, a month later than the traditional timeframe. Following discussion with EY, it is intended that the audit of West Lothian IJB's annual accounts will work to the normal deadline of 30 September 2021. This position will continue to be reviewed over the coming months taking account of ongoing implications arising from the pandemic.
2.6	Appendices to the plan set out audit responsibilities, independence and objectivity requirements, audit fees, and communications that will be provided to the IJB.

Appendices	1. Ernst and Young Annual Audit Plan 2020/21
References	Public Bodies Joint Working (Scotland) Act 2014 Local Government (Scotland) Act 1973
Contact	Patrick Welsh, Chief Finance Officer, West Lothian Integration Joint Board Email: Patrick.welsh@westlothian.gov.uk Tel. No. 01506 281320

West Lothian Integration Joint Board

Annual Audit Plan

Year ending 31 March 2021

24 February 2021

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission appointed us as external auditor of West Lothian Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our key contacts:

Stephen Reid
Partner
sreid2@uk.ey.com

Rob Jones
Senior Manager
rjones9@uk.ey.com

Our independence:

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Purpose of this report

The Accounts Commission appointed EY as the external auditor of West Lothian Integration Joint Board ("the IJB") for the five year period to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of IJB management and the Audit, Risk & Governance Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2021. This plan sets out the work we will perform to allow us to provide our independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value. After consideration by the IJB, the plan is provided to Audit Scotland and published on their website.

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the IJB and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the IJB. We provide an opinion as to:

- whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the IJB as at 31 March 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with the financial statements.

Wider scope audit responsibilities

Under the Code, we are required to provide judgements and conclusions on the four dimensions of wider-scope public audit, as well as an assessment around the IJB's arrangements for securing Best Value:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money

Audit dashboard

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and materiality.

Key financial statement risks

There are no new financial statements risks identified at the IJB for 2020/21:

Significant Risk: Risk of fraud in expenditure recognition, including through management override of control	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For the IJB we consider this risk to manifest itself through the above revenue recognition risk around expenditure.

Materiality levels will be confirmed on completion of our detailed planning audit work. Indicative levels, based on prior year figures, have been set as follows:

Planning Materiality	Tolerable Error	Reportable differences
£2.6 million	£2 million	£130,000
Materiality initially has been set at approximately 1% of expenditure for the year.	Materiality at an individual account level, representing 75% of our planning materiality	Level of error that we will report to committee

We apply a lower level of materiality to the audited part of the Remuneration Report. Professional judgement is also applied to the materiality of related party transactions.

Wider scope risks

We have updated our understanding of the risks impacting the IJB through discussions with management, review of relevant committee reports, and our knowledge of the environment in which the IJB is currently operating

Financial Sustainability: Continuing financial pressures	The IJB has continued to develop its longer-term planning arrangements through delivery of a medium-term financial plan through to 2022/23, and has identified a £7.2 million budget gap across all functions where planned savings have not been identified to date. The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners. While service planning for the IJB social care functions is more advanced, significant work remains to be done to ensure the IJB meets its financial plan across the period.

2. Sector developments

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the IJB operates to inform our audit approach.

The 2019/20 West Lothian Scrutiny Plan highlighted no significant risks in relation to the IJB. This is the most recent report published at the time of writing the 2020/21 plan.

Scrutiny

A National Scrutiny Plan (NSP) was most recently published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils.

While there is no formal Shared Risk Assessment (SRA) process for integration authorities, the LAN for the associated local authority considers health and social care outcomes, governance and partnership working as part of their assessment of the local authority. We are also the appointed auditor of West Lothian Council and act as the LAN lead for the West Lothian Council SRA. The 2020/21 LAN process is underway and we will report any emerging risks to the IJB as appropriate.

Political environment

Continuing uncertainty exists around a number of factors in the foreseeable future including:

- Covid-19 Pandemic: the impact of the pandemic has dominated the political environment for the past 11 months and will, in all likelihood, continue to do so moving forward.
- EU withdrawal: the UK formally exited the EU on 31 January 2020, and following a transition period until 31 December 2020, its relationship with the EU is now fully under new arrangements.
- Scotland Independence Referendum: there is continued uncertainty regarding whether a Scottish independence referendum will be held.
- Scottish Parliament Elections: Scottish elections are due to be held on 6 May 2021.

We will continue to review how the IJB prepares for, and responds to, the implications of political factors throughout the audit year.

Accounts Commission Overview

The Accounts Commission ("the Commission") published their Local Government in Scotland: Financial overview 2019/20 report in January 2021. Part 4 of this report provides an overview of the performance of integration joint boards in 2019/20.

Key messages highlighted by this report included:

- The majority of IJBs (22 out of 30) struggled to achieve break-even in 2019/20 or recorded deficits.
- Total mobilisation costs for Health and Social Care Partnerships related to Covid-19 for 2020/21 were estimated as £422 million. The report noted that it is not yet clear whether the Scottish Government will fund all Covid-19 related costs.
- Revisions will be required to medium-term financial planning and savings plans to reflect the impact of Covid-19 in the immediate future and going forward.
- There were changes in the role of Chief Officer at 12 IJBs during 2019/20.

Similarly, the Auditor General for Scotland produces an annual overview of the NHS in Scotland with the most recent report issued in October 2019. The report notes that the healthcare system faces increasing pressure from rising demand and costs, and it has difficulty meeting key waiting times standards. NHS boards now have a requirement to develop three-year financial and performance plans to enable them to more effectively plan how services will be delivered in the longer term. However, achieving financial sustainability still remains a major challenge for NHS boards.

The report makes a number of recommendations for the Scottish Government, NHS Boards and also integration authorities. The detail of these, within the context of the report, can be found at: https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191024_nhs_overview.pdf These findings will now have to be considered in the context of a post Covid-19 environment.

As part of our work around the value for money dimension of wider scope, we will continue to review the IJB's assessment of its performance, including progress in shifting the balance of care and in delivering the transformation programme.

Budget setting process 2021/22

The Scottish Budget for 2021 to 2022 was published on 28 January 2021. This announcement fundamentally focused on three key priorities, one of which being the response to the health pandemic.

The IJBs are dependent on agreeing budgets with their partners before the start of the year. Due to delays in the Scottish Budget announcement, partner organisations may be delayed in agreeing their budgets. As part of discussions with management we understand the IJB intends to separately identify costs related to Covid-19 as part of the 2021/22 budget setting process in addition to its core activity income and expenditure in the year.

We will consider the IJB's approach to budget setting as part of our wider scope work on Financial Management in 2020/21.

Impact reporting

As part of the 2020/21 wider scope audit work, we will review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations as appropriate.

We will continue to monitor the Audit Scotland performance audit programme as it develops following the global pandemic, and will share any requirements with management as necessary.

Independent Review of Adult Social Care in Scotland

The Review of Adult Social Care in Scotland was announced by the First Minister as part of the Programme for Government in September 2020. The review has been published and recommendations for improvements in outcomes for people using adult social care services, their carers and families and improvements in the experience of people working in adult social care. The report has been submitted for the Scottish Government for consideration. If recommendations are accepted by the Scottish Parliament, there may be significant implications for the IJB, including the creation of a national service and changes to the management of assets and resources.

As part of the 2020/21 audit, we will continue to liaise with management to understand any potential impact that this review may have on the IJB in the short and medium term.

3. Financial Statement Risks

Introduction

The IJB's annual financial statements enables the IJB to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Opinion

We are responsible for conducting an audit of the financial statements of the IJB. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the IJB as at 31 March 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

Other Statutory Information

We will consider the other statutory information within the context of current and future guidance. In particular we need to consider how the Covid-19 pandemic has impacted the IJB and how this is reported in the financial statement narrative.

As in previous years, the management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. We will continue to work with the Chief Finance Officer to support the ongoing enhancement in financial statements disclosures, including narrative commentary, in advance of and subsequent to the publication of the 2020/21 financial statements.

Audit Approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the IJB, including assurances from the auditors of the constituent councils and health boards in respect of the controls in place and the amounts included in the IJB financial statements.
- Substantive tests of detail of transactions and amounts. For 2020/21 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Audit, Risk and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss expectations regarding our detection of misstatements in the financial statements if required.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Materiality Level

Planning Materiality £2.6 million	Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For initial planning purposes, materiality for 2020/21 has been set at £2.6 million. This represents approximately 1% of the IJB's projected expenditure for the year.
Tolerable Error £2 million	Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £2 million which represents 75% of planning materiality.
Summary of Audit Differences £0.13 million	Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £130,000 which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- Remuneration Report; and
- Related Party Transactions.

We will therefore review the disclosures related to the above areas in greater detail compared to the materiality thresholds outlined above.

Covid-19 Pandemic - Impact on Financial Statements

We outlined in our reporting in 2019/20 how the impact of Covid-19 would significantly alter the required disclosures in the financial statements.

- In line with 2019/20, the governance statement should capture how the control environment has changed during the period of the pandemic, and steps being taken by the IJB to maintain a robust control environment during the disruption. This includes consideration of how key governance functions are continuing to operate, such as key committee meetings and the delivery of internal audit's programme of work.
- The IJB's management commentary should clearly summarise the performance of the IJB in the year, including the impact of Covid-19 on both its financial performance and future planning, and its impact of key statutory performance indicators.
- Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement, as appropriate. The detail required in the disclosures will reflect the specific circumstances of the IJB.

Accounting policies

While the impact of Covid-19 has been occurring for almost a year now, 2020/21 is the first financial year where the full impact on day to day accounting transactions will be seen in the financial statements. Covid-19 will continue to have a potentially materially impact on the financial statements, including how the IJB accounts for significant income and expenditure. Any specific government support may qualify as a new transaction stream and require development of new accounting policies.

Impact on Audit Process

Following the impact of Covid-19 on the financial statement preparation and audit process in 2020, Audit Scotland has set its reporting deadline for local government bodies at 31 October 2021, a month later than the traditional timeframe but a month earlier than the 2020 revised deadlines. These deadlines will continue to be reviewed through the year as circumstances change, however the FRC and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. These reflect initial discussions with management and the agreed intention to maintain planned reporting dates in line with previous timeframes. We will continue to work closely with management to review timeframes and logistics for the completion of the audit in 2020/21.

We will aim to take a pragmatic and flexible approach in the current environment, while also recognising that strong financial management and good governance are more important than ever at this difficult time.

Going Concern

In accordance with the CIPFA Code of Practice on Local Government Accounting, the IJB prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. In 2019/20, the CIPFA bulletin 05 (closure of the 2019/20 financial statements) stated that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting had not changed.

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the IJB and its financial sustainability.

As part of our 2019/20 audit process we asked management to prepare a going concern assessment, outlining the main areas of consideration in arriving at its conclusion that the IJB was a going concern with no material uncertainties around this conclusion. We also challenged management on the adequacy of some of the disclosures and the expected medium term impact of Covid-19; a number of improved disclosures were made to the financial statements.

Our audit procedures around going concern for this year remain under planning, to ensure we reflect the requirements of the revised ISA's and also the revised Practice Note 10. We will agree the required arrangements with management in advance of the yearend audit and report our conclusions as part of our yearend reporting.

Significant Risks

We have set out one significant risk identified for the current year audit along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Other than expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

As a result of the nature of funding to the IJB from West Lothian Council or NHS Lothian, we rebut the assumed fraud risk in respect of the income.

For expenditure we associate the recognition risk to the completeness and occurrence of expenditure incurred by the IJB in commissioning services, and any associated creditor balances held by the IJB at yearend, in particular through management override of controls.

Work we will perform:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Identifying any further risks of fraud then determining an appropriate audit strategy to address those identified risks of fraud.
- Challenging management around how the IJB gains assurance over the expenditure incurred by its partner bodies, so that it can account for the recognition of expenditure to those bodies.
- Substantively test income and expenditure transactions as appropriate and material, in particular in respect of any reserve funding held by the IJB.
- Consideration of the impact of Covid-19 on revenue, in particular new revenue streams and accrued income due to receipt of grant income, and its accounting arrangements against existing policies and anticipated updated LASAAC guidance.
- Obtaining supporting documentation through independent confirmations of the expenditure incurred by the IJB's partners and their auditors, in line with the protocols set out by Audit Scotland for 2020/21 audits.
- Performing mandatory procedures including testing of all material journal entries and other adjustments in the preparation of the financial statements.

4. Wider scope audit risks

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2020/21 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work through the year.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

We will include commentary within our Annual Audit Report on how the IJB demonstrates that it is meeting its Best Value duties, in line with Audit Scotland planning guidance. See page 16 for details.

Audit dimension	Significant risk	Work we will perform in 2020/21
Financial sustainability: Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.	Continuing financial pressures	The IJB has continued to develop its longer-term planning arrangements through delivery of a medium-term financial plan through to 2022/23, and has identified a £7.2 million budget gap across all functions where planned savings have not been identified to date. In addition to this, the impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners. The latest mobilisation plan submitted to the Scottish Government in January 2021 reported costs related to Covid-19 of £10.2 million. The IJB has received all funding for these Covid-19 related costs to date. Financial pressures of this scale require either financial support from partners or the Scottish Government, or the re-prioritisation of services provided. The ability of partners to respond to the Strategic Plan, and specific Directions, will therefore determine the success of integration in West Lothian. We will consider the pace and extent of progress by the IJB to address overall financial sustainability as part of our audit work, including the IJB's achievement of planned savings.

Audit dimension	Significant risk	Work we will perform in 2020/21
Financial management: considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.	No specific additional audit focus	In our 2019/20 Annual Audit Report we concluded that financial pressures on the IJB's budget were consistently reported by management through the financial year, and overall we were satisfied that the core financial management arrangements established by the IJB are adequate for the current management of its financial activities. We will continue to review the outturn position against the forecasts produced during the year to inform our view on the robustness of financial management and monitoring information. There will be continued focus regarding the impact of Covid-19 on the IJB's financial management arrangements, including remote working and working from home. We will also consider the IJB's response to ensure compliance with the CIPFA Financial Management Code, which is effective from 2020/21.
Governance and transparency: is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	No specific additional audit focus	In our 2019/20 Annual Audit Report we concluded that overall the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. In the prior year internal audit concluded that "the IJB has a sound framework of governance, risk management and control". The Board and the Audit, Risk & Governance Committee continued to meet virtually throughout the Covid-19 pandemic. Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the main partners at least every five years. A review was scheduled to have been concluded by June 2020. However, due to the impact of Covid-19 the review had not been completed at the point of signing the 2019/20 financial statements. We will consider the arrangements that the IJB has put in place to complete this review. Our audit strategy for 2020/21 will also consider: • Can the IJB demonstrate that the governance arrangements are appropriate and continuing to operate effectively, particularly in light of the impact of the Covid-19 pandemic on working arrangements? • Is there effective scrutiny, challenge and transparency on decision making and financial and performance reports? • Is the Annual Governance Statement complete and does it reflect key findings from audit, scrutiny and inspection? • Can the IJB demonstrate adequate progress against audit recommendations?

Audit dimension	Significant risk	Work we will perform in 2020/21
Value for money: considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.	No specific additional audit focus	In 2019/20, we concluded that the IJB had arrangements to consider its performance in the year and its compliance with the best value framework. The IJB's Annual Performance Report was published by 31 July 2020 in line with the requirements of legislation. The report highlighted improvement in areas related to people living independently and staff engagement, but lower performance around some key indicators including positive experiences of care and healthy living. We will consider how the IJB is addressing value for money in relation to the impact of Covid-19, specifically in relation to the potential impact on performance reporting measures. Our audit strategy for 2020/21 will consider: • How the IJB is demonstrating the impact of integration. • The effectiveness of plans in improving the outcomes for local people. • How the integration partners are working together to deliver integration reform, including the overall pace and scale of change. We will also review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations, such as reports from the Care Inspectorate. This includes the report issued by the Care Inspectorate in September 2020 regarding 'The Effectiveness of Strategic Planning in the West Lothian Partnership.'

Best Value

In 2019/20, we concluded that the IJB has a number of key characteristics of Best Value in place, including effective partnership working and robust governance arrangements. The IJB has considered its compliance with the Best Value Framework during 2019/20 and concluded that the IJB "has demonstrated substantial compliance with Best Value based on the Best Value Framework agreed." We concluded that the IJB has a framework to allow it to demonstrate that Best Value is being achieved. We were satisfied that the areas for improvement identified are adequately captured and monitored on a routine basis to support continuous improvement.

The IJB is reviewing its Best Value Framework, and we will consider the impact and appropriateness of this review as part of our year end audit procedures for 2020/21.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit, Risk & Governance Committee

D – Timing and deliverables of the audit

E – Audit fees

F – Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial Statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. • Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence Report

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Appendix C: Required Communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit, Risk and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Annual Audit Report
Misstatements • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Annual Audit Report
Fraud • Enquiries of the Audit, Risk and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Annual Audit Report
Consideration of laws and regulations • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit, Risk and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit, Risk and Governance Committee may be aware of	Annual Audit Report or as occurring if material.

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Annual Audit Report or as occurring if material.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan Annual Audit Report
Internal controls Significant deficiencies in internal controls identified during the audit	Annual Audit Report
Representations We will request written representations from management and/or those charged with governance.	Annual Audit Report
Subsequent events Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	Annual Audit Report
Material inconsistencies and misstatements Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report
Fee Reporting • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Annual Audit Plan Annual Audit Report

Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with the most recent planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle. The timetable will be subject to ongoing consideration of the impact of the Covid-19 pandemic.

Month	Audit Activity	Deliverable	Timing
JAN – MAR	• Audit planning; setting scope and strategy for the 2020/21 audit • LAN meetings held with other scrutiny partners	Annual Audit Plan	February 2021
APR – MAY	• Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information	We will continue to monitor Audit Scotland performance audit programme following Covid-19	Throughout 2021
JUN – AUG	• Year-end substantive audit fieldwork on unaudited financial statements	Audit clearance meeting	August 2021
AUG – SEP	• Conclude on results of audit procedures • Issue opinion on the IJB's financial statements	Certify Annual Financial Statements Issue Annual Audit Report	September 2021

Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit Fees	2020/21	2019/20
Component of fee:		
Auditor remuneration – expected fee	£18,850	£18,300
Auditor remuneration – fee variation	TBD	£1,800
Audit Scotland fixed charges:		
Pooled costs	£1,790	£1,790
Performance audit and best value	£5,650	£5,360
Audit support costs	£1,040	£1,110
Total fee	£27,330	£28,360

The expected fee for each body, which for 2020/21 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit. Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, or more with the approval of Audit Scotland.

In 2019/20 we agreed a fee variation with management in relation to additional work required as a result of the impact of Covid-19 on various aspects of the audit. We will continue to consider the impact of Covid-19 on the audit going forward. Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee with our annual audit report.

Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control. • Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Conclude on the appropriateness of the going concern basis of accounting. • Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Read other information contained in the financial statements, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.
Purpose and evaluation of materiality	For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures. The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.
Audit Quality Framework / Annual Audit Quality Report	Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission. We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: Quality of public audit in Scotland annual report 2019/20 | Audit Scotland (audit-scotland.gov.uk) EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: EY UK Transparency Report 2020 | EY UK

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Date	24 February 2021
Agenda Item	10

Report to Audit Risk and Governance Committee

Report Title: IJB Internal Audit Plan 2021/22

Report By: IJB Internal Auditor

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ✓ - is to provide assurance ☐ - is for information ☐ - is for discussion ☐ To inform the Committee of the 2021/22 internal audit plan.
Recommendations	It is recommended that the Committee approves the 2021/22 internal audit plan.
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	None.
Risk	When preparing the internal audit plan due consideration is given to the risks to achieving the IJB's objectives as set out in the IJB's risk register.

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	Indirectly linked to the IJB's other plans via the audit of processes which may impact on their effectiveness.
Locality Planning	None.
Engagement	Chief Officer of West Lothian Health and Social Care Partnership and IJB Chief Finance Officer

Terms of Report	
1.	**Background**
1.1	The internal audit plan for 2021/22 sets out the planned internal audit work for the year to 31 March 2022 and is attached as an appendix.
1.2	The Public Sector Internal Audit Standards (PSIAS) require that a risk-based audit plan be prepared. The internal audit plan therefore takes account of the IJB's risks, which are being reported separately to this meeting.
1.3	The purpose of the internal audit plan is to audit the Integration Joint Board's processes and ensure that effective controls are in place to mitigate the risks identified. It should be noted that separate internal audit arrangements are in place in relation to the operational arrangements within West Lothian Council and NHS Lothian.
1.4	The internal audits included in the internal audit plan will be reported to the IJB Audit, Risk and Governance Committee as a matter of course.

Appendices	1. IJB Internal Audit Plan 2021/22
References	None
Contact	Kenneth Ribbons, IJB Internal Auditor kenneth.ribbons@westlothian.gov.uk 01506 281573

APPENDIX

WEST LOTHIAN INTEGRATION JOINT BOARD

INTERNAL AUDIT PLAN

2021/22

INTRODUCTION

1.1 The Local Authority Accounts (Scotland) Regulations 2014 require that the Integration Joint Board (IJB) operates a professional and objective internal audit service in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards (PSIAS).

1.2 The internal audit service is delivered and developed in accordance with its purpose which, as set out in the Internal Audit Charter, is to provide assurance by independently reviewing the IJB's risk management, control and governance processes. The Internal Audit Charter was approved by the Audit, Risk and Governance Committee on 6 January 2017.

1.3 The PSIAS requires that a risk based audit plan be prepared. This annual audit plan fulfils this requirement, and plays an important role in ensuring that the effectiveness of control over key risks is systematically reviewed.

1.4 The risk based internal audit plan is prepared in consultation with IJB's Audit, Risk and Governance Committee and senior officers. The plan is prepared with reference to the IJB's risk register and previous internal audit and external audit work.

1.5 The PSIAS requires that I explain how internal audit's resource requirements have been assessed, and also require me to provide an annual opinion on the council's framework of governance, risk management and control. I consider that the resource allocation as set out in the annual audit plan is sufficient to enable me to provide an annual opinion.

1.6 Progress in completing the annual audit plan is reported to the IJB's Audit, Risk and Governance Committee.

Kenneth Ribbons
IJB Internal Auditor

West Lothian Integration Joint Board

Annual Internal Audit Plan 2021/22

Audit Topic	Risk Register Reference	Risk	Audit Description	Estimated Days	Timescale
Budget Monitoring	IJB004	Inadequate Funding to Deliver Strategic Plan	To review the controls in place over IJB budget monitoring, including the processes for the provision of budget information to the IJB by West Lothian Council and NHS Lothian.	15	September 2021
Joint Inspection Report - Action Plan Progress	IJB001/ IJB002 / IJB003 / IJB006	Governance Failure / Failure to Effectively Implement the Strategic Plan / Inadequate Performance Management / Workforce Planning	To review the controls in place over the monitoring of progress of the agreed actions included in action plan arising from the joint inspection report.	15	December 2021
Follow Up of Previous Audit Findings	N/a	N/a	To undertake a follow up of the progress of previous audit findings which have been recorded in Pentana as risk actions.	2	September 2021
TOTAL				32	

Date	24 February 2021
Agenda Item	11

Report to West Lothian Integration Joint Board Audit, Risk and Governance Committee

Report Title: Local Government in Scotland – Financial Overview 2019/20

Report By: Chief Finance Officer

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ☐ - is to provide assurance ✓ - is for information ☐ - is for discussion ✓ The purpose of this report is to update the Committee on the Local Government in Scotland – Financial Overview 2019/20 report prepared by the Accounts Commission. The report also provides an update of the Accounts Commission's review of the 2018/19 annual audit of Fife IJB. The Committee is asked to consider the key messages and recommendations contained in both reports and any further action to be taken as a result.
Recommendations	It is recommended that the Committee: 1. Notes and considers the key messages set out in the Local Government in Scotland – Financial Overview 2019/20 report 2. Notes and considers the findings in the Fife IJB 2018/19 audit report and the relevance to other IJBs 3. Considers the key themes / recommendations contained in the reports and agree any actions required
Directions to NHS Lothian and/or West Lothian Council	A direction(s) is not required.
Resource/ Finance/ Staffing	None.
Policy/Legal	None.
Risk	None.

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	The report highlights the importance of local and national strategic planning to meet integration objectives.
Locality Planning	None.
Engagement	Relevant officers in NHS Lothian and West Lothian Council.

Terms of Report

1. Background

1.1 The Local Government in Scotland – Financial Overview 2019/20 was published by the Accounts Commission in January 2021. This is an annual report and seeks to provide an independent, public assessment of how effectively Scottish local authorities and IJBs are managing public money and responding to financial challenges.

1.2 This report also considers the 2018/19 Audit of Fife IJB, published by the Accounts Commission in February 2020 which highlighted significant issues around the budget position and ongoing financial sustainability of Fife IJB.

2. Local Government in Scotland – Financial Overview 2019/20 Report

2.1 This report, prepared by Audit Scotland on behalf of the Accounts Commission, provides a high-level, independent analysis of the financial performance of councils and IJBs during the year 2019/20. It also considers the year end position and comments on the future financial outlook for councils and IJBs.

Total revenue funding and income in 2019/20 received by councils has increased by £0.8 billion (5%) on the previous year. In real terms, revenue funding to councils from the Scottish Government has fallen by 4.7% since 2013/14, which is an improvement on the position to 2018/19 (7.6% fall in real terms since 2013/14). The report notes that a large part of the increase is to fund the expansion in early years and childcare and so represents an additional spending obligation for councils. The equivalent 2018/19 report noted that councils were increasingly using general reserves to balance their budget – this trend has reversed in 2019/20, with 22 councils adding to their reserves and a net increase of £65 million across all councils. The report identified that two councils are at risk of running out of reserves, Aberdeenshire Council and Fife Council (as noted in section 3).

In terms of 2020/21 the financial settlement was an increase of 1.4% in real terms, but again most of this was to fund the additional costs associated with the expansion of early years and childcare. The financial cost of Covid-19 on councils in 2020/21 is estimated to be in the region of £767 million, of which half is related to lost income. This figure excludes additional delegated IJB social care costs, which are noted in the IJB section of the report. The report notes that there will be a need for councils to review and revise their medium-term financial plans (MTFPs) as a result of Covid-19.

2.2 The report includes a separate section on Integration Joint Boards for 2019/20. Overall funding to IJBs increased by £0.5 billion (6%) to £9.1 billion in 2019/20.The report notes that sixteen of thirty IJBs reported a deficit in 2019/20 (compared to eight in 2018/19), and a further six that reported a breakeven or surplus position would not have achieved this without additional funding from partners. There was also an overall reduction of £15 million (9%) in reserves held by IJBs, to £143 million. However, it is important to note that a significant part of the reduction was due to IJBs using earmarked funding from the Scottish Government that was carried forward via reserves to be used for agreed spend commitments as was the case in West Lothian.

Looking to 2020/21, Covid-19 costs are noted as having a significant effect on the health and social care sector, with estimated mobilisation costs of £422 million based on data to October 2020. Auditors reported that 26 IJBs had a MTFP in place, and the impact of Covid-19 could be significant and will require revision of MTFPs to reflect this. Prior to Covid-19, the projected budget gap was £185 million for 2020/21 (2% of total net expenditure), which was an improvement on the 2019/20 position of £208 million.

The report notes that IJBs have a statutory duty to review their Integration Scheme every five years, and auditors reported that six IJBs had not performed this in the required timeframe. For all cases, Covid-19 was noted as a reason for the delay which is the position across Lothian IJBs.

2.3 There are a number of key messages contained in the Accounts Commission report in relation to Integration Authorities and these are set out below:

1. A majority of IJBs (22 of 30) struggled to achieve break-even in 2019/20 or recorded deficits
2. Total mobilisation costs for Health and Social Care Partnerships for 2020/21 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all these costs
3. Revisions will be required to medium-term financial plans to reflect the impact of Covid-19
4. There were changes in Chief Officer at 12 IJBs in 2019/20

2.4 In terms of West Lothian IJB, the following responses are relevant to the four points above:

- While West Lothian IJB reported a technical accounting deficit in the annual accounts equivalent to the reduction in reserves of £417,000 in 2019/20, this reflected the planned use of earmarked reserves for Alcohol and Drug Partnership and Action 15 funding carried forward from 2018/19. The position from a budget perspective was a break-even for West Lothian IJB.
- In 2019/20, West Lothian IJB was allocated an additional £1.137 million from NHS Lothian to avoid recording a further deficit on Health delegated functions. It should be noted that the due diligence undertaken and reported to the Board on NHS Lothian's agreed funding contribution for 2019/20 had identified insufficient funding of £2 million compared to the cost of delivering the Health IJB functions. The additional contribution provided by NHS Lothian therefore reflected further actions that were able to reduce but not fully meet the funding shortfall that had been identified.
- The total mobilisation costs for West Lothian IJB are forecast to be £10.2 million (Jan 2021 return) in 2020/21 and funding for this full amount, as well as ongoing costs, has been provided by the Scottish Government.
- The IJB has an approved approach to medium term financial planning. The current MTFP covers the period 2018/19 to 2022/23, consistent with the existing Strategic Plan, and an updated MTFP outlook covering the period 2020/21 to 2022/23 was last reported to the Board in June 2020. Covid-19 has required a major change in plans and assumptions, and the outcome of this is still uncertain. A further update to the existing medium term financial will be reported to the Board in June 2021.

- The Accounts Commission noted that 12 IJBs experienced turnover in their Chief Officer post and 2 in their Chief Finance Officer post during 2019/20. While there was no turnover in respect of these posts for West Lothian IJB during 2019/20, the present Chief Officer has recently given notice and recruitment is currently progressing.

3. Fife IJB Audit Report 2018/19

3.1 The 2018/19 audit of Fife IJB was performed by Audit Scotland, who issued an unqualified opinion on the financial statements, but identified several significant issues which are of wider relevance to the sector. The issues raised are related to financial management and sustainability, good governance and management, and transformation and best value.

3.2 For the two financial years 2016/17 and 2017/18, Fife IJB recorded an overspend of £9.3 million and £8.8 million respectively. The IJB implemented a three-year financial recovery plan starting from 2018/19 with a planned in-year deficit of £4.5 million and eventually a break-even position. However, the actual in-year deficit was £9.3 million, which meant the year 1 target was not met and there is currently no long-term financial plan in place. The IJB is not financially sustainable as it has no reserves and continues to require additional year-end contributions from partners.

3.3 Under governance and management, the report notes that more work is needed to ensure partners' roles and responsibilities are clear, as there have been discussions at committee meetings on which body has certain responsibilities for decision-making. There has also been significant change in leadership, with three Chief Officers and four Chief Finance Officers since the IJB became operational on 1 April 2016.

3.4 Under Transformation and Best Value, the IJB self-assessed against the proposals in a report from the Ministerial Strategic Group for Health and Community Care, and found only eight of the 22 proposals were considered to be established. The IJB is still in the process of introducing a Best Value performance management framework.

3.5 The report goes on to say that Fife IJB is not the only IJB to face significant challenges and notes the concerns mentioned in the Local Government Financial Overview report (IJB deficits, medium term planning, turnover in leadership roles, funding gap), along with concern about the slow pace of progress in integration, and that there is limited evidence of a shift in spending from hospitals to the community.

4. Key Themes / Proposed Next Steps

4.1 These are significant external audit reports and taking account of the content of both reports, a number of common themes have been identified as areas for improvement in relation to IJBs.

- Financial Sustainability / Transformation and Best Value
- Progress on medium term financial planning is a particular concern taking account of Covid-19 and risks to financial sustainability
- Key leadership roles continue to be a challenge
- The pace of progress in integration has been noted as too slow

4.2 In terms of West Lothian IJB, the following points are relevant to the themes above:

- The IJB has achieved a breakeven position against budget in each year to date although insufficient budgetary provision for acute services remains a concern
- Financial management, governance and Best Value arrangements in West Lothian continue to be developed including introduction of CIPFA Financial Management Code and actions identified to comply fully with the Code.
- The review of the Best Value Framework will ensure the IJBs compliance with Best Value reflects up to date guidance and the proposed approach to auditing Best Value in IJBs.
- An update to the IJB's existing MTFP will be reported to the Board in June 2021 taking account of the estimated implications of Covid-19 for future years

- A West Lothian HSCP Transformation Board is in place to take forward service transformation and ongoing development of fully integrated medium term financial planning
- The Action Plan resulting from the Joint Inspection of Strategic Planning covering recommendations on Performance, Strategic and Financial Planning, Commissioning, Leadership and Direction has been agreed and six monthly updates on progress will be reported to the Board
- The internal audit of West Lothian IJB's financial planning reported to this committee has reviewed the report on Fife IJB and concluded that there are no similar significant issues apparent within the operation of the West Lothian IJB.

4.2 In terms of next steps, it is suggested that the issues identified in both Accounts Commission reports are consistent with themes previously raised in external scrutiny reports and as such will be captured in existing Action Plans, IJB Risks and the ongoing reporting of progress against Governance issues and compliance with the Best Value Framework and the new CIPFA Financial Management Code being introduced from 2021/22. The Committee is asked to consider if any further action is required at this point.

As the development of Integration Joint Boards continues, it will be important that issues raised in scrutiny reports are closely examined by the Committee and that action plans and required areas of compliance are updated as necessary for issues identified.

Appendices	1. Local Government in Scotland – Financial Overview 2019/20 Report 2. 2018/19 Audit of Fife Integration Joint Board – Report on Significant Findings
References	1. Local Government in Scotland – Financial Overview 2019/20 Report 2. 2018/19 Audit of Fife Integration Joint Board– Report on Significant Findings
Contact	Patrick Welsh, Chief Finance Officer, West Lothian Integration Joint Board Email: patrick.welsh@westlothian.gov.uk Tel. No: 01506 281320

West Lothian Council NHS Lothian

Local government in Scotland

Financial overview 2019/20

ACCOUNTS COMMISSION

Prepared by Audit Scotland
January 2021

Contents

Audit team

The core audit team consisted of: Blyth Deans, Lisa Duthie, Chris Lewis and Lucy Ross, under the direction of Brian Howarth.

Links

PDF download

Web link

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Chair's introduction

Councils and Integration Joint Boards (IJBs) play a vital role in supporting Scotland's communities. This has been amplified by the Covid-19 global pandemic. Covid-19 has fundamentally affected local government services and increased the uncertainty of how those services will be provided in the future. The financial impact of the pandemic on our public services is extreme. At the same time, we have seen the strength and resilience of many communities highlighted as they have worked with public service partners to provide invaluable support to those who need it most.

In 2019/20, before the pandemic really took hold in Scotland, the financial impact of Covid-19 was limited. This report notes that more councils added to their usable revenue reserves than in previous years. Reserves play an important role in effective financial management and provide a cushion for future unexpected events. I think that the emergence of the global pandemic and resultant UK lockdown from 23 March 2020 could be described as a once-in-a-lifetime event and Council reserves can be a key tool to manage the medium-term financial impacts of Covid-19.

Scottish Government funding accounts for the majority of council income. After several years of reductions in funding, there has been a real terms increase in 2019/20. It is important to note though that around 40 per cent of the increase was intended to meet the Scottish Government's policy of expanding early learning and childcare provision. As we have reported before, councils have limited flexibility over how they use this type of additional funding. It is also important to recognise that although funding in 2019/20 improved, reductions in local government funding over the past six years are still larger than in other areas of the Scottish Government budget.

Capital funding had experienced significant increases in the past three years by 33 per cent between 2017/18 to 2019/20. But Scottish Government capital funding in 2020/21 is now decreasing by 30 per cent in real terms. This will have an impact on councils' future investment plans.

In IJBs, the bodies set-up to deliver local health and social care services, the financial pressures are significant, with many needing additional funding from councils and health board partners to break-even in 2019/20. We also continue to see a high turnover in leadership in many IJBs, at a time when they are tackling both the impact of Covid-19 along with the ongoing and longer-term pressures of increased demand.

2020 presented significant challenges to the preparation and audit of councils', pension funds' and IJBs' annual accounts. However, 92 per cent of annual accounts were signed off by the revised audit deadlines due to the dedication of local government finance staff and of our auditors in these challenging circumstances. I am grateful for everyone's hard work and diligence to achieve this outcome.

During 2020/21, the pandemic and associated lockdown has affected many aspects of Councils' and IJB's finances and created significant financial uncertainty. Councils face the challenge of meeting additional mobilisation and recovery costs as well as the lost income resulting from closures of leisure facilities and reductions in income from fees and charges. Councils are also administering support schemes on behalf of the Scottish Government. Substantial additional funding for councils has been announced by the Scottish Government together with some further financial flexibilities, but it is currently unclear whether this will cover all cost pressures faced by councils in 2020/21 and beyond.

2020/21 also saw a large shift in the way that public services and communities worked together to support those most in need. Many communities and individuals stepped in to provide much needed local services and were empowered and encouraged to do so by councils, IJBs and their partners. We have heard of much good practice and hope that this continues.

The Accounts Commission's future reporting, together with the Auditor General for Scotland, will be refocused on the significant impact of Covid-19 across all public services. This report highlights the emerging and developing financial challenges due to Covid-19, but future financial overview reports will be better able to assess the full year impact in 2020/21, based on financial reporting to 31 March 2021. Our Local Government Overview 2021 report, due to publish in May, will consider the initial response phase of the pandemic.

Audit Scotland has published a *Guide for audit and risk committees* to support effective scrutiny of how public bodies have responded to Covid-19. This covers key areas, including internal controls and assurance, financial management and reporting, governance and risk management. Good governance, strong financial management and transparency of decision making will be critical for local government bodies in dealing with the implications and fallout from the pandemic.

Elma Murray
Interim Chair of the Accounts Commission

Key messages

Councils and pension funds

1 Councils' funding and income increased by £0.8 billion in 2019/20. There was an increase in Scottish Government funding of £0.5 billion, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget

2 Nearly half of the increase in Scottish Government funding in 2019/20, and all the initial additional funding in 2020/21, was to fund the expansion in early learning and childcare

3 Councils continue to plan for, and deliver, savings as part of their annual budgets, but there are significant variations in individual councils' ability to deliver planned savings

4 More councils added to their usable revenue reserves totalling £65 million (net) in 2019/20

5 Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year (2019/20)

6 The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income. We estimate that funding announced by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils, although total costs and funding are still uncertain

7 Councils' auditors reported wider medium-term financial implications of Covid-19

Integration Joint Boards (IJBs)

8 A majority of IJBs (22) struggled to achieve break-even in 2019/20 and many received year-end funding from partners

9 Total mobilisation costs for Health and Social Care Partnerships for 2020/21 due to Covid-19 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all of these costs

10 Instability of leadership continues to be a challenge for IJBs. There were changes in chief officer at 12 IJBs in 2019/20

About this report

1. This report provides a high-level independent analysis of the financial performance of councils and IJBs during 2019/20 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils and IJBs. It is one of two overview reports that the Accounts Commission publishes each year. The second report, commenting on councils' initial response to the Covid-19 pandemic, will be published in May 2021.

2. Our primary sources of information for the financial overview are councils' and IJBs' 2019/20 unaudited accounts, including management commentaries and the 2019/20 external annual audit reports, where available. We have supplemented this with data submitted by councils to COSLA as part of their Covid-19 cost collection exercise, and mobilisation plan financial summaries submitted to the Scottish Government by IJBs. COSLA returns were requested and obtained from auditors. We received 29 returns, with 3 outstanding. The COSLA returns are not subject to audit review.

3. The Covid-19 pandemic has created new challenges which have affected the preparation of this report. The rescheduling of audit timetables meant that audited accounts for all councils were not available for analysis and, as a result, judgements are based on data from unaudited accounts, except where significant audit adjustments have been identified. We are comfortable with this approach, and our analysis of available audited information tells us that the level of change between unaudited and audited accounts has not significantly affected our key judgements. We have reviewed external annual audit reports for 2019/20 that were available at 30 November 2020.

4. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2019/20 prices, adjusted for inflation so that they are comparable. Similarly, where 2020/21 comparisons are made, we have adjusted for inflation to 2019/20 prices. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

Key facts

		2019/20 £ billion	2018/19 £ billion	Movement
	Councils' funding and income	£18.5	£17.7	4.5%
	Scottish Government revenue funding	£10.3	£9.8	5.4%
	Councils' capital spending	£3.6	£2.8	29.0%
	Councils' usable revenue reserves	£2.0	£1.9	3.4%
	IJBs' spending	£9.2	£8.6	7.0%

	Additional estimated cost in councils and IJBs due to Covid-19 in 2020/21	£1.2 billion

Councils' income in 2019/20

Key messages

1. Councils' funding and income increased by £0.8 billion in 2019/20
2. The cash increase in Scottish Government funding (£0.5 billion) in 2019/20 improved the position relative to others, but reductions over the past seven years are still larger than in other areas of the Scottish Government budget
3. Nearly half of the increase in Scottish Government funding in 2019/20 was to fund the expansion in early learning and childcare

Total revenue funding and income

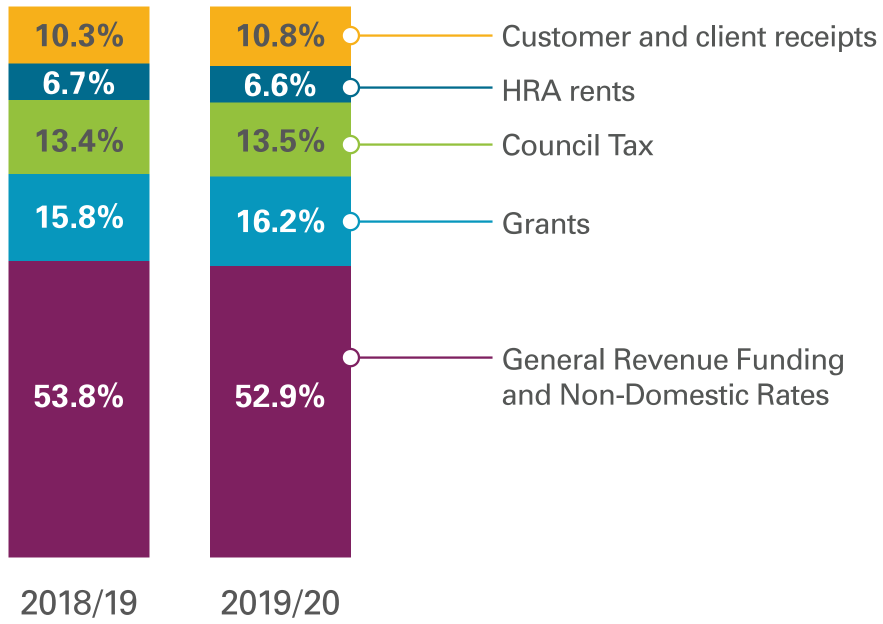
Councils' funding and income increased by £0.8 billion in 2019/20

5. Total revenue funding and income received by councils was £18.5 billion in 2019/20, representing an increase of £0.8 billion (or five per cent) on the previous year. A comparison between years (Exhibit 1) shows that most of the funding comes from the Scottish Government and the relative value of specific grant income to councils has increased.

Councils' funding and income increased by £0.8 billion in 2019/20.

Exhibit 1
Sources of funding and income, 2018/19 and 2019/20

The majority of funding for councils comes from the Scottish Government.



Source: Unaudited financial statements 2019/20 (audited financial statements 2018/19)

6. Grant income includes housing benefit and Scottish Government specific grants (eg Early Learning and Childcare and Criminal Justice Social Work), which are treated as service income by councils generally. Scottish Government direct grants increased by £0.2 billion in 2019/20. There were also increases in grants from other sources. For example, Aberdeen City Council received £0.1 billion from Transport Scotland for the Aberdeen Western Peripheral Route.

7. Council tax income has increased by £0.1 billion (or 5 per cent) mainly as the Scottish Government raised the cap on council tax rate increases to 4.8 per cent. Twelve councils took the decision to increase the council tax rate by the full amount.

Scottish Government funding

Scottish Government revenue funding increased by 3.4 per cent in real terms in 2019/20

8. In 2019/20, the total revenue funding from the Scottish Government increased by 5.4 per cent in cash terms and increased by 3.4 per cent in real terms (Exhibit 2). Total revenue funding of £10.3 billion consists of the general revenue grant funding of £7.0 billion; Non-Domestic Rates distribution (NDR) £2.8 billion and specific grants of £0.5 billion.

Exhibit 2

Changes in Scottish Government revenue funding in 2019/20

Scottish Government revenue funding increased by 3.4 per cent in real terms in 2019/20.

	2018/19	2019/20	Cash %	Real %
General Revenue Grant and Non-Domestic Rate Income	9,521	9,811	3.0%	1.1%
Specific Revenue Grants	274	508	85.5%	82.0%
Total revenue funding	**9,795**	**10,319**	**5.4%**	**3.4%**
Health & Social Care funding via NHS	355	355	0.0%	-1.9%
	10,150	**10,674**	**5.2%**	**3.2%**

Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

Funding in 2019/20 improved relative to others, but an historic difference still exists

9. Funding from the Scottish Government to local government between 2013/14 and 2019/20 decreased by 4.7 per cent, in real terms (Exhibit 3, page 12). The increased funding in 2019/20 improved the position that existed last year (2018/19), when the total reduction was 7.6 per cent. Scottish Government funding to other areas of the total Scottish budget decreased by 0.8 per cent between 2013/14 and 2019/20, demonstrating that local government funding has still undergone a larger reduction than the rest of the Scottish Government budget over this period.

Nearly half of the increased funding in 2019/20 was to fund the expansion in Early Learning and Childcare

10. There is an element of the revenue settlement for funding that is linked to specific ongoing policy initiatives and expectations.

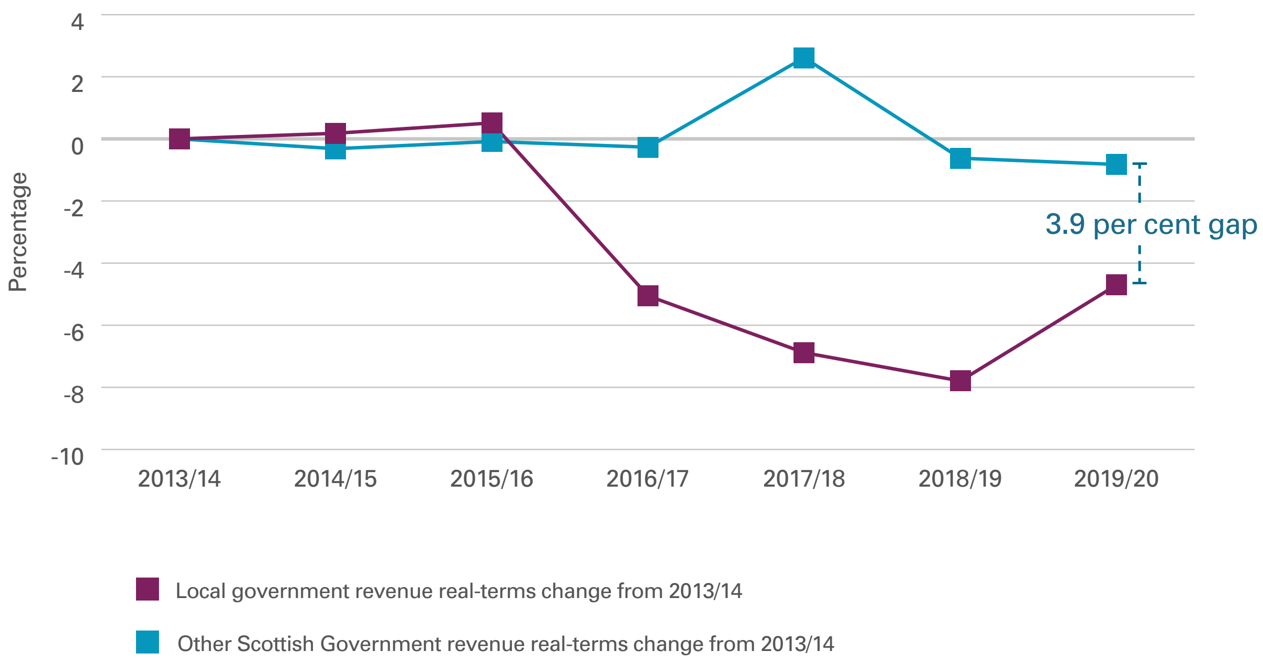
11. Specific revenue grants increased in cash terms by £234 million in 2019/20, growing from 2.8 per cent of total revenue funding to 4.9 per cent. This represented 45 per cent of the increase in revenue funding in cash terms between 2018/19 and 2019/20. The majority of this increase could be attributed to an additional £210 million allocated to councils to support the expansion in funded Early Learning and Childcare entitlement to 1,140 from 600 hours by 2020 for all three- and four-year-olds and eligible two-year-olds.

Scottish Government revenue funding increased by 3.4% in real terms in 2019/20. Nearly half of this was to support the expansion in Early Learning and Childcare.

Exhibit 3

A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas

Over the last six years local government revenue funding from the Scottish Government fell by 4.7 per cent, while other Scottish Government revenue funding fell by 0.8 per cent.



Source: Finance Circulars 04/2020 and Scottish Government budget documents (June 2020 ONS deflators)

Councils' financial position in 2019/20

Key messages

1 On the whole councils continue to deliver savings as part of their budget in 2019/20, but there are significant variations in individual councils

2 In 2019/20 councils' auditors reported wider medium-term financial implications of Covid-19

3 More councils added to their usable revenue reserves in the year totalling £65 million (net)

4 Two councils are at risk of running out of general fund reserves in the medium-term if current trends continue

5 Glasgow City Council's equal pay funding strategy had a significant impact on total reserves, debt and capital expenditure this year

6 Councils had the highest level of capital expenditure of the last five years

7 Local auditors drew attention to material uncertainty in property and investment valuations due to Covid-19

8 Local government pension funds returns were negatively affected by Covid-19, but the majority of funds still tended to outperform their benchmarks

Council budgets and outturn 2019/20

In 2019/20 budget gaps were to be addressed by planned savings

12. In 2019/20, councils identified budgeted net expenditure of £12.6 billion. The initial budget gap in 2019/20 was £0.5 billion (three per cent). In 2018/19, the initial budget gap was similar at £0.4 billion. Planned savings were the most common way of addressing funding gaps in 2019/20.

Councils appear to have delivered 2019/20 savings plans, but with significant variation

13. A sample analysis of 14 councils identified that 84 per cent of the planned savings were delivered. However, there was significant variation in how individual councils performed against their savings targets:

- East Lothian Council, which planned savings of £5.2 million, and Stirling Council, which planned savings of £7.3 million, reported achieving 100 per cent of their targets.
- Comhairle nan Eilean Siar planned to deliver savings of £2.6 million but achieved savings of £0.8 million or just 31 per cent of its target.

Impact of Covid-19

The effect of Covid-19 was not material in 2019/20 and councils were able to manage this within existing budgets

14. Covid-19 restrictions began in March 2020 and the financial effect on councils (excluding social care – see paragraph 70) in 2019/20 was limited to between £20 million and £25 million.[1] Councils reported that lost income and unachieved savings accounted for two-thirds of identified financial impacts. The remaining costs were mainly associated with mobilising support services for vulnerable groups and the wider community.

15. There were no additional Covid-19-related funding allocations from the Scottish Government in 2019/20. Our review of available annual audit reports confirms that Covid-19 did not have a significant impact on councils' outturn, and costs were mostly managed within existing available budgets. Additional Covid-19-related funding allocations to councils were not received until 2020/21.

In 2019/20, councils' auditors reported wider financial consequences of Covid-19 in their annual reports

- **Delays in growth deals:** Dumfries and Galloway Council. The impact of Covid-19 has delayed some of the progress in establishing governance structures and formal sign off of the Borderlands' Collaboration Agreement as part of the Borderlands growth deal.
- **Additional borrowing:** East Lothian Council and Inverclyde Council both took out additional loans towards the end of March 2020 to ensure sufficient liquid funds to address the expected consequences of Covid-19.
- **Planned savings proposals:** East Lothian Council identified that many of the plans related to savings have effectively been placed on hold to enable the council to focus its attention and support on responding to Covid-19. East Dunbartonshire Council anticipated that transformation programme savings for 2020/21 were unachievable due to the impact of the pandemic.

The financial effect of Covid-19 was not material in 2019/20 and councils were able to manage this within existing budgets.

- **Medium term financial planning:** West Lothian Council reported that early planning arrangements for its next medium-term financial plan have been deferred to 2021/22 as management focuses on the more immediate impact and actions arising from the impact of Covid-19.
- **Capital programmes:** Aberdeenshire Council identified that the capital programme was suspended for around three months with a phased restart thereafter. In Inverclyde Council officers have reviewed the phasing of the 2020–23 Capital Programme in light of Covid-19 and have estimated the slippage for 2020/21 as 47 per cent. An initial additional budget of £2.7 million has been agreed to cover the potential cost pressures resulting from the site working requirements, increases in the price of materials and general cost increases generated by Covid-19.
- **Delays in bad debt collection:** Aberdeenshire Council reported that elements of the debt recovery processes had been suspended for several months owing to Covid-19 and recognised the potential for bad debts to increase.
- **Expected capital receipts:** West Dunbartonshire Council identified that expected capital receipts of £9 million from the sale of sites were subject to greater uncertainty due to Covid-19 effects on asset values.
- **Going concern issues in subsidiary/joint venture partners:** Some auditors of group component bodies, including those arms-length external organisations (ALEOs) and partners that provide housing repair and leisure services, drew attention to the additional going concern uncertainty due to the financial impact of the Covid-19 pandemic.

Reserves

More councils (22) added to their usable revenue reserves, but most of the total relates to Glasgow City Council

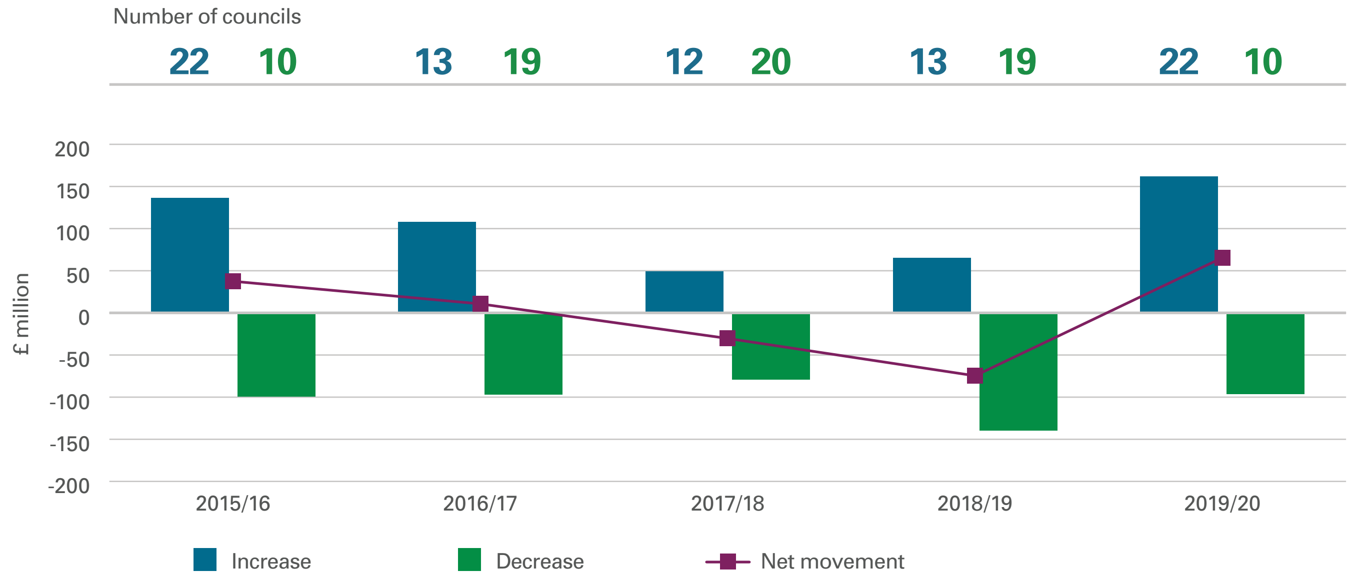
16. Last year we reported that councils were increasingly using up revenue reserves to balance their budgets. This trend did not continue into 2019/20 (Exhibit 4, page 16). Twenty-two councils reported increases in their revenue reserves balance (13 last year) with a net increase of £65 million (or 3 per cent) across all councils.

17. The most significant increase was Glasgow City Council, where usable revenue reserves went up by £87 million (or 80 per cent) mainly due to the equal pay funding strategy that was implemented in the year (paragraph 28).

18. Highland Council also experienced a significant increase in its usable revenue reserves of £15 million (or 47 per cent). Contributing factors include spending constraints on recruitment and discretionary spend and £22 million of delivered savings and additional income.

More councils added to their usable revenue reserves in 2019/20, with a net increase of £65 million across all councils.

Exhibit 4
Movement in usable revenue reserves over the past five years
More councils added to their usable revenue reserves in 2019/20.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified, and audited financial statements 2015/16 to 2018/19

There is variation in whether councils have been adding to or using up general fund reserves

19. Councils have different strategies for managing their financial position and reserves position over time, so we would expect to see variation in the movements and balances held. Reserves play an important role in effective financial management. They provide a working balance to smooth out uneven cashflows, protect against the financial impact of unexpected events, as well as enabling funds to be built up for known future commitments.

20. Exhibit 5 (page 17) shows the annual average rate of general fund use at 31 March 2020, based on the last three years. It indicates how long it would take for a council to run out of its general fund reserve if the pattern of use (over the last three years) were to continue. An amount less than minus 25 per cent would indicate reserves would be depleted in less than four years.

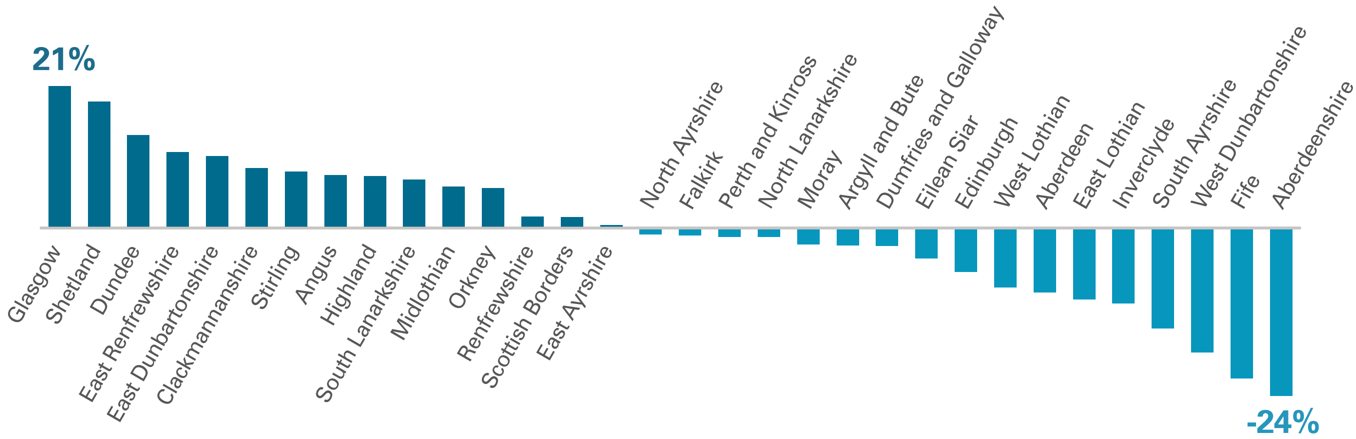
Moray Council sustainability has improved with a significant surplus in 2019/20

21. In our 2018/19 report, we highlighted Moray Council as being at risk of depleting its reserves within five years. In 2019/20, the council's financial position improved, with the general fund increasing by £7 million. This was in contrast to a budgeted reduction of £5 million in the general fund. The turnaround was largely due to better than expected funding and income, including council tax income, Business Rates Incentivisation Scheme (BRIS) retention, a one-off VAT refund and insurance settlement and additional general revenue grant funding. The council also exceeded its savings target and delivered £13 million of savings in year.

Exhibit 5

Average annual movement in the general fund (including HRA) over the last three years

The movement on councils' general fund reserves varies significantly.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified, and audited financial statements 2018/19 and 2017/18

Two councils are now at risk of running out of general fund reserves in the medium term if current trends continue

22. Fife and Aberdeenshire Council are now at risk of running down their general fund balance within four to five years if their current trend of using these continues (Exhibit 5). Neither council planned to use general fund balances as part of their 2020/21 initial budget, but the unusual circumstances of Covid-19 may now affect this.

23. Local auditors report that Aberdeenshire Council regularly reviews reserves as part of its medium-term financial strategy. The recent *Best Value Assurance Report* (October 2020) identified that reserves have largely decreased due to planned use. However, this also includes some unplanned use, including additional contributions of £5.5 million to the Aberdeenshire Integration Joint Board (IJB), to meet the council's share of IJB revenue budget overspends. The Report notes that the remaining balance is low relative to other councils.

Best Value Assurance Report: Aberdeenshire Council

October 2020

24. Fife Council has been drawing on its reserves over the last few years, particularly the planned use of committed balances. However, the council's medium-term financial strategy forecasts the level of general fund will continue to deteriorate over the next three years and will be insufficient to fully mitigate against the financial impact of Covid-19.

Capital

Councils recorded the highest level of capital expenditure over the last five years

25. Capital expenditure increased by £0.8 billion (or 29 per cent) to £3.6 billion in 2019/20. Glasgow City Council's sale and leaseback transactions, as part of the equal pay funding strategy, make up £0.5 billion of the increase (paragraph 28). Excluding this, capital expenditure is still the highest level recorded by councils over the last five years. This is aligned with a peak in Scottish Government capital funding (Exhibit 12, page 29).

Some councils had significant increases in their capital investment:

- City of Edinburgh Council: £0.15 billion (or 49 per cent) increase. New or additional investment across several areas including the Trams to Newhaven Project, creation and expansion of educational properties, investment in council houses, sports facilities and road infrastructure.
- Moray Council: £0.04 billion (or 87 per cent) increase. Investment in schools and early learning and childcare facilities, council houses and waste management facilities. This includes a joint venture with Aberdeen City and Aberdeenshire Councils to build an energy from waste plant.

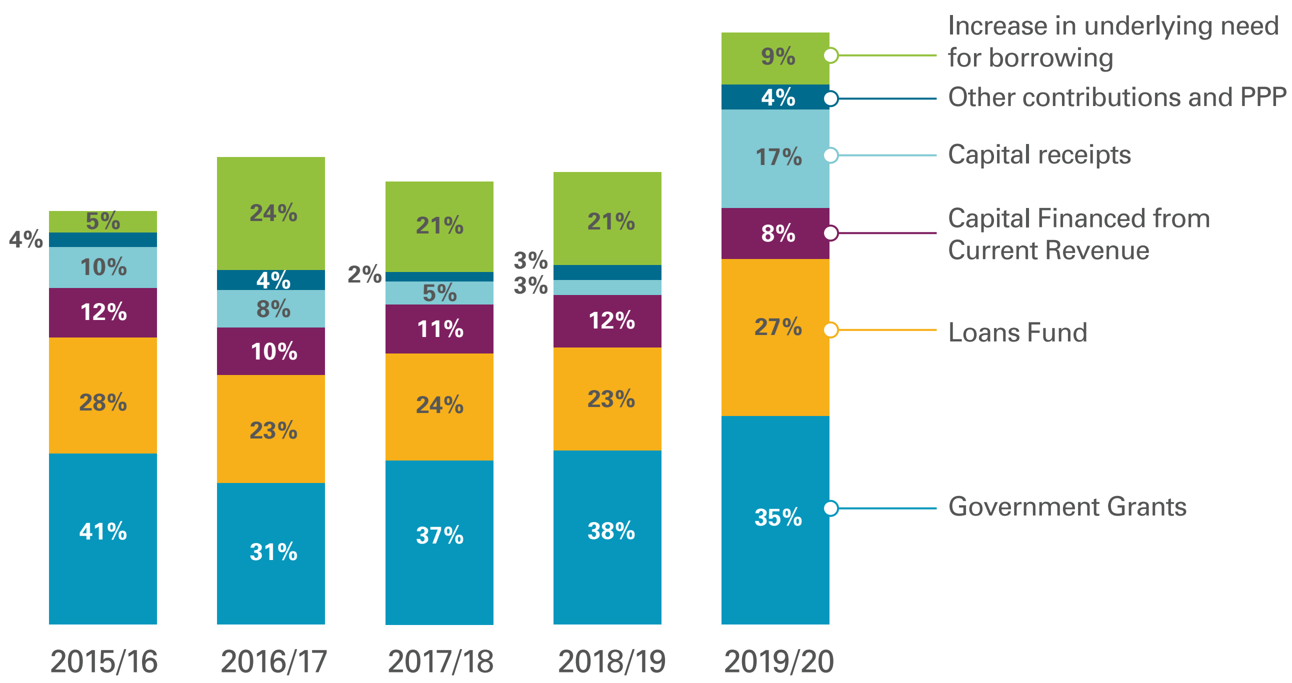
The main sources of capital financing are still government grants and internal loans fund repayments from council services

26. Government grants continued to provide the main source of capital finance. The effect of the sale and leaseback arrangements at Glasgow City Council significantly increased the element of funding generated from capital receipts in 2019/20 (Exhibit 6).

Exhibit 6

Capital expenditure analysed by source of finance 2015/16 to 2019/20

Sixty-two per cent of capital expenditure was financed by government grants or internal loans fund repayments.



Source: Unaudited financial statements 2019/20 and audited financial statements 2015/16–2018/19

Debt

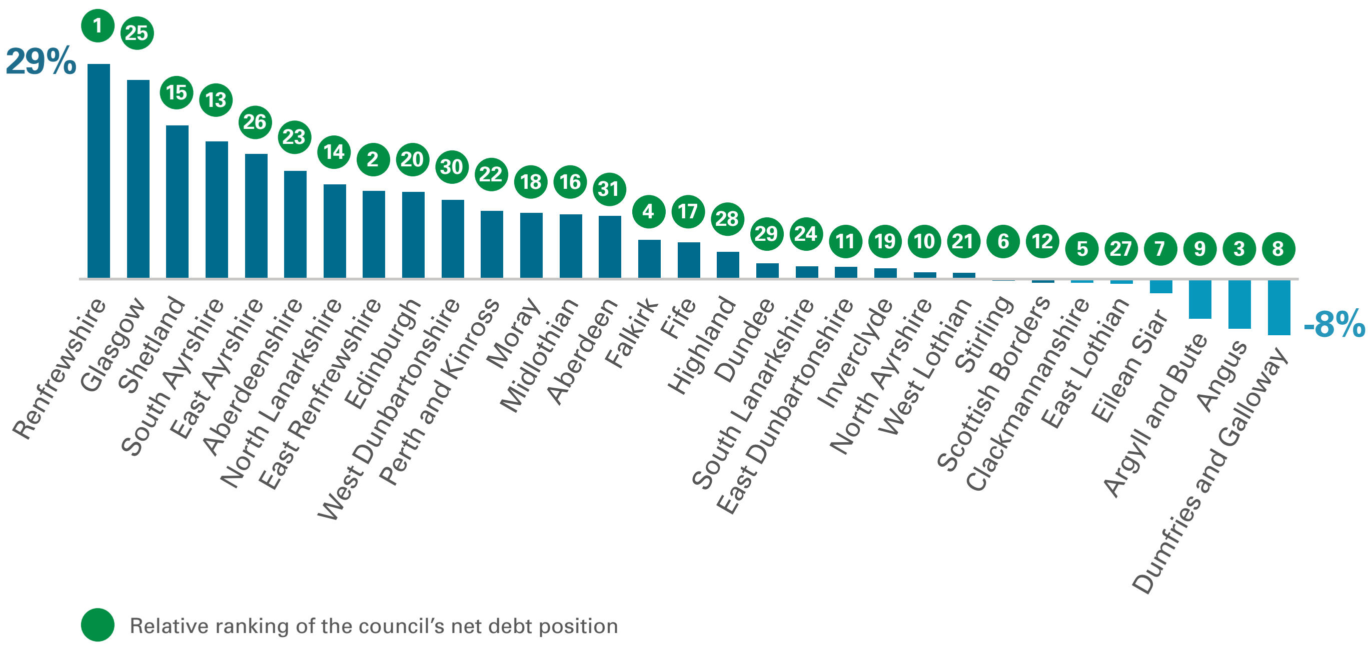
Most councils increased their net debt, typically by 4 per cent or more in 2019/20

27. Total net debt (total debt[2] less cash and investments) across councils has increased by £1.4 billion, or nine per cent, to £17 billion. Exhibit 7 shows the relative movement in net debt between 2018/19 and 2019/20 for each council. The median movement is 4.3 per cent. Renfrewshire Council incurred the most significant increase, but this is due to lower cash balances, rather than an increase in borrowing. Renfrewshire Council still has the lowest level of net debt relative to its annual revenue. As noted earlier in this report, the Glasgow City Council sale and leaseback of council properties (paragraph 28) also contributed to a significant increase in its net debt position.

Exhibit 7

Percentage movement in net debt between 2018/19 and 2019/20 at council level with relative ranking of total net debt

Most councils increased their net debt by 4 per cent or more.



Note: Orkney has been excluded as it has net investments.
The rankings (1 to 31) indicate the net debt position of the council relative to others, with 1 being the lowest. Net debt is shown as a proportion of net annual revenue.

Source: Unaudited financial statements 2019/20.

Equal pay settlements at Glasgow City Council were financed through sale and leaseback

28. Glasgow City Council included a provision for equal pay costs in 2018/19 and during 2019/20 settled the majority of outstanding equal pay claims. The £500 million cost of settlement was met by a funding strategy that raised £549 million. This included the refinancing of a City Property loan arrangement (the Council's Arm's Length Organisation or ALEO) and the sale and leaseback of 11 council properties to City Property. As the income from the funding strategy exceeded the cost of settlement, the council has earmarked £70 million to support any future equal pay liability arising from the implementation of a new pay and grading system. This accounts for the majority of the net increase of £84 million in the general fund balance held by the council (paragraph 17).

29. The arrangement is represented in non-current assets and by a deferred liability. This contributed £453 million to the total Scottish debt. The total annual rent payable to City Property by the Council is now £20.4 million and is subject to annual inflation of 2.75 per cent.

Audit of 2019/20 annual accounts

Auditors drew attention to material uncertainty in property valuations relating to Covid-19

30. Most councils' auditors reported a material valuation uncertainty in council property valuations related to the potential impact of Covid-19. An 'emphasis of matter' paragraph was included in the independent auditor's reports to draw attention to this matter.

Local Government Pension Funds

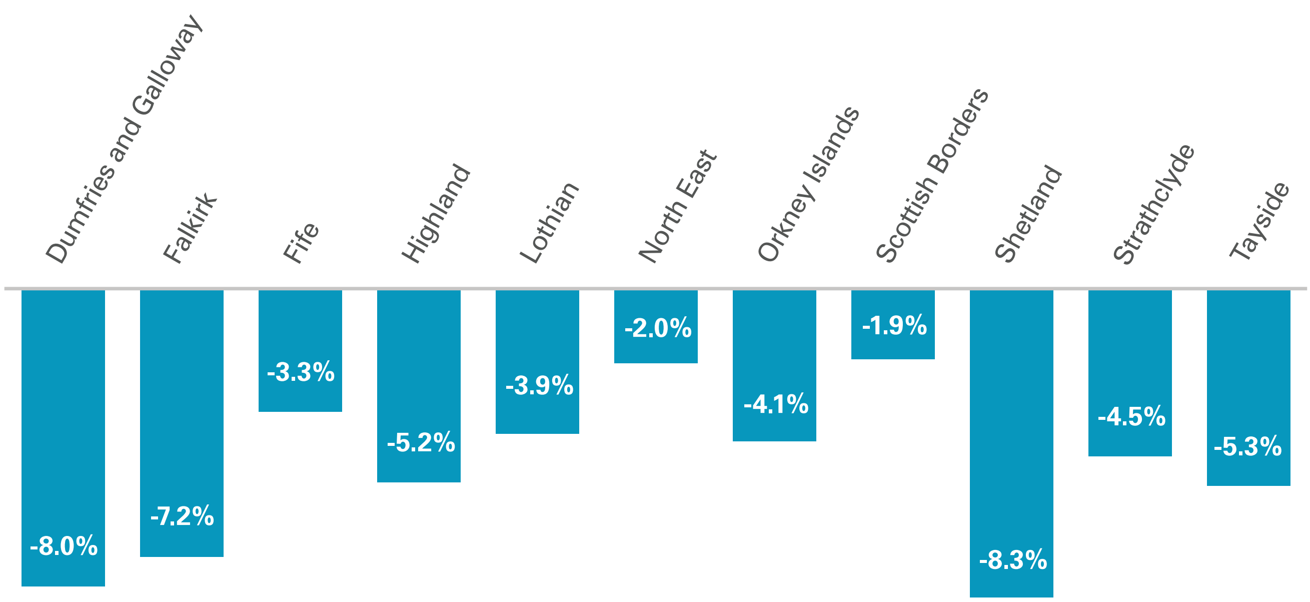
Pension Fund investment returns were negative in 2019/20 as a result of Covid-19

31. The eleven main Scottish Local Government Pension Funds experienced negative investment returns as a result of the impacts of Covid-19 on global markets in the last quarter of 2019/20. The annual return was between -1.9 per cent and -8.3 per cent in individual funds, based on the average assets position (Exhibit 8).

Exhibit 8

Investment returns based on average assets in Scottish Pension Funds 2019/20

2019/20 investment returns were adversely affected by Covid-19.



Source: Audited accounts of the Pension Funds 2019/20

Funds still tended to outperform their benchmarks

32. In the majority of funds, the overall investment returns still outperformed their individual annual benchmarks to 31 March 2020. Since then there has been a partial recovery in global markets. The auditors of Tayside Pension Fund report that net assets fell by 16 per cent due to Covid-19 in the last quarter of 2019/20 but had recovered over two-thirds of these losses by the end of June 2020.

Some elements of pension investments were more uncertain as result of Covid-19

33. A number of pension fund auditors drew attention to the levels of greater uncertainty attached to 'level 3' investments, by including an 'emphasis of matter' paragraph in their auditors' reports. In Fife Pension Fund, level 3 investments include investments in property, infrastructure and private equity. These make up around £270 million or 11 per cent of the fund's total investments at 31 March 2020. As there is no market data to support the valuation these are based on judgements by investment funds. These valuations included material valuation uncertainty disclosures this year due to Covid-19.

The next triennial valuation of Scottish Local Government Pension Funds is due to be completed in March 2021

34. Triennial valuations of Scottish Local Government Pension Funds are due to be completed in March 2021. This will identify the funding level in each scheme and inform future funding and investment strategies as well as determining the level of employer and employee contribution rates from 2021/22 onwards.

Pension Fund investment returns were negative in 2019/20 as a result of Covid-19, but most funds still tended to outperform their benchmarks.

Councils' financial outlook

Key messages

1. 2020/21 initial budgets identified savings targets as the main way to close a budget gap of £0.5 billion, with more councils setting multi-year indicative budgets
2. Before the impact of Covid-19, Scottish Government revenue funding in 2020/21 increased by 1.4 per cent in real terms, but this is to fund the expansion in Early Learning and Childcare
3. The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million, with just over half due to lost income
4. We estimate that funding announced by the Scottish Government by November 2020 meets 60 to 70 per cent of the cost pressures identified by councils through COSLA's cost-gathering exercise, although total costs and funding are still uncertain
5. Scottish Government capital funding to local government in 2020/21 is decreasing by 30 per cent in real terms
6. Councils need to review and revise their medium-term financial plans due to Covid-19

Budget gap 2020/21

Initially councils identified a total budget gap of £0.5 billion in 2020/21 and again plan to address these through savings targets

35. Councils original 2020/21 budgets were set before the Covid-19 pandemic emerged in Scotland. Councils set net expenditure budgets after taking into account projections of local income from fees and charges. Councils approved net expenditure budgets of £13.5 billion for 2020/21 including a budget gap of £0.5 billion (or three per cent). The budget gap is shown before action such as savings, council tax rate increases and use of reserves. There is still some inconsistency in how councils present their own budget gaps. For example, whether it is stated before or after the council tax increase. The relative size of the budget gap was consistent with the two previous years. Savings plans were the main way councils planned to bridge the budget gap, contributing 55 per cent with council tax increases contributing a further 23 per cent.

36. Eighteen councils approved a council tax rate increase in line with the 4.84 per cent cap set by Scottish Government in 2020/21. Six councils increased their council tax rate by three per cent and the remaining eight councils approved an increase of between 3.95 per cent and 4.8 per cent.

More councils presented multi-year indicative budgets in 2020/21

37. A new development was for more councils to set multi-year indicative budgets, as part of the 2020/21 budget setting process. Fifteen councils presented multi-year indicative budgets. In four councils (Aberdeen, Aberdeenshire, Scottish Borders and Stirling) budgets covered the next five years, with the others covering three years.

2020/21 funding settlement

Prior to additional Covid-19 related funding, Scottish Government revenue funding in 2020/21 increased by 1.4 per cent in real terms

38. The Local Government revenue settlement from the Scottish Government in 2020/21, before taking into account changes due to Covid-19, increased by 3.4 per cent (cash terms) from 2019/20 to £10.7 billion. This was a real terms increase of 1.4 per cent (Exhibit 9).

Exhibit 9

Changes in Scottish Government revenue funding in 2020/21 (excluding Covid-19 funding)

Scottish Government revenue funding increased by 1.4 per cent in real terms in 2020/21.

	2019/20	2020/21	Cash %	Real %
General Revenue Grant and Non-Domestic Rate Income	9,811	9,958	1.5%	-0.5%
Specific Revenue Grants	508	710	39.8%	37.1%
Total revenue funding	**10,319**	**10,668**	**3.4%**	**1.4%**
Health & Social Care funding via NHS	355	355	0.0%	-1.9%
	10,674	**11,023**	**3.3%**	**1.3%**

Source: Finance Circulars 04/2020 and Scottish Government budget documents

Most of the increased funding in 2020/21 was to fund the expansion in Early Learning and Childcare

39. Specific revenue grants increased in cash terms by £202 million in 2020/21, growing from 4.9 per cent of total revenue funding to 6.7 per cent. This represented 1.4 per cent of the increase in revenue funding in cash terms between 2019/20 and 2020/21. Most of this increase was due to an additional £201 million allocated to councils to support the expansion in funded Early Learning and Childcare entitlement to 1,140 hours by 2021.

Financial impact of Covid-19 in 2020/21

The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million[3]

40. As noted above, initial budgets and funding settlements did not reflect the changed environment and financial effects of Covid-19. During the early phases of Covid-19, the Convention of Scottish Local Authorities (COSLA) worked with councils to summarise the expected financial effects of Covid-19 on local government. This was summarised by COSLA in their *Cost Collection Exercise: Analysis and Narrative – 3rd Iteration (Full Year Figures), (July 2020)* and the financial impact of Covid-19 in 2020/21 is estimated to total £767 million (excluding Education and Early Learning and Childcare costs). The projected amount covers the full financial year and includes gross additional costs of £855 million, offset by savings of £88 million (from lower property costs and school meal costs). £86 million of the gross additional cost figure relates to projected capital costs.

41. This estimate does not include additional social care costs which are covered in paragraph 70 as part of Health and Social Care Partnership costs.

Lost income accounts for over half of Covid-19 costs in councils

42. Loss of income accounts for over half of the forecast additional costs. Loss of income from fees and charges was projected to result in a loss of £161 million. The most significant proportion of these losses related to the anticipated reduction in parking fee income (Exhibit 10, page 25). All councils projected a loss of income from sports and leisure facilities at July 2020, totalling £75 million. Mobilisation costs and the costs arising from reconfiguring services (recovery costs) made up the remaining Covid-19 costs.

43. Several larger urban councils have ALEOs that were set up to manage commercial activities and provide income back to councils. This includes conference facilities and transportation services. The projected loss of income for councils from these was £39 million. This included Lothian Buses, Edinburgh Trams, Scottish Exhibition and Conference Centre and the Aberdeen Exhibition and Conference Centre.

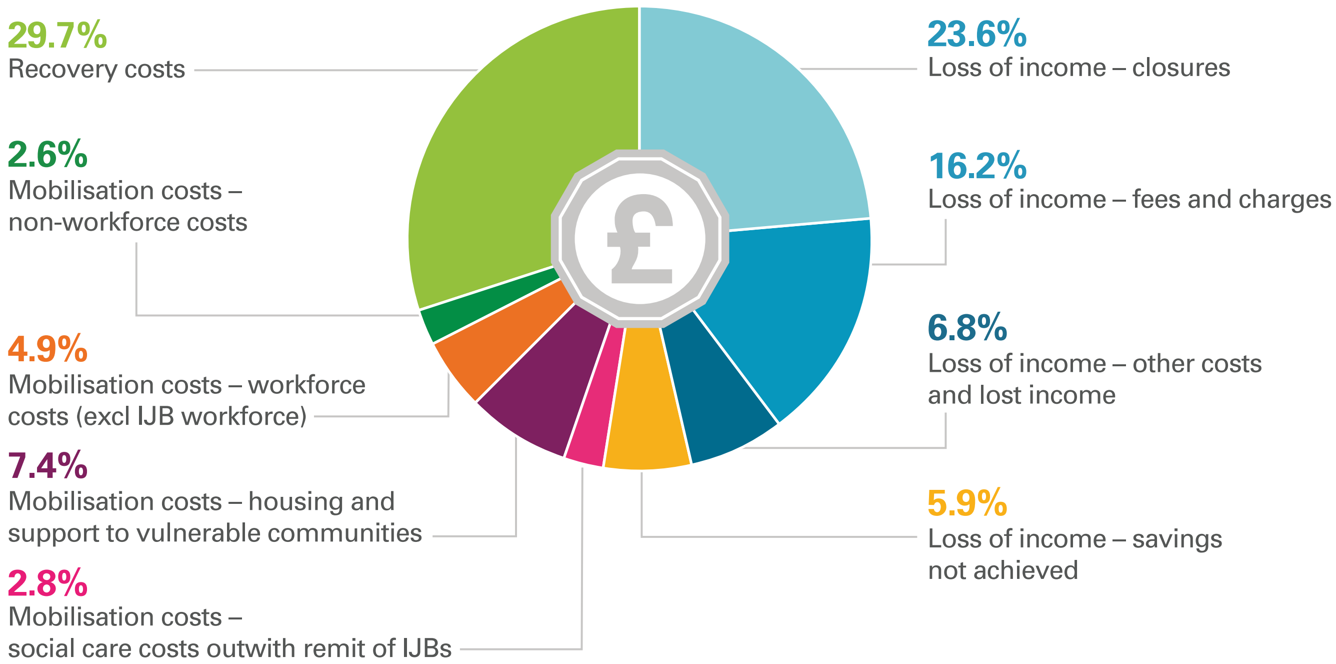
44. Loss of income from harbour and ferry activities is another area that has been projected to be significantly impacted. Four councils projected a loss of income totalling £11 million.

The financial cost of Covid-19 on councils in 2020/21 is estimated to be £767 million. Over half of this relates to lost income.

Exhibit 10

2020/21 Projected Covid-19 related expenditure/lost income

Loss of income accounts for over half of the forecast additional costs.



Source: COSLA summary (full year returns) (July 2020) and COSLA council returns. Proportions based on returns from 25 councils.

Scottish Government support for Covid-19 pressures

The proportion of NDR and General Revenue Grant funding was adjusted

45. In March 2020, the Scottish Government made a £972 million reduction to the distributable amount of Non-Domestic Rates (NDR) in 2020/21 together with a corresponding increase in the General Revenue Grant (GRG). This reflected measures arising from The Non-Domestic Rates (Coronavirus Reliefs) (Scotland) Regulations 2020 which included 1.6 per cent of Universal Relief, 100 per cent relief for Retail, Hospitality and Leisure and 100 per cent relief for Airports and Baggage Handlers.

46. The change reflected a recognition that NDR income collected by councils would be lower than anticipated due to Covid-19. As the Scottish Government guarantee each council's formula share of GRG plus NDR, the change resulted in no overall impact on council's total revenue funding.

Councils have administered funding of over £1 billion as part of the Covid-19 Business Support Fund Grant Scheme

47. In March 2020, the Scottish Government announced that businesses could apply for grants to help them deal with the impact of Covid-19.[4] These grants would be administered by councils on behalf of the Scottish Government, with funding made available to councils to finance the costs incurred. Councils received a grant of £950 million in 2020/21 providing an initial advance of the estimated costs projected by the Scottish Government, based on the number of businesses eligible for relief within each council area. The remaining amount will be disbursed as necessary up to a maximum collective limit of £1.2 billion.

48. Councils reported that over 106,000 applications were received for the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme across Scotland. Of the applications received, over 90,000 were successful with grants of over £1 billion awarded by September 2020.

Further funding of £936 million has been announced by November 2020

49. As at November 2020, £936 million of Scottish Government Covid-19 support for councils had been either allocated or announced (Exhibit 11, page 27). This is made up of the following:

- £723 million of revenue support, including £90 million (estimated) from the loss of income compensation scheme
- £150 million of NHS funding to be passed on to Health and Social Care Partnerships
- £63 million of capital support for Regeneration Capital Grant Fund, Town Centres Capital Fund, school transport support and digital inclusion funding

We estimate that funding announced by November 2020 meets 60 to 70 per cent of the revenue cost pressures identified by councils, with total costs and funding still uncertain

50. In paragraph 40, we noted estimated council cost pressures of £767 million, split between revenue cost projections of £681 million and capital cost projections of £86 million. Not all the announced additional funding can be matched to these costs. Of the total £936 million announced, £234 million has been provided to benefit third parties or did not form part of the council's original cost submission.

51. The funding for the Scottish Welfare Fund (£45 million), council tax reduction scheme (£50 million) and discretionary housing payments (£5 million) are administered by the councils but will benefit individuals and businesses within the community.

52. The additional educational recovery funding (£134 million) is a consequence of the decision to re-open schools and early years establishments full-time from 11 August 2020. The necessary social distancing and cleaning measures result in additional costs to councils to be met from this funding. These were not envisaged in the councils' initial cost collection exercise, which predated decisions to return to school on a full-time basis.

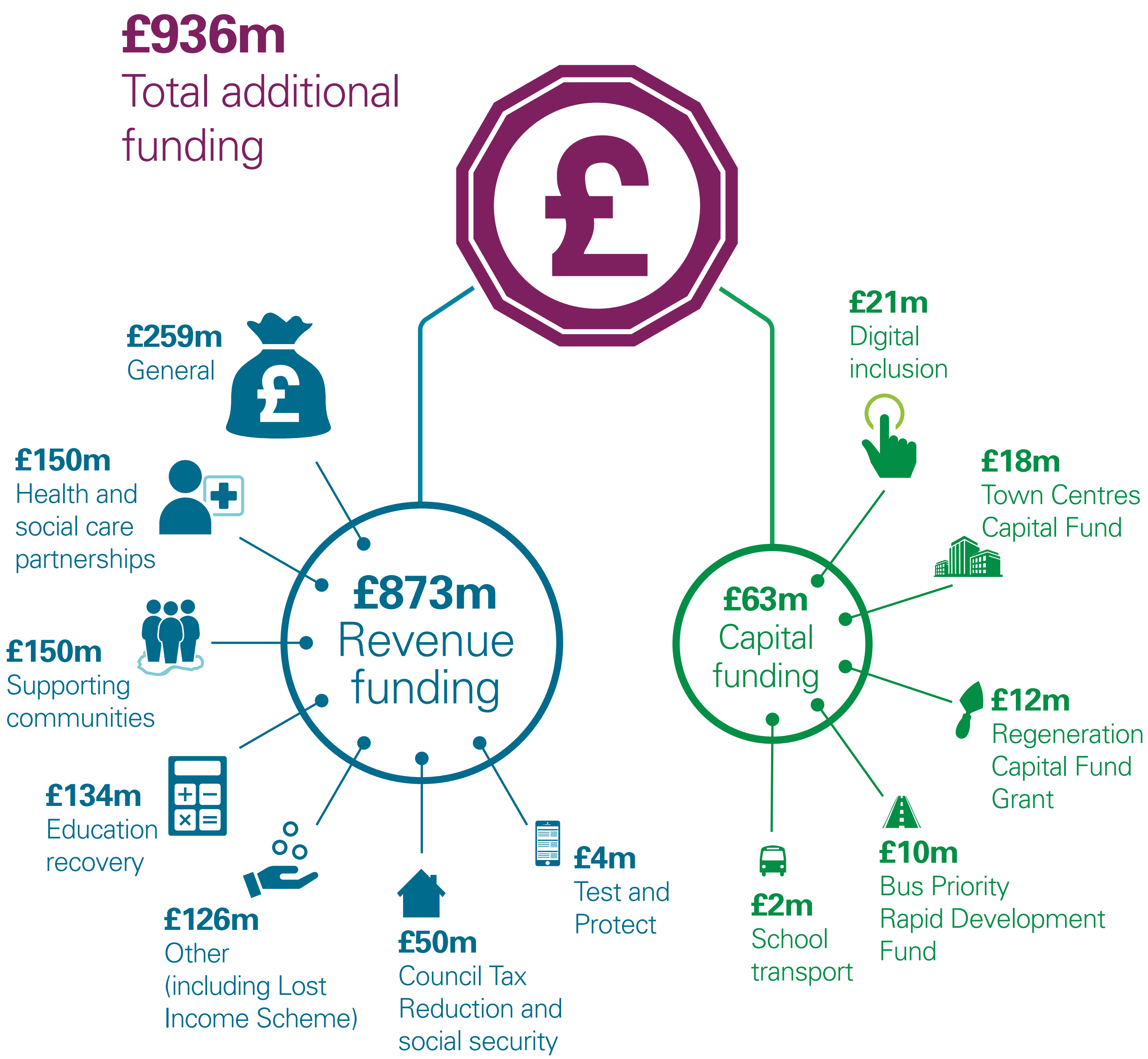
53. The funding of £150 million to be passed to Health and Social Care Partnerships did not form part of the councils' estimated costs as these form part of the IJB mobilisation costs. These are described at paragraph 70.

54. After taking into account the above issues, we estimate that the beneficial announcements of revenue funding to councils meet 60 to 70 per cent of the estimated revenue costs at July 2020. However, some of this funding is ringfenced, with £236 million being allocated for specific purposes. For example, £65 million for the food fund and for free school meals. Councils may have cost pressures in other separate areas, which may not be met by this specific funding.

55. The effects of the Covid-19 pandemic continue to develop, as do projections of associated costs and funding.

As at November 2020, £936 million of Scottish Government Covid-19 support for councils had been either allocated or announced.

Exhibit 11
Scottish Government Covid-19 funding in 2020/21
Councils were allocated £936 million of additional Covid-19 funding in 2020/21 (November 2020).



Source: Scottish Government funding announcements and COSLA report

The Scottish Government has given councils additional financial flexibility to respond to the Covid-19 crisis

56. Councils have been given an additional package of spending powers and financial flexibility that the Scottish Government claims could be worth up to £600 million.[5] This figure will apply if all councils are able to use all the new flexibilities, however COSLA does not consider this to be a likely scenario. Councils will need to consider the increased costs that may arise in future years and the effects of Covid-19 may impact on some areas, for example expected capital receipts. The new funding levers open to councils apply to Covid-19-related pressures only and apply to this and the next financial year. Additional spending powers include the following:

- enabling the use of capital receipts to meet one-off revenue funding pressures, including Covid-19 related costs
- extending debt repayment periods over the life of the asset rather than the contract period
- allowing councils to take a repayment holiday in either 2020/21 or 2021/22 to defer internal loan fund repayments.

57. In addition to these measures, the Scottish Government has provided flexibility around the guidance for using the following specific funding:[6]

- Pupil Equity Funding
- Challenge Authority and Schools' Programme funding
- funding for Regional Improvement Collaboratives, allowing resource linked to this initiative to be repurposed to the Covid-19 response, and
- deploy early learning and childcare funding flexibly to deliver critical provision for children and families.

58. The extent of how these individual flexibilities may be used by each council, is yet unclear. Judgements will be required by each council and this may depend on the extent of unavoidable commitments already existing, for example in early learning contract commitments to parents.

Medium and long-term financial planning

The financial changes due to Covid-19 mean that councils need to review and revise their medium-term financial plans

59. Auditors have reported greater uncertainty in current financial planning arrangements at councils due to Covid-19. Medium term financial plans will now require revision at all councils to take into account additional financial pressures and updated funding arrangements, as well as consideration of updated savings requirements and financial assumptions.

Capital funding

Scottish Government capital funding in 2020/21 is decreasing by 30 per cent in real terms

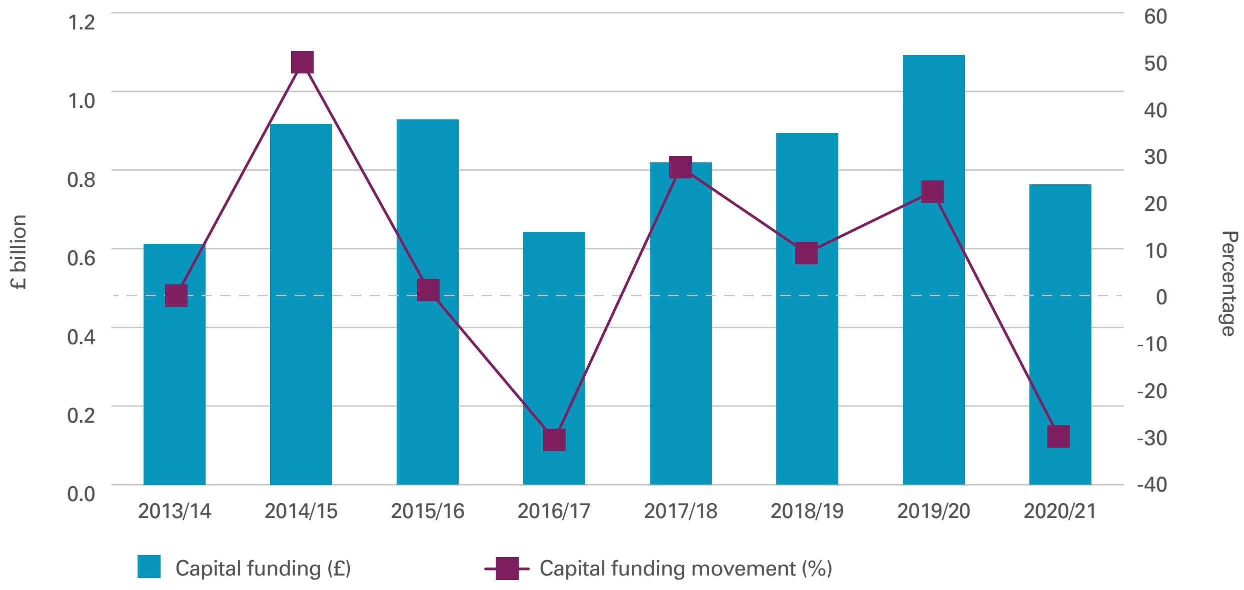
60. The Local Government capital settlement in 2020/21 decreased from £1.1 billion in 2019/20 to £0.8 billion. Capital funding had experienced significant increases in the past three years (33 per cent increase between 2017/18 to 2019/20). Total capital funding has now returned to levels more similar to those in 2017/18, in real terms (Exhibit 12, page 29). This could have a significant impact on councils' future investment plans.

Scottish Government capital funding in 2020/21 is decreasing by 30 per cent in real terms.

Exhibit 12

Real terms capital funding between 2013/14 and 2020/21 (excluding Covid-19 funding)

Scottish Government capital funding in 2020/21 (excluding Covid-19 funding) is decreasing by 30 per cent.



Source: Finance Circulars 04/2020 and Scottish Government budget documents

Integration Joint Boards

Key messages

1. A majority of IJBs (22 of 30) struggled to achieve break-even in 2019/20 or recorded deficits
2. Total mobilisation costs for Health and Social Care Partnerships for 2020/21 are estimated as £422 million. It is not yet clear whether the Scottish Government is to fund all these costs
3. Revisions will be required to medium-term financial plans to reflect the impact of Covid-19
4. There were changes in chief officer at 12 IJBs in 2019/20

Funding and expenditure

In 2019/20 overall funding to IJBs increased by six per cent
61. Overall funding to IJBs, in 2019/20, increased by £0.5 billion (or six per cent) to £9.1 billion. Most of this increase is in health board contributions to the IJB.

Sixteen IJBs recorded deficits
62. Sixteen of the thirty IJBs reported a total deficit of £32 million in 2019/20, compared with only eight IJBs reporting a deficit of £11 million in 2018/19. Of the remaining IJBs, 13 reported a total surplus of £17 million and one reported a breakeven position.

A further six IJBs needed additional funding to achieve surplus or breakeven
63. Six of the IJBs that reported a surplus or breakeven position would not have achieved this without additional funding from partners. A total of thirteen IJBs had extra financial support from partners of £50 million. Without this, 22 IJBs would have reported a total deficit of £77 million (19 IJBs with a deficit of £58 million in 2018/19).

IJBs reported mixed performance against the achievement of savings targets in 2019/20
64. We reported last year that of the £208 million projected budget gap for 2019/20, 59 per cent of this was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Comparing this to actual performance and based on a sample of 22 IJBs, only four delivered 100 per cent of planned savings in 2019/20. Generally, there was significant variation in how IJBs performed against savings targets, with savings achieved ranging from 37 per cent at Aberdeen City IJB to 100 per cent at Inverclyde IJB.

IJB reserves have decreased in 2019/20
65. The IJBs' total reserves decreased by £15 million (9 per cent), to £143 million. This contrasts with a £34 million increase in reserves in 2018/19. Last year we reported that some of the increase in reserves was a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. The Scottish Government has advised health boards and IJBs that it expects these earmarked balances to be used before further funds are drawn down. Part of the decrease in reserves this year relates to the use of these specific funds (Exhibit 13, page 32).

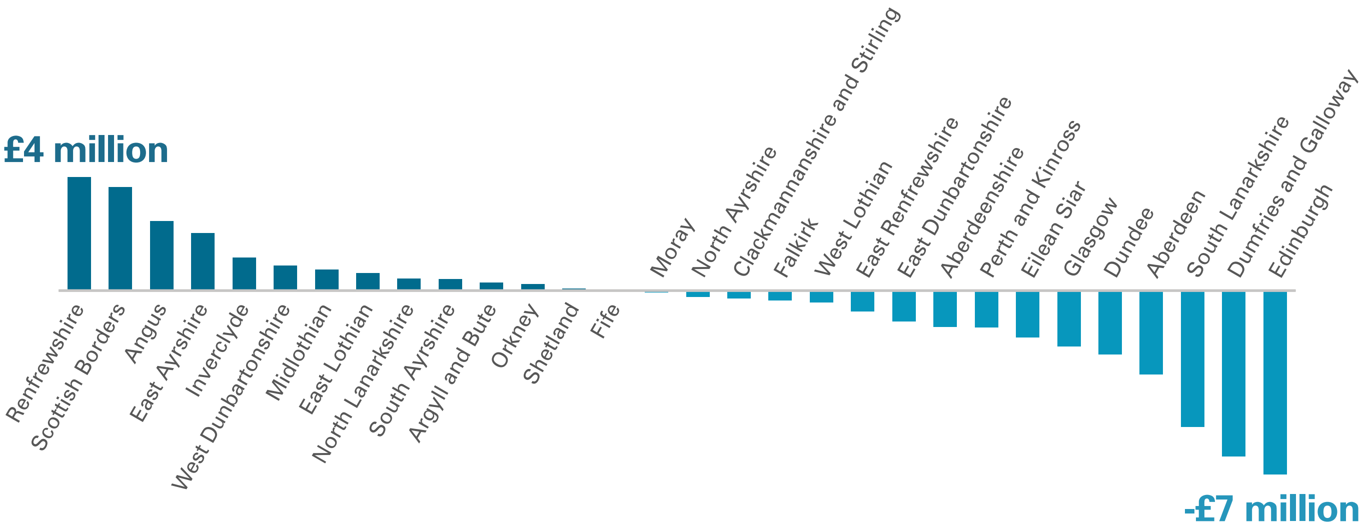
66. Some of the more significant reductions include:

- Edinburgh IJB used reserves of £7 million to address a budget gap, as outlined in the recent Edinburgh City Council *Best Value Assurance Report* (November 2020).
- Dumfries and Galloway and South Lanarkshire IJBs used up a significant element of specific reserves, including Primary Care Transformation and Mental Health programmes of work.

A majority of IJBs struggled to achieve break-even in 2019/20 or recorded deficits.

Best Value Assurance Report: City of Edinburgh Council
November 2020

Exhibit 13
Individual movements in general fund reserves between 2018/19 and 2019/20
Sixteen IJBs reported a decrease in the general fund balance.



Source: Unaudited financial statements 2019/20, except where significant audit adjustments identified

Financial planning

More IJBs agreed budgets with partners before the start of the financial year

67. Previously we reported that eleven IJBs failed to agree a budget with their partners at the start of the 2019/20 financial year. This position improved for 2020/21, when only six IJBs had not agreed their budgets by 1 April. Auditors identified the main reasons for this as the impact of Covid-19 and the timing of partner bodies setting their budgets.

Prior to Covid-19 costs, the projected budget gap was £185 million for 2020/21

68. Auditors identified a total estimated budget gap of £185 million for 2020/21, representing 2 per cent of total projected net expenditure. This is an improvement in comparison to 2019/20 (£208 million). The 2020/21 budget gap as a proportion of total projected net expenditure varied between 0.6 and 5.7 per cent.

69. Of the £185 million budget gap, 62 per cent (59 per cent in 2019/20) was anticipated to be met by identified savings and 25 per cent (30 per cent in 2019/20) by unidentified savings plans. Five IJBs planned to cover part of the estimated funding gap from reserves.

Covid-19 related costs

As at October 2020, estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships for 2020/21 were £422 million

70. Financial data, provided to the Scottish Government by NHS Boards, shows estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships of £422 million for 2020/21. This projected total covers the full financial year and is based on returns submitted to NHS Boards by IJBs in the period June to September 2020. The main contributory factors to this are:

- additional costs for externally provided services, including PPE (£113 million)
- additional payments to Family Health Services contractors (£18 million) and prescribing (£15 million)
- additional temporary staff (£27 million)
- additional care home beds (£21 million)
- additional staff overtime and enhancements (£20 million)
- costs associated with Community Hubs (£27 million)
- homeless and criminal justice services (£10 million)
- mental health services (£10 million)
- expected underachievement of savings (£72 million), and
- loss of income (£24 million).

It is not yet clear if the Scottish Government will provide financial support to IJBs for the full impact of the pandemic

71. Several IJBs have included an assumption within budget papers and monitoring reports that the Scottish Government will provide financial support to cover all 'reasonable' expenditure included in cost submissions. However, there remains uncertainty around the extent to which the Scottish Government will fund these costs. Uncertainty of funding in care elements of the IJB has a significant impact on councils too, as the impact of costs and funding has been assumed to be neutral or excluded from council estimates.

72. At September 2020, the Scottish Government confirmed that £2.6 billion received in consequentials will be passed on for health and social care. This amount should be sufficient to cover the projected Covid-19-related revenue costs of £1.62 billion for health (£1.2 billion) and social care (£0.42 billion) for 2020/21.

73. In late September 2020, the Scottish Government announced additional funding of £1.1 billion to support the health and social care sector in dealing with Covid-19 related pressures. The funding will be allocated to NHS Boards and Health and Social Care Partnerships across Scotland to meet the costs of additional staffing or sickness expenditure, enhanced infection prevention and control measures, and the purchase of PPE. However, the basis for allocation to individual partnerships is not yet clear.[7]

As at October 2020, estimated total Covid-19 mobilisation costs for Health and Social Care Partnerships for 2020/21 were £422 million.

Revisions will be required to medium-term financial plans
74. More IJBs developed medium-term financial plans in 2019/20. Auditors reported that 26 had a medium-term financial plan in place. The impacts of Covid-19 could be significant for individual IJBs and medium-term financial plans will need to be revised to reflect this.

Wider governance issues

There were changes in chief officer at 12 IJBs in 2019/20 and instability of leadership continues to be a challenge
75. Auditors continued to identify significant changes in senior officers of IJBs. In 2019/20 there were changes in the chief officer at 12 of the 30 IJBs. Two-thirds of the chief officers who resigned left for a new role, either at another IJB (three chief officers) or elsewhere (five chief officers). There were also changes in chief finance officer at two of the IJBs. At Western Isles IJB (Curam is Slainte nan Eilean Siar) the absence of a chief officer has contributed to delays in strategic planning and issues with workforce planning.

Instability of leadership continues to be a challenge for IJBs.

Some IJBs did not review their integration scheme due to Covid-19
76. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out that IJBs have a statutory duty to review their integration scheme within a five-year period. Auditors reported that six IJBs had not reviewed their integration scheme within the required timeframe. In all cases, Covid-19 was noted as a reason for the delay.

Endnotes

1 COSLA returns (3 month and full year returns) – based on 29 councils. Cost projection ranges were derived for the missing councils. Please note that this also includes the loss of the £6 million dividend from Lothian Buses.

2 Debt is total outstanding borrowing and other liabilities, including assets acquired through Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models.

3 Excludes additional costs due to the decision to re-open schools and early years establishments full-time from 11 August 2020, as the cost collection exercise was conducted prior to this.

4 Scottish Government announcement (https://www.gov.scot/news/gbp-1-billion-business-support-fund-opens/)

5 Scottish Government announcement (https://www.gov.scot/news/supporting-local-government-recovery)

6 Scottish Government announcement (https://www.gov.scot/publications/coronavirus-covid-19-letter-to-local-authorities-regarding-education-and-early-learning-and-childcare-funding-flexibility)

7 The IJB is a separate legal entity, responsible for the strategic planning and commissioning of the wide range of health and social care services across a partnership area. Health and Social Care Partnerships are the partnerships that deliver services based on decisions made by the IJB.

Local government in Scotland

Financial overview 2019/20

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The 2018/19 audit of Fife Integration Joint Board

Report on significant findings

ACCOUNTS COMMISSION

Prepared by Audit Scotland
February 2020

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

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Contents

Commission findings

1 The Commission accepts the Controller of Audit's report on matters arising from the 2018/19 audit of Fife Integration Joint Board (IJB). We endorse the recommendations of the appointed external auditor and note they have been agreed with the board.

2 In November 2018, we published with the Auditor General our *Health and social care integration: update on progress* report. We reported that health and social care integration authorities are limited in their ability to improve the health and social care system and thus improve outcomes for people who need support. We attributed this to a lack of integrated, long-term and focused financial planning, coupled with financial pressures.

3 Our audits of individual integration authorities support this conclusion. Our *Local government in Scotland: Financial overview 2018/19,* published in December 2019, reports that a majority of IJBs struggled to break even, with 19 out of 30 IJBs requiring additional funding. Annual audit reports confirm that the pace of progress with integration has been too slow, with limited evidence of a significant shift in spending and services from acute hospitals to the community.

4 It is therefore important to note that Fife IJB is not the only IJB nationally to face significant challenges. It is responsible for planning and commissioning health and social care services in Fife which are delivered through Fife Health and Social Care Partnership, including social work services for adults and older people, community hospitals, children's community health services, primary care, and mental health services.

5 We are, however, seriously concerned about the Controller's conclusion that progress in the IJB has been slow and that it faces clear ongoing financial sustainability issues, having reported recurrent overspends. The IJB has no reserves and has been dependent upon additional year-end funding from Fife Council and NHS Fife for the past three years. This lack of sustainability undermines how the IJB will be able to improve and deliver vital health and social care services for the people of Fife.

6 We welcome recent progress made by the IJB in securing senior appointments, adopting a new strategic plan, and progressing reviews of its integration scheme and of its medium-term financial strategy. It is important that such reviews are concluded and implemented as planned.

7 Nevertheless, we underline the critical need for strengthening of financial management and of performance reporting arrangements, as well as implementing recovery and improvement actions that it previously agreed. We emphasise in particular the need for a robust recovery plan to be put in place to address the financial pressures faced by the IJB. The responsibilities of the board itself – and thus its relationship with its partners Fife Council and NHS Fife – need to be clearer and adhered to.

8 The Commission maintains a significant interest in the progress of health and social care integration, alongside the Auditor General. We are committed to undertaking a further national audit of progress later in our five-year work programme. Meantime, we will keep an interest in auditors' annual reports of individual integration authorities. We therefore ask the Controller to update us on any further significant developments, including those in Fife.

Executive summary

Background

1. The Code of Audit Practice (the Code) requires auditors at the conclusion of each year's audit to produce a report summarising the significant matters arising from the audit. For integration joint boards (IJBs) these reports are addressed to the members of the board and to the Controller of Audit.

2. I have received the annual audit report for Fife Integration Joint Board for 2018/19. The auditor has issued an unqualified opinion on the financial statements for 2018/19, but has identified significant issues in the wider audit dimensions under the Code, several of which have been ongoing and are of wider relevance to the sector.

3. I submit this report under section 102(1) of the Local Government (Scotland) Act 1973 as a matter that the Controller of Audit considers should be brought to the Commission's attention.

Annual audit report 2018/19

4. The auditor's annual audit report was considered by the IJB on 24 September 2019. The report has also been published on Audit Scotland's website.

5. I would draw the Commission's attention to the following points raised by the auditor in their report:

Financial management and financial sustainability concerns

- Financial management arrangements need to be strengthened and the quality of financial reports to members improved. 2018/19 was the first year of the three-year financial recovery plan agreed with the partner bodies. Throughout the year, finance reports showed the planned in-year deficit of £4.5 million was not going to be delivered and a deficit of between £9 and £11 million was the likely outcome. Recovery actions did not identify the required level of savings or actions to reduce expenditure to address the overspend.

- The IJB approached the Scottish Government for help with the development of a financial plan and a turnaround consultant report was commissioned. The report was given to the Senior Leadership Team of the Health and Social Care Partnership in November 2018 but only provided to the Finance & Performance Committee in March 2019.

- One of the key recommendations of the turnaround consultant was the introduction of a ‘Grip and Control Framework’. This was presented as the main source of savings in the second financial recovery plan considered by the board in December 2018. Implementation was delayed until January 2019 and there is little evidence that the process implemented from January resulted in any savings or restriction of any expenditure, before the financial year-end.

- Board members raised concerns about the lack of information available to them following the turnaround consultant’s report and requested an action plan. Officers prepared a response to a selection of the points flagged but members sought responses to all the points raised by the consultant. There was an underlying overspend in 2018/19 of £9.3 million (almost two per cent of budget), met by additional contributions from Fife Council and NHS Fife, to give an overall breakeven position for the year. The integration scheme includes a risk-share arrangement to deal with overspends and these are met 72 per cent by NHS Fife and 28 per cent by Fife Council, regardless of which area of the budget incurred overspend.

- This is the third year of significant annual financial deficits, which have been met by additional year-end contributions from partners (2016/17 = £9.3 million, 2017/18 = £8.8million, 2018/19 = £9.3 million). In the first two years, the overspend occurred mainly in the NHS areas of the budget and Fife Council made payments to NHS Fife representing its share of the risk arrangement. In 2018/19, the overspend occurred in Social Care services and NHS Fife made a payment to Fife Council under the risk share arrangement.

- The IJB approved a financial strategy which required a breakeven position over a three-year period. However, the year 1 target for 2018/19 was not met. The IJB still has no long-term financial plan in place.

- The IJB is not financially sustainable: it has no reserves and continues to be dependent on additional year-end funding from partner bodies to meet overspends.

Good governance and management arrangements are not embedded

- More work is needed to ensure partners' roles and responsibilities are clear. There have been discussions at some committee meetings about who is responsible for decision-making and whether decisions should be remitted to the IJB or partner body.

- There have been significant changes in the IJB leadership team, with three chief officers and four chief finance officers since the IJB became operational on 1 April 2016.

Transformation and Best Value arrangements have been slow to develop

- In 2019, the Ministerial Strategic Group for Health and Community Care published a report on progress with integration and proposals for ensuring the success of integration.[1] The IJB completed a self-assessment of progress against these proposals, which showed limited progress with only eight of the 22 proposals identified as ‘established’.

- The IJB is still in the process of introducing a Best Value performance management framework.

Context

Fife IJB is not the only Integration Joint Board facing significant challenges

6. The *Local government in Scotland: Financial overview 2018/19*, published by the Accounts Commission in December 2019, reports that:

- a majority of IJBs struggled to achieve breakeven in 2018/19, and a number failed to deliver their planned savings in 2018/19. Without additional funding, 19 IJBs would have recorded deficits

[1] This is a key strategic group covering transformational change in health and community care in Scotland – https://www.gov.scot/groups/ministerial-strategic-group-for-health-and-community-care/

- medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. Twenty-six IJBs now carry reserves to help to meet future commitments and pressures, but the levels vary significantly
- auditors identified a total estimated funding gap across IJBs of £208 million for 2019/20, representing 2.5 per cent of total income
- the pace of progress with integration has been too slow, and there is limited evidence of a significant shift in spending and services from acute hospitals to the community
- a third of senior staff have changed during 2018/19, which may have an impact on capacity and pace of progress.

Developments since the annual audit report

Some recent progress has been made by the IJB

7. The IJB has made some progress since the annual audit report was finalised in September 2019:

- permanent appointments have been made to the posts of chief officer (October 2019) and chief finance officer (June 2019)
- the chief officer is receiving support from the Scottish Government's Director of Delivery of Health and Social Care Integration
- development workshops have been held with board members and officers on financial management and governance
- a review of the integration scheme has been initiated which will include consideration of the governance arrangements and will be concluded in 2020
- an integrated transformation board has been created, consisting of the chief officer of the IJB, along with the chief executives of the council and NHS board
- a revised and updated medium-term financial strategy is in development, which will identify savings options for closing the forecast funding gaps and should be in place to inform budget-setting for the period 2020/21-2022/23
- a new performance management framework is being introduced in 2020 to support Best Value, with the draft framework submitted to the board in December 2019
- a new strategic plan was approved in September 2019 covering the three years until 2022
- new arrangements for out-of-hours services have begun to be phased in
- 'Total Mobile' the councils digital rostering system has now been rolled out to external service providers, representing progress with digital transformation.

Financial projections for 2019/20 show that an overspend of £10.1 million is expected

8. The latest forecast of expenditure for 2019/20 (based on information to the end of September) shows an expected overspend of £3.5 million. This is in addition to the £6.6 million for which savings had not been identified when the budget was set. The total effect is a projected underlying deficit of £10.1 million (1.9 per cent of total budgeted expenditure).

Conclusion

9. Fife IJB is not alone in facing challenges with integration and transformation of health and social care. However, it is clear from the annual audit report for 2018/19 that progress at Fife has been slow and that there are ongoing issues with financial sustainability.

10. There is some positive progress following the appointment of a new chief officer and chief finance officer. Completing the revised medium-term financial strategy should be a key priority for the board, alongside the review of the integration scheme and developing a shared understanding of the respective roles of the key partners.

11. An ongoing process of building collaborative leadership and relationships will be needed to ensure the scale and pace of progress improves at Fife IJB. Significant short and medium-term financial issues are likely to remain until transformation of services can be achieved. It will be necessary for the IJB to be clear in its approach and to focus on changes that deliver savings to get the board onto a more sustainable footing.

12. I invite the Commission to consider the auditor's findings.

The 2018/19 audit of Fife Integration Joint Board

Report on significant findings

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Agenda Item	12

Report to West Lothian Integration Joint Board Audit Risk and Governance Committee

Report Title: CIPFA Financial Management Code

Report By: Chief Finance Officer

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ☐ - is to provide assurance ☑ - is for information ☐ - is for discussion ☑ This report sets out the CIPFA Financial Management Code which has been designed to support good practice in financial management and assist in demonstrating financial sustainability.
Recommendations	It is recommended that the committee notes and considers the following recommendations which are intended to be submitted to the Board for approval: 1. Note the CIPFA Financial Management Code and key messages included in the report 2. Agree the IJB will comply with the code for financial year 2021/22 3. Note the officer responses to demonstrate how existing processes in the IJB meet the standards of the code following the publication of the guidance notes 4. Agree the action plan to ensure full compliance with the code
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.
Resource/ Finance/ Staffing	The CIPFA Financial Management Code provides a series of financial management standards and supports governance in local government bodies.
Policy/Legal	Section 12 of the Local Government in Scotland Act (2003) states that the authority must observe proper accounting practices that are signed off by auditors.
Risk	None.

Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	The requirements of the CIPFA Financial Management Code will assist in effective financial delivery of the IJBs Strategic plan.
Locality Planning	The requirements of the CIPFA Financial Management Code will assist in effective locality planning.
Engagement	Consultation with relevant officers.

Terms of Report

1. Introduction

1.1 The CIPFA Financial Management Code is designed to support good practice in financial management and assist in demonstrating financial sustainability. Compliance with the FM Code is the collective responsibility of Board members, the chief finance officer (CFO) and the leadership team.

1.2 The FM Code is based on a series of principles supported by specific standards which are considered necessary to:

- Financially manage short, medium and long-term finances
- Manage financial resilience to meet unforeseen service demands
- Manage un-forecast shocks in financial arrangements and circumstances

1.3 The IJB has a statutory duty to meet the requirements set out in the Local Government in Scotland Act 2003, whereby the IJB must comply with proper accounting practices that are confirmed by the external auditors to have been observed and complied with.

2. The CIPFA Statement of Principles of Good Financial Management

2.1 The principles of good financial management have been developed to focus on an approach which will assist in determining whether, in applying the standards of financial management, a body is financially sustainable. The principles are as follows:

- Organisational Leadership – demonstrating clear strategic direction based on a vision where financial management is embedded into organisational culture.
- Accountability – medium term financial planning that drives the annual budget process and is supported by effective risk management, quality supporting data and whole life costs.
- Transparency – financial management is undertaken with transparency, using consistent, meaningful and understandable data, reported frequently with evidence of officer action and Board member decision making.
- Standards – adherence to professional standards is promoted by the leadership team and is evidenced.
- Assurance – sources of assurance are recognised as an effective tool for financial management, including scrutiny and the results of internal and external audit and inspection.

- Sustainability – long term sustainability of services is at the centre of all financial management processes and is evidenced by prudent use of public resources.

3. The Application and Structure of the FM Code

3.1 Although the FM Code does not have legislative backing, it applies to local authorities and other authorities, such as integration authorities and covers bodies defined in Section 7 and Section 10 of the Local Government in Scotland Act 2003. The code recognises that some bodies have different structures and legislative frameworks that mean full compliance with the code is not possible but adherence to the principles is still considered appropriate. The Code is designed to be flexible to the nature, needs and circumstances of individual authorities. The guidance also notes that that the code is not intended to be prescriptive and it is up to each authority to determine the extent to which it complies, which should be in a way that is appropriate and proportional for an authority of its size, responsibilities and circumstances.

3.2 This flexibility is relevant to integration authorities given their role as a strategic planning body which does not employ staff or manage physical cash resources. For example, a key aspect of the new code is the alignment to the CIPFA Prudential Code but this does not apply to IJBs given they do not have responsibility for capital resources or cash investments and borrowing

3.3 Taking account of this, the IJB's compliance with the code will be proportionate to the nature of the IJB legal entity established but will seek to use compliance with the Code as a means of supporting good practice in financial management and achieving financial sustainability. The first full year of compliance for the Code is 2021/22.

4. The CIPFA Financial Management Standards

The CIPFA financial management standards are presented and explained in seven sections of the FM Code.

5. Section 1 – The Responsibilities of the Chief Finance Officer and Leadership Team

Financial Management Standard A – The leadership team is able to demonstrate that the services provided by the authority provide value for money

5.1 It is for the leadership team to ensure that the authority's governance arrangements and financial management style promotes financial sustainability. An important element of collective decision-making is to understand risks and the statutory responsibilities.

5.2 Consideration of the key elements of value for money; economy, efficiency, effectiveness and equity should be an integral feature in decisions taken by the leadership team in the delivery of services and allocation of resources.

Financial Management Standard B – The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government

5.3 The requirements of legislation and professional standards should be fulfilled by the CFO in the performance of their duties. principles that define the core activities and behaviours of authority CFOs and the organisational arrangements needed to support them are noted in the code.

6. Section 2 – Governance and Financial Management Style

Financial Management Standard C – The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

6.1 Proper governance and financial management arrangements are in place, including a scheme of delegation ensuring that frontline responsibility for internal and financial control starts with those who have management roles. Those responsible for the delivery of services are also held responsible for the financial management and associated expenditure and income.

6.2 Good governance is evidenced by actions and behaviours as well as formal documentation and processes. A successful leadership team has a culture of constructive challenge built on rigorous examination of goals, underlying assumptions and implementation plans.

Financial Management Standard D – The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016

6.3 The authority should encourage sustainable delivery and improved accountability by establishing a benchmark for good governance. The CIPFA/SOLACE Delivering Good Governance in Local Government: Framework supports the development and maintenance of codes of governance and accountability for appropriate conduct of business. Reporting on compliance, effectiveness and improvement can usually be undertaken within the authority's annual governance statements, which must be published alongside financial statements.

Financial Management Standard E – The financial management style of the authority supports financial sustainability

6.4 CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three financial management styles:

- Delivering accountability (economy)
- Supporting performance (efficiency)
- Enabling transformation (effectiveness)

6.5 The CIPFA Financial Management Model uses these styles to describe the different standards of financial management in authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and in turn, delivers accountability. When these foundations are established, authorities need to move up through the hierarchy of financial management styles in response to increasing risk.

7. Section 3 – Medium to Long-term Financial Management

7.1 CIPFA does not believe that the time horizon of financial planning is determined by the time horizon of government grant settlements and, that to be able to demonstrate financial sustainability, a longer-term perspective is essential. The greater the uncertainty over central government policy then the greater the need to demonstrate long-term financial resilience given the risks attached to core funding.

Financial Management Standard F – The authority has carried out a credible and transparent financial resilience assessment

7.2 Authorities must critically evaluate their financial resilience. Existing strategies may be financially sustainable, but they must still have been tested and demonstrated in a financial resilience assessment. Requiring analysis of future demand and consideration of alternative options for matching demand to resources, focussing on key longer-term revenues and expenses and addressing key risks to which the authority will be exposed are important factors in considering financial resilience.

Financial Management Standard G – The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

7.3 The authority will need to demonstrate a robust understanding of the risks to its financial sustainability and how the risks identified have informed a strategic plan and long-term strategy. There needs to be an over-arching strategic vision of how it intends to deliver outputs and outcomes, which should include a statement setting out the vision and the underlying strategy.

7.4 CIPFA is not prescriptive about the time period of the long-term financial strategy. However, CIPFA would promote ambition and the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key cost drivers, especially those linked to the age profile of a community can be foreseen in broad terms for at least a decade or more ahead.

Financial Management Standard H – The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities

7.5 This is not directly relevant to integration authorities.

Financial Management Standard I – The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

7.6 CIPFA does not anticipate that a long-term financial strategy would provide sufficient details to shape the annual budget setting process. Therefore, authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) that is consistent with and integrated into relevant service plans. The plan should be prepared on the basis of a robust assessment of relevant drivers of costs and demand and tested for resilience against realistic potential variations of those costs and demand drivers.

8. Section 4 - The Annual Budget

Financial Management Standard J – The authority complies with its statutory obligations in respect of the budget setting process

8.1 The annual budget report is a key document for the authority and the preparation process needs to be undertaken with detailed consideration at a time when difficult decisions may be necessary. Authorities need to be aware of the statutory obligations in respect of the budget-setting process.

Financial Management Standard K – The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

8.2 This report should accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the subsequent impact should this be the case.

CIPFA highlights that a well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate to the risks to which it is exposed to ensure financial sustainability for the foreseeable future.

9. Section 5 – Stakeholder Engagement and Business Cases

Financial Management Standard L – The authority has engaged, where appropriate, with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget

9.1 The FM Code sets out that stakeholder consultation helps to encourage community involvement in the design of services and their ongoing delivery, especially when an authority adopts an enabling approach to service delivery with active involvement of the third sector and could be beneficial in facilitating future service expenditure reductions.

9.2 Authorities should seek to engage with key stakeholders in the development process of the long-term financial strategy, medium-term financial plan and annual budget.

Financial Management Standard M – The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

9.3 Financial sustainability is dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on appropriate option appraisal techniques. The chief finance officer is responsible for ensuring that all material decisions are supported by an appropriate option appraisal.

10. Section 6 – Monitoring Financial Performance

Financial Management Standard N – The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

10.1 The FM Code notes the importance of translating policy decisions into actions to prevent unplanned overspends and/or preventing the non-delivery of savings. Non-financial performance measures can be used as another indication that resources do not match service user expectations. Trends should be used to inform the decisions taken on the medium-term and long-term financial planning.

Financial Management Standard O – The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

10.2 Contingencies and commitments should be monitored to identify any items where balance sheet provision may have been realised. Authorities should identify the elements of the balance sheet most critical to financial sustainability. Unplanned use of reserves should be reported to the leadership team in a timely manner.

11. Section 7 – External Financial Reporting

Financial Management Standard P – The chief finance officer has personal responsibility for ensuring that the statutory accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting

11.1 Financial statements provide the accountability link between planned performance, resources and outcomes, financial and others, which are achieved.

11.2 The CFO should be aware of their responsibilities in terms of the preparation of the annual financial statements and these responsibilities should be included in the CFO's role description, personal objectives and other relevant performance management mechanisms. Financial statements should be prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

Financial Management Standard Q – The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions

11.3 A monitoring process should explain how material variances from initial and revised budgets to the outturn report in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them.

12. Implications for West Lothian IJB

12.1 The IJB has a medium term financial plan for which was initially for the period 2018/19 to 2022/23. The pandemic has impacted on the development of future medium term financial planning and this is a area where further work is required during 2021. The annual budgeting process ensures that financial planning assumptions are reviewed and updated each year. An update on MTFP assumptions for the period 2020/21 to 2022/23 was provided to the Board in June 2020.

12.2 A finance update showing the current year budget position against spend and highlighting key risks as well as progress towards delivery of savings is provided to the Board on a regular basis. The 2019/20 annual audit reports from the IJB's external auditors recognises the IJB's good practice in providing accurate financial reporting to the Board.

12.3 The IJB's approach is already largely consistent with the approach set out in the Code. Constrained financial resources continue to be a major risk and therefore a more strategic approach will be essential to meet the medium to long term challenges arising from growing demands and limited public sector funding.

12.4 The Code sets out a range of statements which the IJB should comply with and Appendix 2 details the existing processes, procedures and documentation currently used that are relevant to assessing IJB compliance. A number of action points, including reviewing the IJB's Financial Regulations and Scheme of Delegation, and further development of medium term financial planning are proposed to ensure full compliance with the code for financial year 2021/22.

Appendices	1. CIPFA Financial Management Code 2. CIPFA Financial Management Code Action Plan
References	Annual Code of Practice on Local Authority Accounting CIPFA Statement on the Role of the Chief Financial Officer in Local Government CIPFA/SOLACE Delivering Good Governance in Local Government: Framework
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financial management code

guidance notes

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Joanne Pitt,
CIPFA Policy Manager Local Government

Contents

Introduction

With local authorities across the UK facing the challenges of reduced funding and increased demand for services, the need for robust financial management has never been more important.

But the high-profile issues faced by a number of authorities in recent times indicate that the principles of good financial management have not been embedded universally into the ways in which authorities operate.

Consequently, CIPFA has developed the Financial Management Code (FM Code), which sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

USING THESE GUIDANCE NOTES

These guidance notes seek to assist authorities in their efforts to comply with the FM Code, by exploring in more detail the themes addressed in the FM Code and by providing suggestions and ideas as to how it can be implemented in practice.

CIPFA recognises, however, that different authorities operate in different ways, face different challenges and have different levels of resources at their disposal. And so what may work well within one authority may not be relevant, practical or affordable for another.

These guidance notes are not intended to be prescriptive in any way and all authorities are encouraged to use the notes in a way that best reflects their structure, type, function and size.

Consequently, these guidance notes do not purport to set out the only way to comply with the requirements of the FM Code. They seek simply to provide ideas and suggestions as to how authorities might comply with the FM Code and how they might demonstrate that compliance has been achieved.

Ultimately, though, it is for each authority to ensure that it complies with the FM Code in a way that is appropriate – and proportional – to its own circumstances.

These guidance notes apply to all those to whom the Code applies including all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003

- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

WHO MIGHT USE THESE GUIDANCE NOTES

The guidance notes aim to be a resource for those who are supporting their organisations with the implementation of the FM Code and may be particularly helpful to officers in those organisations including chief finance officers and senior finance professionals, so are written primarily from a financial – rather than a service – perspective.

However, each section also contains a summary overview, which may be useful for chief executives and other senior managers, as well as for members or other stakeholders.

Police bodies in England and Wales do not have elected members, but have a directly elected police and crime commissioner (PCC), and a chief constable. Both are separate legal entities and local authorities for the purposes of this document, with the PCC holding the chief constable to account for the delivery of policing in their area. The exceptions are in London and Greater Manchester where the mayor undertakes the role of PCC.

THE PURPOSE OF THE SECTION SUMMARY

Each section within the guidance notes starts with a summary of the topics addressed in that section, to allow readers to focus their attention on the topics that are of most relevance to them. As the guidance notes draw on a number of familiar publications it will be for the authority to decide on the level of detail they need from these notes. For some users the summary may meet all their requirements. Consideration of each topic concludes with a summary of key questions that authorities may wish to ask themselves in ensuring their compliance with the FM Code.

LINKS TO OTHER STANDARDS

Where the FM Code requires authorities to comply with other CIPFA standards, the guidance notes summarise the requirements associated with these standards, so as to ensure that comprehensive guidance is given. Authorities already familiar with the requirements of these other standards may wish to skip these sections of the guidance notes, which are identified clearly.

These guidance notes should be read in conjunction with the FM Code itself.

SUMMARY OF THE FM CODE

While authorities have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

The FM Code has several components, including the CIPFA *Statement of Principles of Good Financial Management*. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the six principles, the FM Code translates these principles into financial management standards. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards to be met if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

The principles of good financial management

The CIPFA Financial Management Code applies a principles-based approach. It does not prescribe the financial management arrangements that local authorities should adopt. Instead, the FM Code requires that a local authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The six underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities, local policing bodies and associated stakeholders. The principles have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

The principles are as follows:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

It is not possible – or, indeed, desirable – for the FM Code to anticipate all eventualities. Consequently, if any doubt arises as to whether or how the FM Code should be applied, reference should be made to these principles of good financial management, to establish whether any proposed financial management practice is within the spirit of the FM Code.

A financial management practice that conflicts with one or more of these principles will not be acceptable practice even if it is not ruled out explicitly by the FM Code itself.

The CIPFA financial management code

The CIPFA Financial Management Code translates the principles of good financial management into a series of standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

THE SCOPE OF THE FM CODE

The areas covered by the standards are:

- the responsibilities of the chief financial officer and leadership team
- governance and financial management style
- long to medium-term financial management
- the annual budget
- stakeholder engagement and business plans
- monitoring financial performance
- external financial reporting.

The financial management standards are designed to be sufficiently flexible so that they are relevant to the needs of the diverse range of authorities across the local government sector and to the varying circumstances in which these authorities operate and challenges that they face.

THE FINANCIAL MANAGEMENT STANDARDS

The detailed financial management standards set out in the FM Code are as follows:

Chapter 1	**The responsibilities of the chief finance officer and leadership team**
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government (2016)*
Chapter 2	**Governance and financial management style**
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
E	The financial management style of the authority supports financial sustainability

Chapter 3	**Medium to long-term financial management**
F	The authority has carried out a credible and transparent financial resilience assessment
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
Chapter 4	**The annual budget**
J	The authority complies with its statutory obligations in respect of the budget setting process
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves
Chapter 5	**Stakeholder engagement and business cases**
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
Chapter 6	**Monitoring financial performance**
N	The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
Chapter 7	**External financial reporting**
P	The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

THE AUTHORITY'S RESPONSIBILITIES IN DETERMINING COMPLIANCE WITH THE FM CODE

It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel, with justification, that their own financial management arrangements exceed by far the standards set out in the FM Code. Recent experience suggests, however, that the standards set out in the FM Code have been by no means universally achieved.

CHAPTER 1

The responsibilities of the chief finance officer and leadership team

Robust financial management is at the heart of the authority's ability to achieve its objectives and to deliver high quality services to its local community.

Indeed, after over a decade of reductions in funding and a consequent need to achieve significant cost and efficiency savings, it is no doubt at the top of the agenda for most, if not all, authorities.

Responsibility for managing the authority's financial resources and for ensuring its long-term financial sustainability lies with those responsible for making executive decisions and their advisors.

This chapter of the guidance notes considers:

- the way in which the authority's leadership team is able to demonstrate that its services provide value for money
- the extent to which the authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*

It starts by exploring the key elements of value for money – economy, efficiency, effectiveness and equity – as well as the importance of striking a balance between them.

It looks at how the authority can promote value for money, though strong governance, robust management of finances and risk, the review of service delivery arrangements, monitoring of service performance, and ensuring that services are accessible to all who can benefit from them.

It also considers how the authority can demonstrate that its services – including those delivered through outsourced or other mechanisms – represent value for money, such as through internal oversight and scrutiny, external assessment of performance and proactive communication with local stakeholders.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out a series of principles that govern the activities and behaviours of an effective CFO. This chapter of the guidance notes explores these principles and explains what they mean in practice. For PCCs and chief constables, please refer to the equivalent CIPFA *Statement for Police.*

Financial Management Standard A:

The leadership team is able to demonstrate that the services provided by the authority provide value for money

The achievement of value for money is the collective responsibility of elected members and senior officers, who together make up an authority's leadership team. In policing, the chief constable has a legal duty to secure value for money and the PCC, who holds the chief constable to account, has a legal duty to ensure value for money.

While the nature of the governance and management arrangements across local authorities – and other bodies to which the FM Code applies – may vary, the responsibilities of the leadership team in respect of achieving value for money from the authority's resources do not.

This means that, in order to achieve compliance with the FM Code, consideration of value for money should be an integral feature to the decisions made by the leadership team, especially those relating to the allocation of resources or to the delivery of services.

EXPLORING VALUE FOR MONEY

Value for money is a subjective concept. It depends not only on what one values, but also on what one considers an acceptable price to pay. So the perception of what does and what does not constitute good value for money will vary from one individual to another.

To facilitate the assessment of value for money, the concept is commonly broken down into four 'pillars', which are more readily measurable.

These pillars are as follows:

Economy 'Spending less'	Economy is a measure of the resources that the authority puts into the delivery of a given activity or service. To be economical, the authority should procure these inputs at the lowest possible cost, subject to maintaining appropriate standards of quality. *For example, an economical highways development scheme will procure the necessary resources (labour, materials, plant hire, etc) at the lowest possible unit cost.*
Efficiency 'Spending well'	Efficiency is about how well the authority translates these inputs into the outputs of an activity or a service. To be efficient, the authority should use the minimum possible level of inputs to produce each output, again subject to maintaining appropriate standards of quality. *For example, an efficient highways development scheme will minimise the volume of resources required to construct each mile of road, eg through proactive scheduling and minimisation of waste.*
Effectiveness 'Spending wisely'	Effectiveness considers the extent to which the outputs that the authority has generated lead to the outcomes that it wants to achieve. To be effective, the authority's actions should have the desired positive impact on people's lives, such as greater opportunity, improved skills or changed behaviours. *For example, an effective highways development scheme will have a clear rationale for the road under construction and will construct the right road, in the right place and at the right time.*

Equity 'Spending fairly'	Equity is about the extent to which the outcomes generated by the authority have been made accessible to all those who could benefit from them. To be equitable, the authority should ensure that it takes account of the ability of different individuals and groups to access its services and that it makes arrangements to ensure that these services are accessible to all who could benefit from them. *For example, an equitable highways development scheme would be accessible to all forms of traffic – including pedestrians and cyclists – and might also feature suitable pedestrian crossing points (with facilities for visually-impaired pedestrians and wheelchair users) and appropriate street furniture.*

In making decisions, allocating resources and planning the delivery of services, the authority should seek to ensure that its services are economical, efficient, effective and equitable. The authority should also be able to demonstrate that it has taken these factors into account when making decisions, allocating resources and planning the delivery of services.

There is, however, a delicate balance to be achieved across these four pillars of value for money. For example, using cheaper materials can improve the economy of an activity, but will have a negative impact on efficiency if sub-standard materials generate higher levels of waste. And it is perfectly possible to undertake an activity that is highly economical and supremely efficient, but ultimately ineffective in that it does not achieve what the authority set out to do.

Consequently, the authority may wish to consider not only how it will achieve economy, efficiency, effectiveness and equity, but also how it will find the right balance between these potentially competing factors.

HOW TO PROMOTE ECONOMY, EFFICIENCY, EFFECTIVENESS AND EQUITY

There are a number of actions that the authority could – and, in fairness, probably already does – take to promote the economy, efficiency, effectiveness and equity of its services and to demonstrate its compliance with the FM Code.

The first of these take the form of high-level governance and management arrangements:

A clear governance structure	The authority has a clear governance structure, with well-defined roles for all members of the leadership team. The collective responsibility of the leadership team for the achievement of value for money is made explicit.
Scrutiny arrangements	The authority's activities – including, but not limited to, decisions made by the leadership team – are subject to appropriate levels of scrutiny, for example by an overview and scrutiny committee or an audit committee.
Audit arrangements	The authority has in place arrangements for external and internal audit. The external auditor confirms, as part of their annual audit opinion, whether the authority has in place suitable arrangements to secure value for money. The remit of the authority's internal auditors includes consideration of value for money.
Clear objectives and strategy based on local need	The delivery of the authority's services is guided by a corporate plan, or a similar document, which sets out the authority's objectives and how it will meet them. This corporate plan is based on an assessment of local need and is approved by the leadership team.

Effective service and financial planning	The authority has in place detailed plans and strategies for the delivery of its principal services, which are consistent with the achievement of the objectives in the corporate plan. The authority also has in place an annual budget, setting out how the delivery of these services will be funded.

The authority can also help to achieve value for money by having in place robust arrangements surrounding the commitment of expenditure, the oversight of contracts with third parties and the management of risk:

Financial regulations	The authority has in place a suite of financial regulations, which set out how the authority manages its finances, and implements suitable mechanisms to ensure compliance with these regulations. The financial regulations may be supplemented by further guidance to members and officers on the implementation of the regulations.
Procurement regulations	The authority has in place, either as part of its financial regulations or as a stand-alone document, specific regulations regarding the procurement of goods and services. These include arrangements for ensuring that goods and services are procured in an economic manner.
Contract management arrangements	The authority has in place specific arrangements regarding the management of contracts with third-party suppliers, to ensure that the goods or services to which the contract applies are delivered as agreed. Contract management arrangements are proportional to the value and significance of the contract.
Risk management	The authority has in place a systematic approach to identifying, assessing and managing risks to the achievement of its objectives. This approach is applied at a corporate level as well as at the level of the delivery of individual services. Significant risks, and the actions being taken to mitigate them, are reported to the leadership team.

The authority may also wish to assess the extent to which its services represent value for money by reviewing explicitly the ways in which these services are delivered or by comparing the authority's own services and service performance with those of other authorities:

Efficiency reviews	The authority undertakes a programme of efficiency reviews, designed to assess the extent to which its principal services are operating efficiently and to make recommendations for improvement. These reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
Benchmarking	The authority uses benchmarking techniques to assess the economy and efficiency of its services and to identify opportunities for improvement, by comparing key performance measures across services internally or with other authorities. This could take the form of a mutual data-sharing arrangement with other authorities or participation in a formal benchmarking scheme.
Peer review	The authority invites representatives of other authorities to review the delivery of specific services, to use their experience to assess how well these services are performing and to make recommendations for improvement. This could take the form of an informal arrangement with other authorities or participation in a formal peer review scheme.

There are also ways in which the authority could help to ensure that its services are effective, in that they are achieving the authority's objectives and meeting the needs of service users:

Monitoring of performance data	The authority collects and monitors appropriately-defined performance data to assess the extent to which its services are achieving their objectives. High level performance data is reported regularly to the leadership team. Prompt action is taken to address any areas of poor performance.
Service reviews	The authority undertakes a series of service reviews, designed to assess the extent to which services are achieving their objectives and meeting the needs of service users. Like the efficiency reviews discussed above, service reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
User surveys	The authority undertakes a periodic survey of users of particular services, designed to assess the extent to which these services meet users' needs and to identify opportunities for improvement.
External assessments	The authority engages with statutory and non-statutory external reviews of its services, such as Ofsted reviews of children's social care services, and seeks to use the results of these reviews to improve the operation and management of the services under review. It is worth noting, furthermore, that the results of such reviews are used frequently by external auditors when forming their own conclusions about the arrangements in place across the authority to secure value for money.

While equity is a relatively recent addition to the concept of value for money, there are nevertheless things that the authority could do to ensure that its services are accessible to all those who could benefit from them:

Equality impact assessments	The authority undertakes equality impact assessments of policies, activities and services, to ensure that they do not – deliberately or inadvertently – discriminate against certain groups or individuals, especially those that are disadvantaged or vulnerable.
Engagement with service users	The authority engages with survey users from different backgrounds – for example, though a service user panel or similar – to assess the extent to which services are accessible to all users and potential users and to identify opportunities for improvement.
Engagement with the voluntary sector	The authority engages with voluntary organisations working with disadvantaged and vulnerable groups and individuals, to identify barriers to accessibility and to explore how its services could be made more accessible to those who could benefit from them.

DEMONSTRATING VALUE FOR MONEY

It is not sufficient, however, for the authority to simply achieve value for money in the delivery of its services. The authority's leadership team needs also to be able to demonstrate, in line with the requirements of the FM Code, that value for money is being sought and delivered.

Indeed, under proposed changes to the National Audit Office's (NAO) *Code of Audit Practice,* the authority's auditors, in seeking to reach a conclusion on the extent to which the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, will henceforth place greater emphasis than previously on the actions taken by the authority to improve economy, efficiency and effectiveness, including how it has used information about its costs and performance to improve the way it manages and delivers its services. This will apply only to those authorities that fall within the scope of the NAO's *Code of Audit Practice.*

The most straightforward way to demonstrate the authority's commitment to achieving value for money is to undertake a range of activities designed to ensure that the authority's services are economical, efficient, effective and equitable and to retain evidence that these activities have been undertaken and that the authority has used them to identify and to realise opportunities for improvement.

This could include, for example:

- an overview of the authority's governance arrangements and examples of how decisions are scrutinised
- details of efficiency or service reviews undertaken, together with their findings and any subsequent improvement action taken
- details of economy and/or efficiency savings achieved, together with how they have been achieved and the impact on the relevant services
- the results of user surveys and/or engagement with service users or voluntary sector organisations.

The authority could also draw on the judgements of others as to whether its activities represent value for money, such as its internal and external auditors, statutory reviews of individual services and, for police and fire services, inspection reports by Her Majesty's Inspecorate of Constabulary and Fire and Rescue Services.

The authority may also wish to communicate proactively to local stakeholders its approach to value for money and its performance in ensuring that value for money is achieved. This could include, for example:

- addressing value for money explicitly in the narrative report or annual governance statement in the authority's annual financial statements
- preparing an annual value for money report, summarising the action that it has taken to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity
- providing information via its website or other medium explaining how the authority works to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity.

The authority may wish to present its activities in respect of value for money in the context of a broader consideration of how it creates value for its local community. It could do this, for example, by adopting an approach such as integrated reporting, which helps organisations to communicate how their strategy, governance, performance and prospects, in the context of the external environment in which they operate, lead to the creation of value in the short, medium and long term.

VALUE FOR MONEY AND ALTERNATIVE DELIVERY MECHANISMS

As the demands placed on the public sector become ever more challenging and complex, many authorities opt to explore alternative arrangements for the delivery of public services and assets.

However, while the authority can delegate the delivery of such services or assets to its partners, it remains responsible for ensuring that these services and assets are delivered. It also remains accountable for services and assets that are delivered in its name.

Consequently, it is imperative that the authority has in place appropriate arrangements for ensuring effective oversight of and accountability for any alternative delivery mechanisms in which it has engaged.

THE NATURE OF ALTERNATIVE DELIVERY MECHANISMS

Such arrangements can take a number of forms, including:

Outsourcing contracts	The authority contracts with an external partner to deliver a service on its behalf. The partner may be a commercial entity or, increasingly, a voluntary sector organisation. *For example, the outsourcing of the authority's refuse collection contracts to a commercial provider.*
Private finance initiative (PFI) contracts	The authority engages with an external partner – or a consortium of partners – to design, build, finance and operate an infrastructure asset and associated services. *For example, the construction of a new headquarters building and the provision of facilities management services.*
Joint ventures	The authority shares an equitable stake in an enterprise with a public or private sector partner, sharing both the risk and the reward in the delivery of a service or asset. *For example, working with a homelessness charity to set up an advice hub for local people threatened with homelessness.*
Shared services arrangements	The authority pools its resources with those of other public sector partners, to benefit from efficiency savings and to increase service resilience. *For example, sharing a senior post with another authority or sharing 'back office' functions between several organisations.*
Local authority trading companies	The authority establishes an entity that is owned and controlled by it, but that operates in a commercial manner and (potentially) competes with other providers. *For example, setting up a company that provides civil engineering services to the authority and to external customers.*
Public service mutuals	The authority 'spins out' a service delivery entity, which demonstrates a high level of employee control, influence or ownership. *For example, the operation of libraries by teams of employed and volunteer staff outside the direct control of the authority.*

It must be noted that not all of these routes are open to all types of local authority. For example, PCCs and chief constables do not have powers to trade and therefore the route of local authority trading companies is not directly open to them, though they may collaborate with others who hold such powers, such as fire and rescue authorities.

PRINCIPLES FOR OBTAINING VALUE FOR MONEY

In order to ensure that alternative delivery mechanisms represent value for money, it is important that the authority establishes them carefully and oversees them wisely.

This includes:

- focusing on long-term value creation and sustainable service delivery, rather than on the achievement of short-term savings
- understanding and controlling costs within the financial context, safeguarding financial arrangements with a clear line of oversight
- understanding the nature and extent of risk inherent to such arrangements and ensuring that such risk is managed proactively and robustly
- creating a culture of openness and mutual respect, in which the partners can raise issues and concerns without fear of penalty
- promoting a collaborative, problem-solving approach among the partners, rather than a reliance on contractual provisions
- being adaptable to evolving circumstances, adopting a flexible and considered approach and recognising that sometimes things need to change
- embracing creativity, drawing on the combined skills, experience and expertise of the partner organisation(s)
- maintaining transparent and accountable arrangements for effective scrutiny and oversight, which respects the need for commercial confidentiality but is not constrained by it.

MAINTAINING EFFECTIVE 'LINE OF SIGHT' ACCOUNTABILITY ARRANGEMENTS

The authority should have in place appropriate arrangements for the effective oversight of any alternative delivery mechanisms upon which it relies for the delivery of services or assets.

While these arrangements should be tailored to the arrangement in question, some elements that might form part of these arrangements are as follows:

Governance arrangements	The arrangement has some kind of governing body, which brings together all partners to oversee its work. This body meets regularly and has appropriate administrative support. The authority has suitable representation on this governing body and participates actively in its deliberations.
Ways of working	The partners in the arrangement agree and implement appropriate ways of working. These cover things like operational management, financial management and communication. These arrangements may be set out in a contractual arrangement, but they are sufficiently flexible to respond to changing circumstances.
Performance measurement	The authority agrees with its partner(s) in the suitable ways to measure the performance for the arrangement. This might include development milestones, process measures, output targets or quality metrics. The partners also agree how, when and by whom performance will be measured.
Progress monitoring	The authority engages in regular monitoring of progress and performance in delivering the relevant service or asset. This encompasses all aspects of performance, including governance, management, operational, financial, quality and user satisfaction. Any performance deficiencies are addressed promptly, positively and proactively.
Input from service users	The authority – or its partner(s) – seeks regular feedback from service users and potential service users (if relevant) on the delivery of the service or asset, to ensure that it meets their needs and that the partner(s) are not focusing solely on easy-to-reach service users at the expense of those with more complex needs.
Client-side capacity	The authority ensures that it has available sufficient and appropriate internal resources to manage effectively its involvement in the arrangement and to maintain effective oversight of it. This includes securing the engagement of the authority's leadership team.
Financial transparency	The authority maintains oversight of the financial management of the arrangement. This might include regular financial reports and reporting against key financial performance metrics. The authority also seeks, where feasible, to implement open-book accounting arrangements, as they offer a transparent and fair way of procuring and delivering services and assets in the public sector.

Key questions

- Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?
- Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?
- Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?

Financial Management Standard B:

The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*

This element of the guidance notes summarises the requirements set out within the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government* or police equivalent.

The FM Code requires that the authority complies with CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government*. This statement describes the roles and responsibilities of the chief financial officer (CFO). It also sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties.

If the authority adopts different organisational arrangements from those that are set out in the statement, the authority should set out in its annual governance statement why this is the case and how its arrangements deliver the same impact as those set out in the statement.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* in applicable authorities.

This section summarises the requirements of the statement. The statement also sets out further ideas for how these requirements can be implemented, to which authorities may wish to refer when assessing their adherence to the statement and to the FM Code.

THE CHIEF FINANCIAL OFFICER

The CFO is the authority's most senior executive role charged with leading and directing financial strategy and operations.

The statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in local authorities and the organisational arrangements needed to support them.

Compliance with the FM Code requires that each of these principles is demonstrated reliably and consistently across the authority.

- **Principle 1:** The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- **Principle 2:** The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered and aligned with the authority's overall financial strategy.
- **Principle 3:** The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

- **Principle 4:** The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- **Principle 5:** The CFO in a local authority must be professionally qualified and suitably experienced.

KEY MEMBER OF THE LEADERSHIP TEAM

Local authorities are required to have a suitably qualified CFO with defined responsibilities and powers. The governance requirements in the statement – and, therefore, the requirements of the FM Code – are that the CFO:

- should be professionally qualified
- should report directly to the chief executive or equivalent and
- should be a member of the leadership team, with a status at least equivalent to other members.

The leadership team is collectively responsible for setting the strategic direction for the authority, for the management of its finances and for the delivery of public services. While performing a key corporate role within the leadership team, the CFO also has a responsibility to advise those members not in executive or leadership roles.

In policing in England and Wales, the relevant CFO should report directly to the chief constable or the PCC. It is the PCC who sets the strategic direction working with the chief constable, with the support of their leadership teams.

The CFO must participate in the strategy development and implementation responsibilities of the leadership team. The CFO must also ensure that the members of the leadership team have the financial capabilities necessary to perform their own roles effectively.

As well as having a fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focused on outcomes, and help to resource the authority's plans for change and development in the public services it provides.

The CFO must contribute actively to organisational issues and to corporate decision making. They must also exercise a professional responsibility to intervene in spending plans in order to maintain a suitable balance of resources, so that the authority remains in sound financial health.

ACTIVELY INVOLVED IN ALL MATERIAL BUSINESS DECISIONS

The CFO should play a leading role in advising and supporting the leadership team in turning policy aspirations into reality, by aligning financial planning and resources with the authority's vision and strategic objectives.

The CFO has direct responsibility for leading the development and implementation of the financial strategy necessary to deliver the authority's strategic objectives in a sustainable manner. The CFO must therefore work closely with decision makers to establish a medium to long-term strategy that ensures the financial sustainability of the authority.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax-raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and addressed appropriately.

The CFO should be actively involved in, and able to bring influence to bear on, all material business decisions whenever and wherever they are taken. The CFO also has an important role to play in ensuring that necessary financial information and advice is provided to the leadership team and decision makers at all levels across the authority.

LEAD THE PROMOTION AND DELIVERY OF GOOD FINANCIAL MANAGEMENT

The CFO must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The CFO must also promote financial literacy throughout the authority, so that the leadership team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

The CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. Better value for money releases resources that can be recycled into delivering more and better services, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the local authority.

Furthermore, the CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources.

LEADING AND DIRECTING A WELL-RESOURCED FINANCE FUNCTION

The finance function must have a firm grasp of the authority's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and to challenge those responsible for the authority's activities to account for their financial performance.

A strong customer focus both externally and internally must be a key feature of the way the finance function does business. The finance function must support the authority's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The CFO must promote financial literacy throughout the authority, including championing training and the development of relevant skills at all levels. However, the CFO has a particular responsibility for learning and development amongst finance staff, in order to ensure that both current and likely future finance skills needs are addressed.

PROFESSIONALLY QUALIFIED AND SUITABLY EXPERIENCED

The CFO must be able to exercise financial leadership throughout the authority. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and must promote these throughout the finance function.

The CFO must communicate complex financial information in a clear and credible way. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene if financial or ethical principles need to be asserted or defended.

In England and Wales, the officer appointed as the CFO must be a member of a recognised accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although, in both cases, this is widely acknowledged to be good practice.

The CFO must have a good understanding of the principles of financial management and an understanding of, and commitment to, the wider 'business', looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders.

The CFO must also have a good understanding of public sector finance and its regulatory environment and must comply with relevant professional standards. Furthermore, the CFO must personally set the tone throughout the authority that financial management matters and that it is a key part of everyone's job.

Key questions

- Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?
- Does the CFO lead and champion the promotion and delivery of good financial management across the authority?
- Is the CFO suitably qualified and experienced?
- Is the finance team suitably resourced and fit for purpose?

CHAPTER 2

Governance and financial management style

Good governance lies at the heart of the authority's ability to achieve its objectives, to manage its finances and to maintain the trust of those that it serves. It also encourages more robust decision making, greater scrutiny of decisions and better planning for the future.

This chapter of the guidance notes considers:

- how the authority's leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- the degree to which the authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
- the way in which the financial management style of the authority supports financial sustainability.

It starts by considering how the authority can establish a suitable framework for governance and internal control and how it can seek assurance that this framework is working effectively in practice. It also explores how the leadership team can espouse high standards of governance and internal control and how it can create, maintain and nurture a culture of robust governance and internal control throughout the authority.

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. This chapter discusses these principles and sets out how the authority can embed them into its activities and operations. There is a strong link between the principles of the good governance framework and the FM standards and reading both reinforces consistency and coherence.

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an uncertain future. This chapter outlines some of the challenges that the authority may face to its financial sustainability. It also introduces the four dimensions of financial management set out in the CIPFA Financial Management Model and explores how these can be used to develop and embed a financial management style that helps the authority to address these challenges.

Financial Management Standard C:

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

In setting out the requirement for the authority's leadership team to demonstrate in its actions and behaviours responsibility for governance and internal control, the FM Code emphasises the importance of the 'Nolan principles'.

These principles have been set out by the Committee on Standards in Public Life and form the basis of the ethical standards expected of public office holders.

The principles are as follows:

1. Selflessness	Holders of public office should act solely in terms of the public interest.
2. Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
3. Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
4. Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
5. Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
6. Honesty	Holders of public office should be truthful.
7. Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

The last of these principles is especially important for the purposes of the FM Code, as it highlights the need not only to acknowledge these principles, but also to ensure that the authority's leadership team – and, indeed, individuals throughout the authority – demonstrate them in their own actions and behaviours on a daily basis.

In order for the leadership team to demonstrate responsibility for governance and internal control, and therefore to ensure compliance with the FM Code, consideration should be given to the effectiveness of the arrangements in place including:

- establishing a clear framework for governance and internal control across the authority, including for those entities with which the authority works in partnership
- establishing clear arrangements for assurance and accountability
- espousing high standards of governance and internal control in its own activities
- creating, maintaining and nurturing a culture in which governance and internal control are embedded into the way in which the authority works.

As organisational complexity grows it is likely that there will also be an increase in partnership working or the use of other delivery structures. The leadership team must ensure appropriate arrangements are operating effectively. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

Specific actions that the leadership might take in each of these respects, which will help it to comply with the requirements of the FM Code, are explored in more detail below.

ESTABLISHING A CLEAR FRAMEWORK FOR GOVERNANCE AND INTERNAL CONTROL

A clear framework for governance and internal control is a cornerstone of the authority's ability to operate effectively. Some key elements of this framework are as follows:

Constitution	The authority has in place a constitution that sets out how it operates, how decisions are made and how the authority ensures that its activities are appropriate, transparent and accountable to local people. This constitution is readily available to all members of the leadership team, officers and members of the public.
Governance structure	The authority has in place a formal governance structure that is appropriate to the way in which it operates. This includes relevant committees and reporting lines, including in particular the provision for scrutiny of the decisions and actions of the leadership team.
Terms of reference	All committees and other elements of the authority's governance structure have formal, agreed terms of reference, setting out the scope of their responsibilities. They also have a defined membership and a suitable, pre-agreed schedule of meetings and work plan.
Conduct of meetings	Each meeting of the committees forming part of the authority's governance structure is guided by an agenda and has its proceedings and decisions recorded in formal, written minutes. Members of the committee, and others who may reasonably wish to address the committee, are given adequate notice of such meetings.
Scheme of delegation	The authority has in place a formal scheme of delegation, which sets out which individuals or committees are entitled to make which decisions. Specifically, it details which decisions are reserved for the authority acting as a corporate body, which can be taken by its committees, specified individual members of the leadership team, the chief executive (or equivalent) and specific officers. Within their overall scheme of governance, PCCs and chief constables in England and Wales also have a scheme of consent, reflecting their relationship as two separate legal entities.
Robust processes and controls	The authority has developed and implemented formal processes for its key activities, to ensure that they are undertaken robustly, efficiently and effectively. These processes are subject to suitable controls, so that the authority can be sure that the processes are implemented as designed.
Partnership governance	Where the authority works in partnership with other organisations in the delivery of services, it has in place appropriate arrangements to oversee these partnerships, to ensure that they are operating effectively and to monitor the achievement of the partnership's objectives.

ESTABLISHING CLEAR ARRANGEMENTS FOR ASSURANCE AND ACCOUNTABILITY

The authority will wish to seek assurance that its governance and internal control arrangements are operating effectively and that those responsible for the effective operation of these arrangements are held accountable. Some ways to achieve this are as follows:

Internal audit	The authority has in place formal arrangements for the provision of an internal audit function, which conforms to the Public Sector Internal Audit Standards. Conformity with these standards is verified by external assessment at least once every five years.
Head of Internal Audit	The authority ensures that the head of internal audit is able to fulfil their role effectively, in line with the responsibilities set out in the CIPFA *Statement on the Role of the Head of Internal Audit* (2019).
Internal audit planning, reporting and resourcing	Internal audit works to an agreed plan, which is based on a robust analysis of the authority's governance and internal control arrangements, the environment within which the authority operates and the risks and challenges that it faces. Internal audit is resourced adequately and reports to an audit committee.
Risk management	The authority has in place a robust approach to the identification, assessment and management of risks to the achievement of its objectives and to the delivery of services. Responsibility for the management of individual risks is allocated clearly. The status of significant risks and their management is reported regularly to the audit committee and to the leadership team.
Audit committee	The authority maintains an effective audit committee in accordance with the principles in CIPFA's *Position Statement on Audit Committees in Local Authorities and Police* (2018) and the supporting guidance publication. Its responsibilities include receiving reports on and monitoring the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors, the audit committee ensures that the recommendations are communicated to the leadership team and that the committee is informed of the effectiveness of the leadership team's response. Police audit committees are advisory, supporting the PCC and chief constable. See CIPFA's website for details about its support for audit committees.
External audit and inspection	Recommendations for corrective action made by the authority's external auditors are acted upon promptly. Furthermore, the authority welcomes – and, indeed, actively seeks out – peer challenge, reviews and inspections from regulatory bodies and implements any recommendations that result from them.

ESPOUSING HIGH STANDARDS OF GOVERNANCE AND INTERNAL CONTROL

The leadership team also needs to ensure that it maintains high standards of governance and internal control in its own activities. In addition to engaging proactively with the points outlined above, your arrangements are likely to include:

Code of conduct	The authority establishes formal codes of conduct for members of the leadership team, both officers and members. These codes of conduct are consistent with the Nolan principles, with the latest recommendations from the Committee on Standards in Public Life (reported in its 2019 report *Local Government Ethical Standards*) and with any other relevant principles or codes of practice. Members of the leadership team are required to confirm that they agree to comply with the relevant code of conduct. Any potential breaches are investigated promptly and proactively and suitable action is taken where breaches are found to have occurred.
Register of interests	The authority maintains an up-to-date register of interests for all members of the leadership team. This includes all interests that could potentially influence – or be seen to influence – a member of the leadership team's ability to act impartially in their role or when making decisions. Should a conflict of interests, either actual or perceived, arise, the authority takes appropriate steps to resolve it. The authority's approach to addressing conflicts of interests is recorded in a formal policy or document.
Constructive challenge	The leadership team espouses the principle of constructive challenge to all of its decisions and activities. Consequently, it has developed and implemented appropriate mechanisms to enable this challenge, such as: ■ engagement with relevant audit, scrutiny or oversight committees ■ engagement with the authority's internal auditors ■ consultation with relevant stakeholders prior to making decisions ■ consultation on new policies, plans and strategies. Being open to constructive challenge requires a degree of humility on the part of the leadership team. It does, however, result in better decisions for the authority.
Realism bias	The authority bases its decisions on a robust analysis of the current situation, rather than on what it would like the situation to be or what it needs the situation to be in order for a preferred option to work. This is demonstrated through: ■ detailed analysis of the current situation prior to significant decisions being made ■ a clear and robust decision-making procedure ■ engagement with relevant stakeholders ■ the seeking of appropriate professional advice ■ the use of realistic, evidence-based targets (eg for financial savings), rather than overly optimistic ones that may not be achievable in practice.
Balanced decision making	The authority seeks, in its decision making, to achieve a suitable balance between the desired social outcomes on the one hand, and the available financial resources and need for administrative efficiency, on the other. This is demonstrated through the use of, for example, suitable option appraisal techniques when making significant decisions as well as consideration of alternative models of service delivery.

CREATING, MAINTAINING AND NURTURING A CULTURE OF GOVERNANCE AND INTERNAL CONTROL

The 'tone at the top' is one of the main factors that influence the way in which the authority works. Consequently, the leadership team would be well advised to seek to create, maintain and nurture a culture of effective governance and internal control. In addition to the ideas discussed above, ways in which the leadership team can support such a culture include the following:

Walk the talk	The leadership team demonstrates a high standard of governance and internal control at all times and embraces conscientiously the authority's governance and internal control processes. Any suggestion that these standards do not apply to the leadership team is avoided. Indeed if anything, the leadership team holds itself to higher standards than it demands of the rest of the authority.
Strive for continuous improvement	The authority seeks to improve continuously its standards of governance and internal control. This could include, for example: ■ seeking to comply with new codes of practice as they are issued by relevant public or professional bodies ■ participating in quality mark schemes, award schemes and other development opportunities ■ responding appropriately to the findings of internal audit reviews, external audit recommendations and external inspections.
Reward good behaviours	The authority seeks to reward positive behaviours in respect of governance and internal control, for example by including such matters in role descriptions and individuals' performance goals and by assessing them in annual performance appraisals.
Don't tolerate bad governance or poor control	The authority ensures that any behaviour that falls short of the required standards of governance and internal control is identified and dealt with promptly and effectively. If poor governance or internal control is tolerated, it could percolate rapidly across the authority and dilute any messages that the leadership team might promote about the importance of high standards in these respects.

Key questions

- Does the leadership team espouse the Nolan principles?
- Does the authority have in place a clear framework for governance and internal control?
- Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?
- Does the leadership team espouse high standards of governance and internal control?
- Does the leadership team nurture a culture of effective governance and robust internal control across the authority?

Financial Management Standard D:

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)

This element of the guidance notes summarises the requirements set out within the CIPFA/ SOLACE *Delivering Good Governance in Local Government: Framework* and will act as a reminder to those already familiar with these principles.

The framework was introduced in 2016 and from this time all annual governance statements (AGS) will have used the framework in line with requirements from the government's Accounts and Audit Regulations 2015 and the latest version of the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom.*

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. It is based on the CIPFA/IFAC *International Framework on Good Governance in the Public Sector* (2014).

The framework provides a structure to help the authority to ensure that it has in place robust and effective governance arrangements. In order to comply with the FM Code, the authority should ensure that it has implemented the guidance contained in the framework across its activities.

To ensure compliance with the FM Code, whatever form of governance arrangements are in place across the authority, the authority should assess its governance structures against the principles contained in the framework by:

- reviewing its existing governance arrangements
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring the ongoing effectiveness of this local code
- reporting publicly on an annual basis its compliance with the authority's local code of governance and how the authority has monitored the effectiveness of its governance arrangements, together with how it plans to improve these arrangements in the future.

This reporting on compliance, effectiveness and improvement can usually be undertaken within the authority's AGS, which must be published alongside its financial statements.

THE PRINCIPLES OF THE GOOD GOVERNANCE FRAMEWORK

The framework sets out a series of core principles, which underpin the notion of good governance across the authority and its partnerships.

These core principles are as follows:

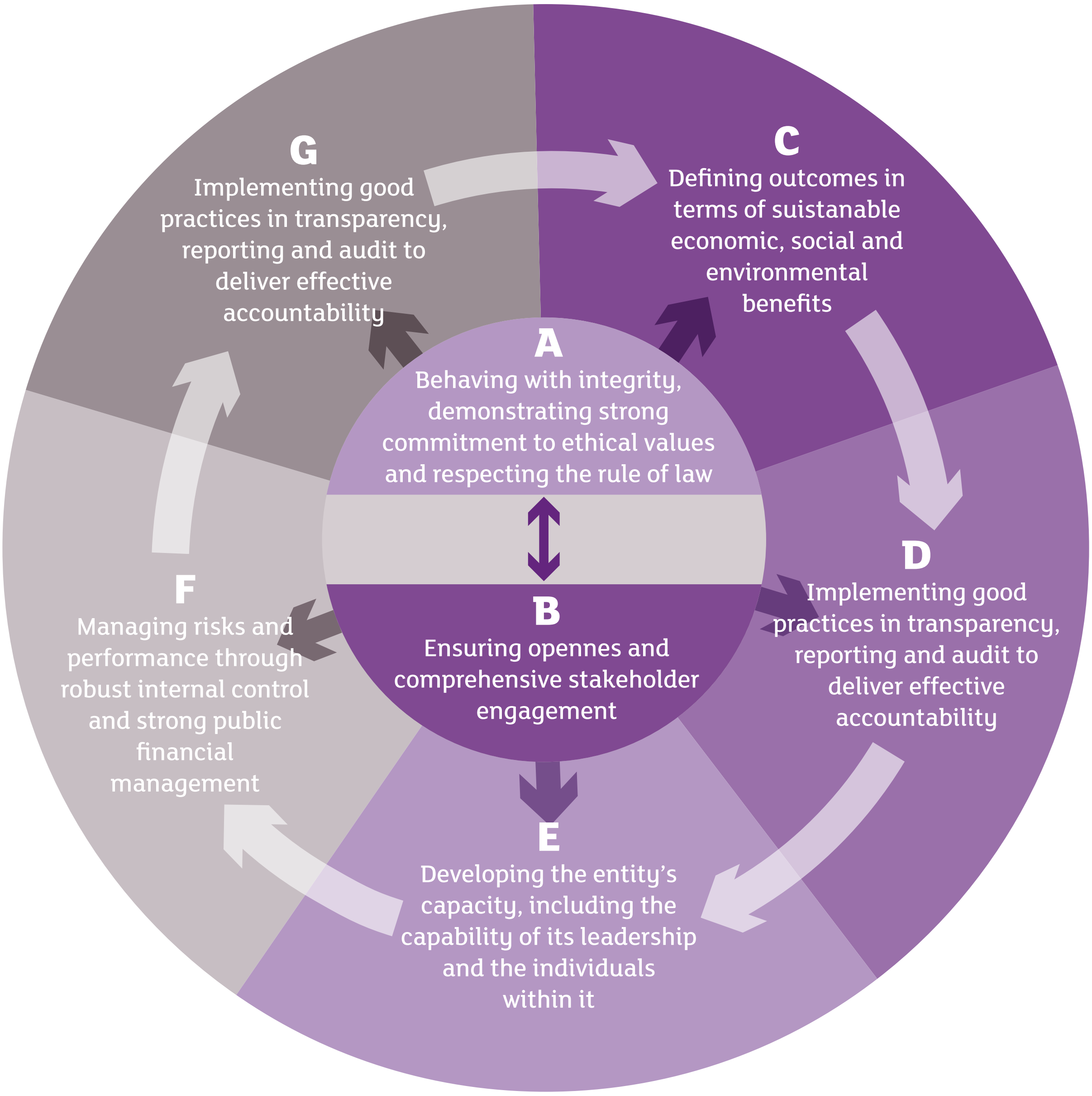
Principle A:	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
Principle B:	Ensuring openness and comprehensive stakeholder engagement.
Principle C:	Defining outcomes in terms of sustainable economic, social, and environmental benefits.
Principle D:	Determining the interventions necessary to optimise the achievement of the intended outcomes.
Principle E:	Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Principle F:	Managing risks and performance through robust internal control and strong public financial management.
Principle G:	Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The intention of the framework is that principles A and B underlie the implementation of principles C to G. The idea is that good governance is dynamic and that the authority as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

These core principles are displayed graphically in Figure 1 below.

Figure 1: The core principles of Delivering Good Governance in Local Government Framework



Source: CIPFA *Delivering Good Governance in Local Government Framework* (2016).

Each of the core principles of the framework encompasses a suite of sub-principles, which are in turn supported by a series of behaviours and actions, which aim to demonstrate good governance in practice.

These principles, sub-principles, behaviours and actions provide useful guidance and ideas as to how the authority can ensure that it complies with both the framework and the FM Code.

Integrity, ethical values and the rule of law

The authority is accountable not only for how much it spends, but also for how it uses the resources under its stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes the authority has achieved.

In addition, the authority has an overarching responsibility to serve the public interest, by adhering to the requirements of legislation and government policies.

It is essential that, as a whole, the authority can demonstrate the appropriateness of its actions across all activities and that it has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Openness and stakeholder engagement

Local government is run for the public good. The authority should, therefore, ensure openness in its activities. It should use clear, trusted channels of communication and consultation to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sustainable economic, social and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable.

Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of its authority and resources.

Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and to balancing competing demands when determining priorities for the finite resources available.

Achievement of intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that the authority has to make to ensure intended outcomes are achieved.

This requires robust decision-making mechanisms to ensure that the desired outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations.

Capacity and capability

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and to achieve intended outcomes within the specified periods.

A local government organisation must ensure that it has the capacity to fulfil its own mandate and the policies in place to guarantee that its management has the operational capacity for the organisation as a whole.

Because both the individuals working within the authority and the environment in which the authority operates will change over time, there will be a continuous need to develop the authority's capacity, as well as the skills and experience of individual staff members.

Managing risks and performance

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision-making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and service delivery.

Transparency, reporting and audit

Accountability is about ensuring that those making decisions and delivering services are answerable for them.

Effective accountability is concerned not only with reporting on actions completed, but also with ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner.

ANNUAL REVIEW AND REPORTING

The authority is required to prepare an annual governance statement, in order to report publicly on the extent to which it complies with its own code of governance, which in turn is consistent with the good governance principles in the framework.

This includes how the authority has monitored and evaluated the effectiveness of its governance arrangements in the year, together with any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit committee and other committees). It should be high level, strategic and written in an open and readable style.

The AGS should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
- reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
- an opinion on the level of assurance that the governance arrangements can provide and confirmation (if possible) that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion on the authority's governance arrangements and a commitment to monitoring implementation as part of the next annual review.

The AGS should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority. The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance). For police bodies in England and Wales, separate annual governance statements should be signed by the PCC and the chief constable as they are separate legal entities. No approval by committee is needed.

The authority is required to include the AGS with its statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published.

The production of a suitable AGS is a key piece of evidence that the authority has sought to comply not just with the framework and its own governance code, but also with the FM Code.

ADDITIONAL GUIDANCE ON THE IMPLEMENTATION OF THE FRAMEWORK

In recognition of the separate legislation applicable to different parts of local government and the impact that this will have on individual authorities' governance arrangements, separate guidance notes to accompany the framework are available for:

- local government in England
- local government in Wales

- PCCs and chief constables in England and Wales
- local government in Scotland.

The guidance notes are intended to assist the authority in reviewing its governance arrangements. They will also help the authority to interpret the overarching principles and terminology contained in the framework in a way that is appropriate to its governance structures, taking account of the legislative and constitutional arrangements that underpin them.

Key questions

- Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?
- Does the authority have in place a suitable local code of governance?
- Does the authority have a robust assurance process to support its AGS?

Financial Management Standard E:

The financial management style of the authority supports financial sustainability

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an increasingly uncertain future. Developing a robust approach to ensuring the financial sustainability of the authority's activities is central to compliance with the FM Code.

Achieving financial sustainability requires the authority to have the capacity, the capability and the confidence to plan for the long term and to focus on the achievement of longer-term objectives, rather than to exist simply from year to year.

Unfortunately, authorities face a range of challenges that can impact on their ability to plan effectively for the future and to develop and maintain a sustainable financial strategy.

These include:

- changes to the nature and level of public funding
- an ageing population
- ongoing pressures on adult and children's social care and other service areas
- a drive for greater efficiency in response to resource constraints
- increased demand for affordable housing
- uncertainty regarding the UK's ongoing relationship with the EU
- new risks associated with commercialisation.

Critical to the authority's ability to address these and other challenges is to have in place a robust approach to financial management, together with the capacity and capability to implement this approach consistently over time.

This includes ensuring that those individuals with specific responsibility for aspects of the authority's governance and financial management arrangements have the delegated powers and the appropriate skills and training to fulfil these responsibilities.

THE HIERARCHY OF FINANCIAL MANAGEMENT STYLES

In its Financial Management Model, which seeks to help authorities to develop an effective financial management style, CIPFA identifies a hierarchy of three financial management styles, namely:

A financial management style that supports performance can only be achieved once the authority has developed and embedded a financial management style that delivers accountability. A style that enables transformation can only be achieved once the other two elements of the hierarchy are in place.

Consequently, this hierarchy represents a sort of maturity model, to facilitate the development of the authority's approach to financial management over time and to help it to enhance its capacity and capability to create a financial management style that supports – and, indeed, promotes – financial sustainability.

DIMENSIONS OF FINANCIAL MANAGEMENT

The Financial Management Model sets out four dimensions of financial management. These cover a blend of 'hard-edged' attributes – things that the authority can cost and measure – as well as softer features like communications, motivation, behaviour and cultural change.

The dimensions are:

- **Leadership**, which focuses on strategic direction and business management, and on the impact on financial management of the vision and involvement of the authority's leadership team. The tone set from the top is critical.
- **People**, which includes both the competencies and the engagement of staff, within and throughout the authority.
- **Processes**, which examines the authority's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders**, which acknowledges the relationships between the authority and those with an interest in its financial health. The authority interacts with a complex web of stakeholders, such as central government, inspectors, taxpayers, partners, suppliers, customers or service users. External stakeholders have legitimate expectations about the finances of the authority. This is enveloped by the public interest.

These dimensions are deliberately related to other well-used quality and performance management tools, such as the balanced scorecard and the European Foundation for Quality Management model.

Within each of these dimensions, the Financial Management Model sets out the attributes that collectively characterise each level of the financial management hierarchy. These attributes would also allow the authority to demonstrate that it has developed and embedded an appropriate financial management style in the way in which it operates.

Leadership

Delivering accountability	■ Financial capability is regarded as integral to supporting the delivery of the authority's objectives. The CFO (or equivalent) is an active member of the leadership team, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team. ■ The authority has an effective framework of financial accountability that is understood clearly and applied throughout the organisation, from the leadership team through to front line service managers. ■ Within an annual budget-setting process the authority's leadership team sets income requirements, including taxation income, and allocates resources to different activities in order to achieve its objectives. The authority monitors its financial and activity performance in delivering planned outcomes.

Supporting performance	■ The authority has a developed financial strategy to underpin medium and longer-term financial health. The authority integrates its business and financial planning so that it aligns resources to meet current and future outcome-focused business objectives and priorities. ■ The authority develops and uses financial/leadership expertise in its strategic decision making and its performance management based on an appraisal of the financial environment and cost drivers.
Enabling transformation	■ The authority's leadership team integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

People

Delivering accountability	■ The authority identifies its financial competency needs and puts arrangements in place to meet them. ■ The authority has access to sufficient financial skills to meet its business needs.
Supporting performance	■ The authority manages its finance function to ensure efficiency and effectiveness. ■ Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions. ■ Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision makers understand and manage the financial implications of their decisions.
Enabling transformation	■ The authority develops and sustains its financial management capacity to help shape and support its transformational programme.

Processes

Delivering accountability	■ Budgets are accrual-based and calculated robustly. ■ The authority operates financial information systems that enable the consistent production of comprehensive, accrual-based, accurate and up-to-date data that fully meets users' needs. ■ The authority operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions administration). ■ The authority's approach to treasury management is risk based. It manages its investments, cash flows, banking, money market and capital market transactions effectively, balancing risk and financial performance. ■ The authority actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action. ■ The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action. ■ Management understands and addresses its risk management and internal control governance responsibilities. ■ Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s). ■ The authority's financial accounting and reporting are accrual-based, comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*, and meet relevant professional and regulatory standards.
Supporting performance	■ The authority's medium-term financial planning process underpins fiscal discipline, is focused upon the achievement of strategic priorities and delivers a dynamic and effective business plan. ■ Forecasting processes and reporting are well-developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making. ■ The authority systematically pursues opportunities to reduce costs and to improve value for money in its operations. ■ The authority systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management processes. ■ The authority continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised. ■ The authority manages its finance function to ensure efficiency and effectiveness.
Enabling transformation	■ The authority's financial management processes support organisational change.

Stakeholders

Delivering accountability	■ The authority provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory, legal and regulatory obligations.
Supporting performance	■ The authority demonstrates that it achieves value for money in the use of its resources.
Enabling transformation	■ The authority is responsive to its operating environment, seeking and responding to customer and stakeholder service and to spending priorities that impact on its financial management.

In seeking to comply with – and to demonstrate compliance with – the FM Code, the authority may wish to have regard to the dimensions of the Financial Management Model and to the attributes inherent to each of these.

These attributes are not, however, mandatory requirements of the FM Code, unless required specifically by other standards within this FM Code. Consequently, the authority is free to determine its own financial style and how this style supports the achievement of financial sustainability.

In CIPFA's view, an assessment of an authority's financial management style can best be undertaken by means of peer review. While this is not a mandatory requirement for compliance with the FM Code, it can yield a more objective, more balanced and more insightful view than one resulting from an assessment undertaken by the authority itself.

Key questions

- Does the authority have in place an effective framework of financial accountability?
- Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?
- Does the authority's finance team have appropriate input into the development of strategic and operational plans?
- Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?
- Has the authority sought an external view on its financial style, for example through a process of peer review?
- Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?

CHAPTER 3

Medium to long-term financial management

Effective governance and financial management is focused on ensuring that the authority is able to operate sustainably in the long term. This means that the authority needs to look beyond the limited time horizons of its funding arrangements and to consider the longer-term financing of its operations and activities.

This section of the guidance notes considers:

- whether the authority has carried out a credible and transparent financial resilience assessment
- the extent to which the authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- whether the authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
- the degree to which the authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

This chapter explores what a financial resilience assessment is and how the authority can undertake one. It also considers symptoms of financial stress and how the authority can manage its finances more effectively. This includes explicit consideration of, among other things, capital resources, reserves, savings plans and the use of performance information.

The FM Code requires that the authority demonstrates how the risks identified through a financial resilience assessment have informed the development of its longer-term financial strategy. This section considers the authority's strategic plan and financial strategy and explores how the technique of scenario planning can be used to inform their development.

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. This section outlines the aims of the Prudential Code. It also considers how the authority can develop a suitable capital strategy and how it can set and review the various indicators required under the Prudential Code.

The medium-term financial plan translates the authority's financial strategy into the near future. This chapter considers how the authority can develop a robust medium-term financial plan that coordinates and integrates financial and service planning, capital financial management, risk management and asset management plans.

Financial Management Standard F:

The authority has carried out a credible and transparent financial resilience assessment

The FM Code sets out that if the authority has not tested and demonstrated its long-term financial resilience, then its financial sustainability remains an open question. The FM Code requires, therefore, that the authority assesses critically its finance resilience. This is undertaken by means of an explicit financial resilience assessment.

In the financial resilience assessment, the authority explores the sensitivity of its financial sustainability to alternative plausible scenarios for the key drivers of costs, service demands and resources. This will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources.

This resilience testing should, the FM Code states, focus on the authority's principal longer-term revenues and expenses and the key risks to which the authority will be exposed. Without such stress testing, the authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Such a financial resilience assessment needs to be credible and transparent. To be credible, the assessment could be undertaken:

- by a suitably-qualified and experienced individual or team of individuals
- in an objective manner, ideally by an individual or team that is independent of the authority in question
- in accordance with an approach that is designed to focus on assessing the authority's financial resilience
- with consideration of an appropriate range of evidence, including interviews with key individuals and a review of relevant documentation.

In order to ensure transparency, the assessment could:

- be overseen by the authority's leadership team or by a suitable committee of the authority
- have clear terms of reference and a suitable methodology
- result in a clear and thorough report, including suitable conclusions and recommendations, that is reported to the authority's leadership team.

It would be beneficial for the leadership team to report to the authority on the action that it is taking in response to the assessment and to provide periodic updates on the extent to which this action has been taken.

In preparing a financial resilience assessment, the authority (for local authorities in England and Wales) may also wish to draw upon the report prepared by its section 151 officer, under Section 25 of the Local Government Act 2003, on the robustness of the estimates and the adequacy of reserves allowed for in the authority's annual budget.

SYMPTOMS OF FINANCIAL STRESS

The authority can exhibit financial stress in a number of ways. Some of the more common symptoms are as follows:

- **Running down reserves** – Using the authority's financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is not sustainable in the long term.
- **Failure to address financial pressures** – Refusing to make difficult decisions about how to reconcile funding and service pressures, or not recognising that such decisions

need to be made, is equally not a solution to challenges but instead simply increases the financial gap and the extent of change that will be required in future years.

- **Shortened planning horizons** – Long-term planning is more difficult in times of uncertainty, but it is still important, perhaps even more so than in more stable circumstances. A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions.
- **Lack of investment in infrastructure resources** – When resources are scarce, it is tempting to defer the maintenance and enhancement of assets (such as buildings) to future periods, which can result in the failure of key physical resources.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. Simply indicating that 'unidentified savings' will be made is not an acceptable strategy for financial resilience.
- **Unplanned overspends** – No budget is going to be absolutely spot-on. However, overspending against the budget is simply rolling over this year's problems into next year. It is a clear sign that the authority is failing to turn its financial policy decisions into action on the ground.

ASSESSING FINANCIAL RESILIENCE

There are a number of factors that drive the ability of the authority to withstand financial pressures. It would be helpful for these to be considered as part of any financial resilience assessment.

These factors include:

- getting routine financial management right
- planning and managing capital resources well
- using performance information effectively
- having clear plans for delivering savings
- managing reserves well.

We discuss each of these, together with how the authority could use them to ensure and to demonstrate its compliance with the FM Code, in more detail below.

GETTING ROUTINE FINANCIAL MANAGEMENT RIGHT

The first step is simply to ensure that the authority's basic financial management systems are working effectively and that the authority's financial performance and position is reported regularly and effectively to the CFO and to the leadership team.

This helps to ensure that the CFO and the leadership team all have a clear understanding of the authority's financial position and of the financial challenges and pressures that the authority faces.

It is important also that the leadership team, senior managers and service managers understand the authority's long-term financial strategy, what needs to be done to deliver it, and what their personal responsibilities are for helping to deliver it.

As a general rule, the authority might seek to:

- have in place robust arrangements for processing and recording income and expenditure in a timely manner
- prepare and agree an annual budget that breaks down income and expenditure targets to the level of individual services and budget holders
- provide budget holders with regular reports on their performance against their budget allocations, identify any significant variations from the agreed budget, and take prompt action to address them
- prepare regular, timely, accurate and comprehensible reports on the authority's financial performance and position for the leadership team.

PLANNING AND MANAGING CAPITAL RESOURCES WELL

The authority will have a range of capital resources at its disposal, which it uses to deliver services and to achieve its strategic objectives. These resources will include land and buildings, such as offices, schools, housing, parks and open spaces, leisure centres, libraries and much more.

The authority's ability to maintain these assets so as to ensure and to enhance their role in the delivery of services is crucial to its financial resilience. If housing, libraries or leisure centres fall into disrepair, for example, such that they are no longer able to fulfil their primary purpose, then the authority's ability to deliver the associated services is impaired and it has resources tied up in assets that it cannot use.

Consequently, planning and managing the use of the authority's capital resources – particularly its infrastructure assets – is vital. This includes understanding the role that these assets play in the delivery of services and ensuring that the authority's asset base remains fit for purpose.

As a general rule, the authority will seek to:

- have in place an agreed capital strategy, which is consistent with the authority's financial strategy and medium-term financial plan
- develop and agree a suitable asset management plan, which sets out how it will ensure that its asset base remains fit for purpose
- provide the leadership team with regular reports on the status of the authority's asset base and of any further action required to maintain and manage it.

In policing in England and Wales, the PCC has responsibility for property. The chief constable can hold assets, but is not permitted to own land or buildings. The PCC is responsible for producing a capital strategy and any borrowing undertaken in compliance with CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

USING PERFORMANCE INFORMATION EFFECTIVELY

In order to assess the authority's ability to withstand financial pressures, it is important to understand how well it is performing currently and how any financial challenges are likely to impact on this performance.

Authorities have a broad range of internal performance information available to them, from income and expenditure data to information on activity levels and service user satisfaction. This information can be collated to understand critical factors such as the unit cost of services, trends in service user satisfaction, and many more.

Another practical way to assess the authority's financial and operational performance is to compare the authority's costs, income, activities and performance with those of similar authorities or organisations. This is especially useful for factors such as the unit costs of services, which are more readily comparable than absolute costs or activity levels.

This 'benchmarking' approach can be undertaken through a mutual arrangement with one or more other authorities, the use of standard sector datasets, participation in a sector-led benchmarking scheme, or subscription to a scheme operated by a commercial provider.

In addition to the use of benchmarking data to understand how the authority's income and expenditure – both overall and at the level of individual services – compares against that of its peers, authorities can seek also to benchmark structures, activity levels and per-unit income and costs against those of suitable comparators.

In addition to benchmarking, the authority can seek to compare itself with similar authorities through processes such as peer review, where one or more representatives of another authority review the authority's structures or processes in the light of their own ways of doing things, challenge existing practices and make suggestions for improvement.

Regardless of the approach that the authority adopts to better understanding its performance, it should seek to learn from this, to identify key risks to its resilience and to identify ways in which it can approach its own activities and operations more economically, efficiently, effectively and equitably.

As a general rule, the authority might seek to:

- make good use of internal performance information to identify risks to its ongoing financial resilience and the impact of financial pressures on service delivery
- identify and use suitable local or national benchmarking data against which to compare its overall financial performance and position
- identify and use suitable local or national benchmarking data against which to compare income, activity and costs for its principal services
- engage with similar authorities to instigate and to implement a process of peer review for key services and activities
- use the insight gained from its benchmarking or other performance-comparison activities to identify (a) where it is performing well and (b) where and how it can improve further the way in which it operates.

HAVING CLEAR PLANS FOR DELIVERING SAVINGS

The authority needs a single, consolidated and regularly-updated mechanism that tracks its savings plans. This should include the savings that have been agreed, how they will be monitored and the extent to which they have been achieved. These savings should also be built into the authority's annual budget and its medium-term financial plan.

In identifying financial savings, the authority needs to distinguish between the different 'stages' of savings in play, namely:

- those which have been agreed and for which there is a clear delivery plan
- those which have been agreed in principle but do not yet have a clear strategy for implementation
- those that have been proposed but not yet agreed, ie are simply ideas at this stage.

It is important not to blur the distinction between these different 'stages' of savings, to avoid giving a false impression of how much progress has been made.

The timescale for the achievement of savings, as well as the level of any investment required to achieve them, needs to be realistic. Restructuring a service to streamline activity or to change the way in which it is delivered can take months, if not years. So any associated savings are unlikely to be achieved for some time.

In this context, the classification of particular service costs as fixed, stepped, variable or mixed for a specified timeframe will be of assistance in identifying the nature, value and timing of savings that can realistically be made.

The authority's finance staff need to exercise suitable challenge to individual managers' and teams' savings plans, to ensure that these plans are achievable. Robust oversight of savings plans will also be required, to ensure that the savings identified are actually achieved in practice.

As a general rule, the authority might seek to:

- have a central record of targeted savings, which is linked clearly to its annual budget and its medium-term financial plan
- categorise savings activities by the extent to which they have been agreed, planned, implemented and achieved
- have in place mechanisms to challenge the viability of savings plans before they are agreed
- have in place suitable mechanisms to oversee the implementation of savings-related activities and the achievement of the savings themselves.

MANAGING RESERVES WELL

The aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. Consequently, limited use of reserves to support the delivery of a clear and transparent savings programme is perfectly acceptable.

Using reserves to fund otherwise-unsustainable services or to defer the need to make difficult decisions about service delivery, on the other hand, is to be avoided. Such an approach does nothing to enhance financial resilience. It also serves to make those difficult decisions even more difficult, when they inevitably have to be made in the future.

The authority should also be extremely wary of any savings plans that target 'easy' savings now, but that include larger, unspecified savings in future years. This may be politically expedient, but does not represent good financial management and is likely to have a negative impact on the authority's reserves when such savings inevitably prove challenging to identify and to realise.

As a general rule, the authority might seek to:

- have a policy as to the level of reserves it wishes to retain and how these reserves may be used
- be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans, rather than to plug funding gaps in the delivery of services.

For policing in England and Wales, it is the PCC who has responsibility for financial reserves and must publish a reserves strategy including details of current and planned reserves. Stand-alone fire and rescue authorities must also publish a financial reserves strategy with details of current and planned reserves.

CARRYING OUT A CREDIBLE AND TRANSPARENT FINANCIAL RESILIENCE ASSESSMENT

A financial resilience assessment can be undertaken by members of the authority's finance and leadership teams, though it may be more objective if it is undertaken by peers from different authorities or by some other external partner.

The assessment should consider principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment might include, for example:

- the authority's current financial position
- the authority's own assessment of its future financial prospects
- the extent to which the authority has embraced the financial resilience factors discussed above
- the key financial risks facing the authority, for example by drawing on potential future scenarios including 'best' and 'worst' case scenarios – for the environment in which the authority operates and for the services that it provides
- the use of independent, objective measures to assess the risks to the authority's financial resilience and sustainability
- the authority's understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including 'group' entities such as leisure trusts), its information technology infrastructure, etc

- the robustness of the plans that the authority has put in place to address these risks
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

Those undertaking the assessment are advised to review, as a minimum, the following documents:

- medium-term financial plan, including capital and revenue elements
- medium-term savings and growth plan
- capital strategy and/or investment strategy
- treasury management strategy
- planned medium-term use of usable reserves, split between earmarked and non-earmarked, and change over the preceding three years
- the most recent budget report and description of the budget process
- recent monitoring reports and recent out-turn reports and accounts
- workforce strategy plans and expected pension commitments
- group entity financial forecasts
- asset management plan
- key governance documents, eg annual governance statement, risk register, etc.

Those undertaking the assessment should also engage with key members of the leadership team and with other relevant individuals, such as:

- the authority's leader and finance portfolio holder
- minority party leaders
- for police in England and Wales, the PCC and chief constable
- chief executive
- monitoring officer
- chief financial officer
- service directors
- external auditor and chair of audit committee
- one or more service accountants.

The scope of the financial resilience assessment is likely to extend also to an understanding of the risks associated with the authority's most significant partners. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

When, as is common, a significant number of authorities are dependent on a single supplier then it may be valuable for those authorities to co-operate in this assessment in order to fully understand the associated risks.

A financial resilience assessment should result in a clear report to the authority's leadership team, setting out an assessment of the authority's financial resilience, together with areas for improvement and how these could be addressed.

Key questions

- Has the authority undertaken a financial resilience assessment?
- Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?
- Has the authority taken appropriate action to address any risks identified as part of the assessment?

Financial Management Standard G:

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

The FM Code sets out that, having carried out a finance resilience assessment, the authority should demonstrate how the risks identified have informed the development of its longer-term financial strategy. The authority should, furthermore, report the implications of these risks on its future financial sustainability to its leadership team, including its elected members.

This requires consideration of how financial resilience is integrated into the authority's strategic plan and into the financial strategy associated with the delivery of this strategic plan.

One way in which this can be achieved in an uncertain and dynamic operating environment is through the use of scenario planning, which is introduced here as a suggestion as to how the authority could seek to meet its requirements under this part of the FM Code.

This is, however, just a suggestion. Other approaches to complying with this financial management standard are available. It is up to the authority to select an approach that is commensurate with its own requirements and with the resources that it has available, while meeting the requirements of the FM Code.

THE STRATEGIC PLAN

In terms of longer-term planning, the authority will have in place an overarching strategic plan, which sets out its vision for the future and how it plans to achieve this vision. Because of electoral cycles and other factors, strategic plans tend to cover a rolling period of five years or so.

The authority will also – in most cases – have in place a financial strategy, setting out how it plans to finance the aims, strategies and activities set out in the strategic plan. This financial strategy may be a part of the strategic plan itself, though it may also be a separate document.

While a five-year planning horizon is acceptable for medium-term planning, long-term planning really needs to look further ahead, albeit at a significantly reduced level of detail. Up to ten years is a reasonable horizon for longer-term financial planning, though up to 20 or 25 years is not unheard of.

CIPFA is not at present prescriptive about the time period for longer-term financial planning. Different authorities will face different levels of political and financial stability, which may have become embedded in different management cultures.

However, CIPFA promotes ambition and stresses the need for a financial strategy that matches the need for a strategic approach to service planning. The underlying drivers of service demand, especially those linked to the age profile of the community, can usually be foreseen at least in broad terms a decade and more ahead. The need to respond to the climate change agenda is also an area where longer-term planning is necessary.

THE FINANCIAL STRATEGY

The primary aim of the authority's financial strategy is to enable the delivery of the authority's overall strategy. More specifically, it seeks to ensure that the authority has the financial capacity and capability to achieve its strategic aims. It is about the long-term financial sustainability of the organisation.

Consequently, the financial strategy might include consideration of a broad range of factors that influence the authority's long-term financial success. These include:

- the nature, level and balance of the authority's sources of income
- the authority's exposure to volatile income streams
- the authority's cost base, especially its overhead costs
- the extent to which costs are fixed, stepped or variable within the timeframe being considered
- the anticipated changes in the assets and liabilities of the authority supporting balance sheet management
- the authority's asset base and its asset management priorities
- the authority's capital programme
- the financial structure and staffing of the authority
- the authority's financial management policies, systems and processes
- the authority's relationships with key financial stakeholders.

An effective financial strategy will include consideration of where the authority is now from a financial perspective, where it would like to be and how it plans to get there:

Where the organisation is now	An analysis of the authority's current financial situation, including its main sources of income, its main financial commitments, its capital asset portfolio and priorities, and the level of reserves that it holds. This analysis also addresses a range of other relevant factors, such as the authority's financial structure and its relationships with key financial stakeholders.

Where it would like to be	An assessment of how the authority envisages its financial capacity and capability to facilitate the achievement of its strategic aims. This provides a longer-term financial 'vision' for the authority, which is consistent with the authority's overall strategic vision. It may include, for example, consideration of changes to the nature, level and balance of income streams, the structure and management of the authority's cost base, changing demand for capital assets (including physical resources) and the skills and expertise of its finance staff.
How it plans to get there	A series of agreed actions designed to take the authority from where it currently stands, from a financial viewpoint, to where it would like to be. These actions are clear, coherent and consistent with the delivery of the authority's overall strategy. They also have clear timescales, so that they can be integrated appropriately into the authority's medium- and short-term financial plans.

However, given the tendency for government funding to be allocated on an annual basis and for the funding regime itself to be subject to regular revisions, financial planning over even a relatively short five-year time horizon can be challenging for the authority.

Other strategic, operational or financial challenges, such as demographic changes or changes to relevant legislation, can also significantly impact on the authority's ability to achieve and to finance its strategic aims.

Consequently, the authority may wish to use scenario planning techniques to consider a number of potential scenarios for (a) the funding regime and (b) other factors influencing the demand for or the delivery of its activities.

THE AIMS OF SCENARIO PLANNING

The development of longer-term financial strategies can be characterised by the use of scenarios, rather than of forecasts based on the continuation of the status quo. In contrast to forecasts, scenarios are not predictions of the future, but distinct and still plausible visions of that future.

Scenario planning moves beyond sensitivity analysis and similar techniques by describing alternative, internally-consistent, possible future economic and political environments, together with the resource and regulatory implications that are likely to flow from them.

For the authority, a shift from forecasting to scenario planning may prove beneficial at a time of continuing economic and political uncertainty. Scenarios are well-suited to highly complex situations with many unquantifiable factors, highly uncertain situations or situations where there is little or no reliable data for quantitative models.

Scenarios allow the authority to test the viability of alternative financial strategies against a representative and realistic set of internally consistent possibilities. They are an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties or imponderables.

Traditional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome. Scenario building, in contrast, does not attempt to use a series of static assumptions to predict the future. Instead, it generates a suite of plausible outcomes that seek to represent the most likely future environments in which the organisation could find itself operating.

Unlike forecasting, which relies on the forward projection of existing trends, scenarios can explicitly recognise the discontinuities and abrupt changes that result from political change. At a local, national and sometimes an international level, significant changes in the balance of political control often represent important points of discontinuity in financial strategies that cannot be incorporated into planning based on conventional forecasts.

Another advantage of the scenario-based approach that makes it particularly relevant to the political environment is that it does not demand consensus. Scenario building can instead recognise different visions of the future and then define them more clearly in a range of internally-consistent but still very different scenarios. Such an approach also allows the authority to consider how it would respond to a wholesale revision of its previous assumptions in favour of a completely fresh set of parameters. Crucially, it can also provide an indication of situations or circumstances which may pose the greatest challenges to the authority's financial resilience.

BUILDING EFFECTIVE SCENARIOS

For scenarios to be effective, they need to be plausible. However they also need to be challenging, in that they force the authority to consider potentially 'uncomfortable' situations. Scenarios invite people to explore what might happen, rather than what they want to happen.

For this reason, it is important to avoid falling into the trap of developing three scenarios that broadly correspond to the status quo, the ideal scenario and the worst case scenario. This taxonomy invites decision makers to reject the extreme scenarios as simply unlikely to occur and so to retreat into considering only the status quo.

The best case/worst case/status quo nomenclature is acceptable in sensitivity analysis, but it should not be imported uncritically into scenario building.

The scenarios used in developing a financial strategy must be based on a rigorous and credible analysis of the wider environment in which the authority operates. Generally, the best approach is to set up at least four scenarios that represent plausible alternative combinations of circumstances.

Ideally, these scenarios should not simply represent the input of extreme parameters into a financial model. Each should, instead, be embedded in a plausible analysis that draws attention to the major technical, economic and political uncertainties upon which the success of each option depends. With this approach, it is wholly reasonable that a pessimistic view may be taken on one element of the option and combined with an optimistic view on another element.

USING SCENARIOS TO UNDERSTAND THE AUTHORITY'S PROSPECTS FOR FINANCIAL SUSTAINABILITY

While scenarios have an important role to play in helping the authority to understand the future environment in which it may need to operate, they also impose an invaluable 'reality check' on the authority's prospects for future financial sustainability by ensuring that its financial strategy is able to meet the full range of these future challenges or opportunities.

Consequently, the authority can gain a deeper understanding of its prospects for financial sustainability in the longer term, as required under the FM Code, by (a) developing a longer-term financial strategy and (b) assessing the viability of this strategy under a range of potential future scenarios.

Furthermore, these scenarios can incorporate specific risks, challenges or vulnerabilities identified in the authority's financial resilience assessment, thus allowing the authority to assess the resilience of its financial strategy – and, therefore, its own future financial sustainability – to the specific issues that it is likely to face both now and in the future.

REPORTING TO MEMBERS

The FM Code also requires that, in addition to taking action to understand its prospects for financial sustainability in the longer term, the authority must communicate these prospects to those charged with its governance such as elected members or, in the case of policing, to PCCs and chief constables.

In communicating with members, the authority should take care to present its prospects for future financial sustainability in a clear way, which does not require specific financial or other expertise in order to be understood.

Key things to communicate include:

- what financial sustainability is and why it is important
- key threats to the authority's financial sustainability, eg funding cuts, increased demand for services
- what the authority is doing to address these threats and the likelihood of it being able to address them effectively
- any threats that are beyond the authority's control, how it will know if these threats are realised and what the impact would be on the authority
- any other actions the authority is taking to improve its financial sustainability
- the requirement for prudence, especially in terms of the Prudential Code and the authority's borrowing arrangements
- an overall assessment of the authority's prospects for financial sustainability in the longer term.

The aim here is to present a balanced assessment of the authority's future financial position. The nature of the environment in which the authority operates means that it is always going to face challenges to its future financial sustainability. Members also need to be aware of the specific threats that the authority is likely to face, the impact of these threats on the authority, and what the authority can do – both now and in the future – to address them.

Key questions

- Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?
- Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?
- Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (eg using a technique such as scenario planning)?
- Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?

Financial Management Standard H:

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*

This element of the guidance notes summarises the requirements set out within the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

The FM Code requires the authority to comply with the CIPFA *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code), though there is an exception for chief constables in England and Wales as they only have very limited and specific borrowing powers

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. It requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning.

Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003 and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

THE AIMS OF THE PRUDENTIAL CODE

The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal.

The Prudential Code sets out:

- a clear governance procedure for the setting and revision of a capital strategy
- a suite of prudential indicators against which the authority is to monitor its performance in maintaining the affordability and prudence of its capital activities
- a series of matters to be taken into account when the authority sets, revises and monitors performance against its prudential indicators.

This strategy and these indicators are to be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

The authority's CFO is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration, and for establishing procedures to monitor performance.

The Prudential Code does not itself set out indicative limits or ratios for the indicators to be set and monitored by the authority, as these are for the authority to determine for itself, given its own particular circumstances.

DETERMINING A CAPITAL STRATEGY

The authority should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and that gives due consideration to both risk and reward and to the impact of the strategy on the achievement of the authority's priority outcomes.

As set out in the guidance notes that accompany the Prudential Code (CIPFA's *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners*, 2018) the authority's capital strategy might address a number of themes, including:

Capital expenditure	■ An overview of the governance process for approval and monitoring of capital expenditure, including links to the authority's policies on capitalisation. ■ A long-term view of capital expenditure plans, where long term is defined by the financing strategy of, and risks faced by, the authority with reference to the life of projects/assets. ■ An overview of asset management planning, including the cost of past borrowing, maintenance requirements and planned disposals. ■ Any restrictions that the authority may face in respect of borrowing, funding or capital finance.
Debt, borrowing and treasury management	■ A projection of external debt and the use of internal borrowing to support capital expenditure. ■ Provision for the repayment of debt over the life of the underlying debt. ■ The authorised limit and operational boundary for the following year (see discussion of prudential indicators below). ■ The authority's approach to treasury management, including processes, due diligence and defining the authority's risk appetite.
Commercial activity	■ The authority's approach to commercial activities, including the processes in place to ensure effective due diligence and definition of the authority's risk appetite in respect of such activity.
Other long-term liabilities	■ An overview of the governance process for approval, monitoring and ongoing risk management of any other financial guarantees and long-term liabilities.
Knowledge and skills	■ A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

The capital strategy forms an essential part of the authority's integrated revenue, capital and balance sheet planning. It should be consistent with the authority's longer-term financial strategy, its medium-term financial plan and its annual budget. It should also be consistent with the authority's asset management plan, including the acquisition of new assets and the disposal of those that are no longer required.

The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability. The CFO is expected to report explicitly on the affordability and risk associated with the capital strategy.

The capital strategy should be tailored to the authority's individual circumstances, but should include – as a minimum – consideration of capital expenditure, investments, liabilities and treasury management. The capital strategy should include sufficient detail to allow the authority's leadership team (including its members) to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

The capital strategy forms the basis for the capital programme, which contains the capital projects that the organisation intends to undertake in the medium term. Robust processes need to be put in place for potential projects to be proposed, evaluated and prioritised, and for approving the programme and the resources to fund it. Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for corporate monitoring, control and scrutiny.

In developing the capital strategy, the authority should seek to strike a suitable balance between the amount of detail included and accessibility to the strategy's intended audience. Where detailed information is required, thought should be given to how this is made available, its format and the training needs of members to encourage active engagement.

SETTING PRUDENTIAL INDICATORS

The authority should set the prudential indicators for the forthcoming and following years before the beginning of the financial year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, when the prudential indicators are set for the following year.

The authority's CFO is required to establish procedures to monitor performance against all forward-looking indicators. Consequently, the CFO will need to establish a measurement and reporting process that monitors performance and that highlights significant deviations from the agreed indicators.

The prudential indicators for prudence

Capital expenditure

- **Estimates of capital expenditure** – Estimates of the total of capital expenditure that the authority plans to incur during the forthcoming financial year and at least the following two financial years.

- **Actual capital expenditure** – The actual capital expenditure incurred during the financial year.
- **Estimates of capital financing requirement** – Estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.
- **The actual capital financing requirement** – The actual capital financing requirement for the financial year, calculated directly from the authority's balance sheet.

External debt

- **Authorised limit** – An authorised limit for the authority's total gross external debt, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Operational boundary** – An operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Actual external debt** – The closing balance for actual gross borrowing plus (separately) other long-term liabilities, obtained directly from the authority's balance sheet.
- **Gross debt and the capital financing requirement** – In order to ensure that over the medium term debt will only be for a capital purpose, the authority should ensure that debt does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The prudential indicators for affordability

- **Estimates of financing costs to net revenue stream** – Estimate of the proportion of financing costs to net revenue stream, for the forthcoming financial year and the following two financial years.
- **Actual financing costs to net revenue stream** – The proportion of financing costs to net revenue stream, calculated directly from the authority's income and expenditure statement.

The authority's prudential indicators, both prospective and retrospective, should be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

To this end, these indicators should be set out in a suitable paper or other document, together with explanations for why they are important and what they mean for the prudence and affordability of the authority's capital expenditure and financing activities.

MATTERS TO BE TAKEN INTO ACCOUNT

In setting or revising its prudential indicators, the authority is required to have regard to the following matters:

- service objectives, eg strategic planning for the authority
- stewardship of assets, eg asset management planning

- value for money, eg option appraisal
- prudence and sustainability, eg risk, implications for external debt and whole life costing
- affordability, eg implications for council tax/district rates
- practicality, eg achievability of the forward plan.

The Prudential Code also requires that, in making its capital investment decisions, the authority should have explicit regard to option appraisal and risk, asset management planning, strategic planning for the authority and achievability of the forward plan.

Key questions

- Has the authority prepared a suitable capital strategy?
- Has the authority set prudential indicators in line with the Prudential Code?
- Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?

Financial Management Standard I:

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

The FM Code does not anticipate that a longer-term financial strategy will – or, indeed, should – provide sufficient detail to allow for it to be translated directly into an annual income and expenditure budget.

To bridge this gap, therefore, and to allow the authority to ensure that its annual budget is in alignment with its longer-term financial aims, the FM Code requires the authority to prepare a multi-year medium-term financial plan.

Furthermore, this plan should also be consistent with associated service plans for the authority's principal services.

THE MEDIUM-TERM FINANCIAL PLAN

The medium-term financial plan is a translation of the authority's financial strategy into the near future. It is also the critical link between the authority's financial strategy and its plans for service delivery.

For some authorities, the planning horizon of the medium-term financial plan may represent the limit to which the authority can realistically plan for the future. In such circumstances, the long-term financial strategy and the medium-term financial plan might well be one and the same thing. The development of a longer-term financial strategy is, however, encouraged.

The medium-term financial plan breaks down the authority's financial strategy into key actions to be taken in the next few years, so that the authority is able to plan its activity over this period in more detail. It also contains income and expenditure projections and sets out how the delivery of services will be funded sustainably.

The medium-term financial plan usually covers a multi-year period, but generally no more than five years. Any more than this and the level of uncertainty becomes too great for realistic financial planning. Due to the reduced level of uncertainty inherent to planning in the medium term, the authority is generally able to use more traditional forecasting and analysis techniques when preparing such plans.

The medium-term plan should be rolled forward either every year or after two to three years, to ensure that it still projects a multi-year planning horizon. When the plan is rolled forward, any deviations from the current plan should be identified, understood and integrated in the authority's planning for future periods.

In order to be effective, the authority's medium-term financial plan should:

- be integrated with the authority's service plans and its capital strategy
- respond to uncertainty in the authority's funding regime
- translate the authority's longer-term aims into the medium term
- be developed in a robust manner, taking into account a credible baseline of activity
- integrate suitable drivers of demand and cost
- be subjected to sensitivity analysis to allow any vulnerabilities to be identified.

INTEGRATING FINANCIAL AND SERVICE PLANNING

Especially in this age of austerity, the key concern for financial planning is allocating finite resources over time, to reach the goals set out in the authority's longer-term strategy. It is not, however, enough for the authority to demonstrate simply that it is financially viable, it must go on to demonstrate that they have been brought together in a transparent way within the budget.

Moreover, it is in medium-term financial planning that the authority demonstrates how it will finance the delivery of its services and the operation of the authority as a whole.

For this reason, the financial plan cannot be allowed to become wholly a financial document – it must be integrated fully with service planning, capital financial management, risk management and asset management plans. Medium-term financial planning is not just about forecasting financial flows – it has an important role to play in integrating and harmonising financial and other corporate activities.

A good medium-term financial plan acts as the authority's route planner that plots the path ahead by focusing on policies and priorities in an organised, coherent and systematic manner. Furthermore, it seeks not simply to give provisional budget figures, but also to provide an insight into prevailing trends and their impact on the organisation.

TRANSLATING THE AUTHORITY'S LONGER-TERM AIMS INTO THE MEDIUM TERM

Regardless of the funding environment in which the authority operates, robust medium-term planning is essential to keeping the authority on track and moving towards the achievement of its strategic aims. This is especially important as most effective budget decisions are essentially strategic long-term ones rather than short-term ones focused only on the year ahead.

Furthermore, not everything can be achieved within one short-term planning period. Outsourcing to the third sector or social enterprises, for example, or rationalising property and other assets and working in partnership with other authorities, will take longer than the annual budget cycle to see through to completion and to the realisation of the desired benefits.

For these reasons, it is in medium-term (and longer-term) financial planning that the pursuit of value for money improvements will be most prominent. Such financial planning is not simply an end in itself, but also a means to furthering the delivery of other plans, such as those for asset management, capital investment or income generation.

Where the authority is engaged in a significant transformation programme, such as one that is designed to reconfigure the way in which it provides services, this should be subject to the same rigorous planning, monitoring and oversight arrangements that are applied to the authority's other financial and operational planning and delivery processes. In particular, such transformation projects might sensibly be focused on and structured around the achievement of specific strategic, operational or financial outcomes, the achievement of which can be measured with confidence.

DEVELOPING A ROBUST MEDIUM-TERM FINANCIAL PLAN

The starting point for the medium-term financial plan is a robust and credible baseline plan that identifies and quantifies known commitments and financial pressures by profiling income, expenditure and cash flow over the chosen time period.

The baseline position is established first so that the authority can determine whether its existing policies are financially credible. This also allows the authority to ensure that prudent parameters are placed on future plans.

Expressed at its simplest, the baseline is the authority's financial position in the future if it takes the minimum action necessary to meet its existing commitments and to respond to immediate financial pressures.

To this baseline are added any further actions – and their financial implications – anticipated by the authority's financial strategy or service delivery strategies. Also included in this enhanced plan are the financial implications of any other pressures, such as increased demand for services or the implications of social or demographic change.

The development of the medium-term financial plan in this way may highlight a disparity between the level of resources available and the amount that needs to be done with these resources. In such circumstances, it is vital that the authority finds a way meet service and corporate requirements and statutory duties in the future.

UNDERSTANDING DRIVERS OF DEMAND AND COST

In determining the financial impact of changes to service delivery or other pressures, the authority will benefit from a robust understanding of what drives the costs associated with different aspects of service delivery (including those related to the provision, maintenance and management of related physical assets) and of the management of the authority itself.

For a specific activity, a driver is a factor that can cause a change in the cost of the activity, by impacting on either the volume of activity required or the unit cost of that activity. For financial planning purposes, the same concept is applied to the authority as a whole. These financial drivers are the factors that will determine the cost to the authority of delivering its services.

Some financial drivers, for instance those associated with general price inflation, national pay awards or mandated efficiency improvements, may have an impact across the whole authority. Others may have an impact only on specific services or activities.

The drivers relevant to the authority's financial planning activities fall into two broad types: firstly, demand drivers that determine the level of resources that need to be devoted to meeting demand for a service, and secondly, cost drivers that determine the price or cost of securing those resources.

The medium-term financial plan should be based on credible assumptions and forecasts about the economy and about relevant socio-demographic trends, since these are the principal determinants of the financial pressures on the authority. While it is difficult to forecast such trends when developing a long-term financial strategy, this task is much more feasible when planning for the medium term.

IDENTIFYING RELEVANT DRIVERS

The process for identifying and collecting information on drivers of cost and demand will depend on the nature, size, structure and culture of the authority. A sound starting point for this work is the authority's existing budget and records of service and financial performance, as these will allow the identification of trends in previous periods.

Information on local trends and issues can be obtained from relevant data sources, from partner organisations, by conducting interviews with key stakeholders or by convening focus groups. In addition, various sector umbrella bodies, think tanks and consultancy firms routinely publish analysis of the different pressures facing authorities of different types.

PESTLE ANALYSIS

For a more comprehensive and robust insight into cost and demand drivers, the authority may benefit from undertaking an analysis of the political, economic, social, technological, legal and environmental factors that may impact on service delivery. This is known as a PESTLE analysis.

Some examples of factors that might feature in the authority's PESTLE analysis are as follows:

Political	Technological
▪ Public policy	▪ Technological change
▪ Tax policy	▪ Automation
▪ Regulatory requirements	▪ E-commerce
▪ Political instability	▪ Online service delivery

Economic	Legal
Economic growth	Authority's legal powers
Interest rates	Discrimination law
Inflation rates	Employment law
Exchange rates	Health and safety requirements
Social	**Environmental**
Population growth	Extreme weather
Age distribution	Sustained periods of low temperature
Health consciousness	Flooding
Public attitudes	Climate change

The principal long-term pressure facing authorities in most developed countries is demographic change, namely an ageing population, caused by increasing life expectancy, declining fertility and the 'demographic bulge' created by the post-war 'baby boom'.

The effects of this are unlikely to change significantly from year to year as projections are rolled forward. It creates sustained upward pressure on health spending, state pension costs and social care costs. Furthermore, these pressures cascade down to a local level, and can have differential impacts according to the authority's individual circumstances.

Not all demographic factors are, however, so stable net migration assumptions, for instance, depend both on the employment market and on government policy. In addition, the national picture can mask a wide variation in the positions across different regions or among different migrant groups.

SENSITIVITY ANALYSIS

Sensitivity analysis in this context is an exploration of the impact on the viability of the authority's medium-term financial plan of varying the driver-related assumptions that have been made in the development of that plan.

Effective sensitivity analysis is based on a sound understanding of how the various drivers identified impact on the authority's financial position. It also benefits considerably from insight into the likely parameters within which such drivers could vary in reality over the period covered by the medium-term financial plan.

By varying different drivers within their likely parameters, the authority is able to assess the extent to which its medium-term financial plan will remain viable under different sets of circumstances. It will also allow the authority to take appropriate action at an early stage to address any potential weaknesses and to enhance the resilience of this plan.

The authority may also wish to use 'Monte Carlo' analysis – which provides a 'probability spread' indication of potential situations (ie a range) rather than a specific 'point' estimate – to understand the likely future impact of current or proposed courses of action. This is a complex analytical approach, however, and may need specialist support.

THE ROLE OF ASSET MANAGEMENT PLANS IN THE MTFP

An asset management plan sets out how the authority will seek to ensure that its infrastructure and other assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims. This will include maintaining and enhancing existing assets, developing or purchasing new ones, and decommissioning or selling assets that are no longer required.

The asset management plan is a forward-looking document with a medium to long-term planning horizon.

An asset management plan places the authority's asset portfolio (usually properties and land, but also for highways authorities infrastructure assets) into the context of the authority's objectives, priorities and challenges. It also links closely to the authority's capital strategy, investment strategy and treasury management strategy.

The development of the asset management plan is informed by:

- the nature and extent of assets held by the authority
- the ways in which the assets that the authority holds contribute to service delivery and to the achievement of the authority's strategic objectives
- the condition of the authority's assets, including any action that is required to maintain them to an acceptable standard
- how the authority measures the performance of its assets, including the data that are required to undertake this measurement
- the authority's key priorities for optimising the contribution that its assets make to service delivery and to the achievement of its strategic objectives
- the financial and resources implications of the achievement of these priorities
- the governance arrangements surrounding the authority's asset portfolio, including assets held by or with partner organisations and those for which the authority is a corporate landlord.

The asset management plan also takes into account relevant policies of the authority, including policies that the authority has adopted for the management of its assets (including assets of heritage value).

The asset management plan might include:

- an overview of the authority's asset portfolio
- an assessment of the condition and performance of the assets held
- the authority's priorities for maintaining, enhancing, adding to, and divesting from its asset portfolio
- the actions that will be taken to achieve these priorities, together with the outputs and outcomes that are to be achieved
- the resources that are necessary to maintain and improve the authority's assets portfolio and how it will be secured
- timescales and responsibilities for the actions identified.

The asset management plan would normally be scrutinised by an appropriate committee of the authority, with specialist external support if required, and approved by the authority. Progress in the implementation of the plan is reviewed regularly and reported to the authority's leadership team. Any issues identified as a result of this review are addressed promptly.

Key questions

- Does the authority have in place an agreed medium-term financial plan?
- Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?
- Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?
- Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?
- Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?

CHAPTER 4
The annual budget

The annual budget is a detailed allocation of resources for the immediate future. Usually covering a period of one financial year, the budget provides the financial basis – through projections of income and expenditure at a high level for the authority as a whole and in more detail for individual services – for the allocation of resources, the delivery of services and the management of the organisation over the planning period.

This chapter of the guidance notes considers:

- the way in which the authority complies with its statutory obligations in respect of the budget setting process
- whether the budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.

This chapter summarises the statutory requirements regarding budget setting and considers the chief finance officer's responsibility for setting a suitable budget for the year. It explores how a robust and sustainable budget can be developed. And it sets out how the authority can implement a spending freeze and, if necessary, issue a Section 114 notice.

It also explores the nature of the estimates, assumptions and judgements that form part of the annual budget-setting process and considers how assurance can be sought as to their reliability. It also discusses how the authority can determine the adequacy of its proposed reserves and how any proposed use of these reserves can be communicated effectively.

Financial Management Standard J:

The authority complies with its statutory obligations in respect of the budget setting process

One of the principal objectives of the FM Code is to end the practice by which the annual budget process has often become the focal point of, if not the limit to, authorities' financial planning.

The annual budget should be merely one element in a longer-term approach to ensuring financial sustainability. However, the annual budget preparation process must nevertheless be protected at a time when the need to make difficult decisions may threaten its integrity.

The FM Code requires the authority to be familiar with its statutory obligations in respect of the budget-setting process, to comply with these requirements, and to be able to demonstrate that it has complied with them.

While, in times of routine business, compliance is straightforward, it is in times of financial stress – when there may be pressures for delay or obfuscation in budget setting – that a comprehensive understanding of these statutory requirements is crucial. The same is true in placing reliance on information for budget-setting purposes from other authorities, such as independent precepting bodies.

Consequently, this element of the guidance notes considers not only the authority's statutory obligations in respect of setting a budget, but also other actions that it may wish to take – or, indeed, be required to take – should it experience financial challenges. These include implementing spending controls and issuing a Section 114 notice.

The authority's chief finance officer (CFO) will need to work closely with the chief executive, the monitoring officer and the entire leadership team, to ensure that the authority complies with its statutory obligations in respect of the budget-setting process, and that it does so within the required timescales.

STATUTORY REQUIREMENTS REGARDING BUDGET-SETTING

There is a considerable volume of legislation surrounding the budget-setting process for authorities. The specific legislation and associated compliance requirements will depend on (a) the nature of the authority and (b) the UK home nation in which it is situated.

In general, authorities are required by statute to set and agree an income and expenditure budget prior to the beginning of the financial year to which the budget relates.

For local authorities in England and Wales, for example:

- the Local Government Act 2000 requires the full council to approve the annual budget, on the recommendation of the executive or equivalent, together with the associated council tax demand
- the Local Government Act 2003, Section 25 requires the authority's section 151 officer (an individual appointed under Section 151 of the Local Government Act 1972 to administer the authority's affairs) to report to the council on the robustness of the estimates made in the annual budget and on the adequacy of the proposed financial reserves assumed in the budget calculations.

In exceptional circumstances:

- the Local Government Finance Act 1988, Section 114 requires the section 151 officer to report to all of the authority's councillors if there is, or is likely to be, unlawful expenditure or if the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure
- the Local Government Act 1999, Section 15 states that failure to set a legal budget may lead to intervention from the secretary of state.

The Local Government Finance Act 1992 (amended) sets out, furthermore, an authority's obligations when setting council tax. It requires that billing authorities set their council tax requirements before 11 March (for a financial year running from 1 April to 31 March). The equivalent deadline for precepting authorities is 1 March.

For local policing bodies in England and Wales the statutory requirements are found within the Police Reform and Social Responsibility Act 2011 and its related statutory instruments.

SETTING A ROBUST AND SUSTAINABLE BUDGET

The CFO must use their professional judgement to ensure that the authority's budget is robust and sustainable. The FM Code supports the role of the CFO in complying with Section 25 of the Local Government Finance Act 2003.

In accordance with the Local Government Finance Act 1992, the authority's budget requirement for the year must include:

- the expenditure that the authority estimates it will incur in the year in performing its functions
- an allowance for contingencies in relation to this expenditure
- the financial reserves that the authority estimates it will need to raise in the year to meet its estimated future expenditure
- such financial reserves as might be required to fund deficits generated in previous periods.

A prudent definition of a robust and sustainable budget for the authority would be a financial plan based on sound assumptions, which shows how income will equal expenditure over the short and medium-term. Plans would take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

The authority's CFO must interpret the definition of what constitutes a robust and sustainable budget based on the circumstances of their own authority and should monitor income and expenditure throughout the year to make sure that the finances are on target as required by the Local Government Finance Act 2003.

Any significant variation in income or expenditure may impact on the authority's ability to manage its resources in line with the agreed budget. Factors having such an effect on the authority's income or expenditure could include:

- natural disaster
- sudden policy change
- demographic pressures
- unexpected funding pressures or
- failure to realise planned savings.

In the case of such an eventuality, it would be necessary for the authority to find an alternative way to manage its resources in line with the agreed budget. This would usually be through the introduction of an emergency savings programme.

RESPONSIBILITY FOR SETTING THE BUDGET

The responsibility for the preparation of a suitable budget rests with the CFO, who will also work with the leadership team to set the medium-term financial plan as the framework within which the annual budget-setting process takes place. This medium-term financial plan allows the authority to deliver its long-term goals by ensuring that a suitably robust and sustainable budget can be set for each of the years covered by the plan.

The CFO is also responsible for ensuring that the finance team constantly monitors the financial health of the authority. The CFO cannot, though, work in isolation. They should be supported by the chief executive and the rest of the leadership team, so that the vision and strategies of the authority are sustained through a strong financial plan.

The chief executive is ultimately responsible for the success of the organisation and it is their task to bring the leadership team together. This role is particularly important during a time of financial crisis, when spending restrictions may be imposed. Spending restrictions will be more challenging for services which are demand-led and those that include statutory duties, such as adult social care and children's services.

In such circumstances, the chief executive's role will be to support the CFO in identifying solutions and working with the leadership team to produce a measured response. It is important that the chief executive maintains an ethos of proactive communication and collaboration throughout the authority.

Any approach to remedying financial difficulties will only be successful if there is a consistent and clear message from the leadership team. The chief executive will be responsible for ensuring that this message is also communicated to external stakeholders and delivery partners.

In policing, it is the PCC and chief constable who are responsible in their different ways for ensuring the success of their local police force and Office of the Police and Crime Commissioner (OPCC). They will work together and with their respective CFOs to ensure the PCCs' vision, police and crime plan and force strategies are sustained through a strong financial plan.

IMPLEMENTING SPENDING CONTROL

Implementing spending control is a way of helping to balance the books in-year. It sits alongside all the planned approaches and strategies set out in the budget when it was first approved. The need for a spending control in-year may arise because of an unplanned event or an unexpected set of circumstances, which mean the authority is heading for an unmanageable overspend at year-end or in future years.

How a spending control is implemented in practice will vary between authorities, though it will invariably mean having to navigate a path between the requirements of statutory service delivery and meeting the terms of current service contracts.

The most common approach is where expenditure is limited or stopped altogether. A series of spending gateways will most likely need to be introduced, with specific approval required where spending over a certain figure occurs. For example, the CFO might be required to sign any commitment above a certain threshold.

However, it must be recognised that temporary suspension of spending can still accommodate an emergency release of funding if specified in advance. Some services, such as adult social care and children's services, will still have to spend during the period of control.

It is necessary, therefore, for the CFO, supported by the chief executive, to work collaboratively with others to identify an approach to minimise spend or to exclude certain areas from the spending freeze. While this adds additional pressures to the authority as a whole, it will help to ensure that statutory duties to vulnerable service users are met.

Examples of short-term measures incorporated into a spending control include not filling non-essential job vacancies, not renewing computer equipment or not spending on routine repairs, staff training, and highways and pavement maintenance. Budget holders would be asked to consider if the expenditure is absolutely necessary, if it can be deferred or if an alternative is available.

ISSUING A SECTION 114 NOTICE

Under Section 114 of the Local Government Finance Act 1988, the section 151 officer shall issue a report if it appears to them that the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.

The process for issuing such a notice is governed by the Act, which states that, once the notice has been issued, the authority has 21 days to consider a response. However, during that time, spending and other financial activity is suspended.

A number of reasons could cause a Section 114 notice to be issued and these include:

- the authority has failed to heed previous warnings from the CFO about the financial risks to the authority
- the authority has failed to appreciate the seriousness of the budgetary position or
- the CFO has failed to warn of the risks.

For policing in England and Wales, there is the added complication of having two separate legal entities in their PCC and chief constable, each with their own CFOs (or a shared CFO role undertaken by the same person). Both CFOs have Section 114 responsibilities.

Issuing a Section 114 notice should not be seen as a failure, but it will result in the loss of financial control by the leadership team. The Section 114 process should be seen as a last resort.

Key questions

- Is the authority aware of its statutory obligations in respect of the budget-setting process?
- Has the authority set a balanced budget for the current year?
- Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?

Financial Management Standard K:

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

In line with Section 25 of the Local Government Act 2003, the FM Code requires the authority's section 151 officer (for authorities in England and Wales) to report alongside the annual budget, when it is submitted for approval, on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. For local policing bodies in England and Wales this would be the responsibility of the PCC's section 151 officer.

The aim of this report is to provide information and assurance in respect of the estimates included within the annual budget, so that those responsible for scrutinising and approving the budget can take these into account as part of the scrutiny and approval process.

UNDERSTANDING BUDGET ESTIMATES

All budgets are an estimate of income to be received and expenditure to be incurred over the course of the financial year in question. However, there are numerous aspects of the budget in which specific estimates will have to be made, including:

- whether specific transactions will occur
- when transactions will occur
- the financial value associated with such transactions.

Some of the more significant estimates that the authority will need to make as part of the budget-setting process include:

- the level of demand for individual services
- staff pay levels and pension scheme contribution levels
- interest rates, likely returns on financial investments and other capital finance issues
- pressures on major capital projects
- the level of funding received through council tax and other sources
- receipts from the sale of capital assets
- the achievement of savings plans and targets.

PROVIDING ASSURANCE IN RESPECT OF BUDGET ESTIMATES

In order to comply with the FM Code, the authority might wish to identify within its report the significant estimates that have been made as part of the budget-setting process and to set out how these estimates have been made.

This could include specific consideration of the information that has been used to make each estimate, the reliability of this information and the authority's confidence in the estimate.

Where possible, the authority may wish to provide additional information to support the estimates that it has made or to give assurance on its track record in making such estimates. This could include, for example:

- information on historical trends to support the estimates made, such as council tax collection rates in previous years
- guidance from professional advisors, such as forecasts from treasury management consultants in respect of future interest rates and/or investment returns
- details of levels of service demand experienced by the authority in previous years, perhaps linked to underlying demographic trends.

The authority could also provide assurance by setting out the process of internal scrutiny to which the budget has been subject prior to being submitted for approval. This could include, for example, review by service managers, the CFO and specialist advisors.

While most estimates can be made with a relatively high degree of confidence, there will, inevitably, be some budget estimates where considerable uncertainty remains. The authority would be well-advised to highlight these in the report and to explain the reason for the uncertainty. Where possible, the authority might also undertake and provide the results of sensitivity analysis, so that those approving the budget are aware of the potential impact of the underlying uncertainty.

THE ADEQUACY OF THE PROPOSED RESERVES

While the authority's financial reserves can, in theory, be called upon to help balance the budget in the short-term by managing fluctuations in income and expenditure, to use reserves in this way is far from ideal.

In general, reserves should only be used for:

- planned investment
- capital projects
- change programmes
- unexpected events such as natural disasters
- other reasonable uses for which they have been 'earmarked'.

The authority's reserves should not generally be used to pay for day-to-day expenditure. They should not, except in the most exceptional circumstances, be used to fund a budget shortfall either, without a plan in place to address the underlying deficit and to replenish the reserves.

The authority will, ideally, have in place a policy setting out the reserves that it maintains, a prudent balance at which it seeks to maintain them (taking into account the nature of the financial risks that the authority faces), and the broad purposes for which these reserves should be used.

A summary of this policy can be included in the report required under Section 25 of the Local Government Act 2003.

The report might also include confirmation of the adequacy of the reserves currently held or, where current reserves fall below the desired balance, the impact of this shortfall and how it is to be addressed.

Where is it proposed that reserves be drawn upon during the financial year, this could be set out within the report, together with an indication of how these resources will be spent and whether, and how, they will be replenished.

If the reserves are to be used to fund an in-year shortfall in revenue resources, the report could explain why this is the case, what alternatives have been considered and how the longer-term impact of the revenue shortfall is being addressed.

PCCs and fire and rescue authorities in England are required, by the Home Office Revised Financial Management Code of Practice for the Police Forces of England and Wales and

Fire and Rescue Authorities, created under Section 4A of the Fire and Rescue Services Act 2004, to establish and publish a policy on financial reserves. It also requires them to publish information on their current and planned reserves, including general and earmarked reserves.

Key questions

- Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?
- Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?
- Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?
- Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?

CHAPTER 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. Furthermore, the authority must make decisions in respect of the allocation of resources in a robust and transparent manner.

This chapter of the guidance notes considers:

- the extent to which the authority has engaged with relevant stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- whether the authority uses an appropriate option appraisal methodology to demonstrate the value for money of its decisions.

It starts by considering how the authority can identify relevant stakeholders with whom to consult, using the power/interest matrix to inform and to prioritise its consultation efforts. It then discusses how the authority can engage effectively with these stakeholders and, perhaps most critically, how it can use the results of the consultation process to improve its approach to financial planning.

This chapter discusses what option appraisal is and how it works, from understanding the authority's requirements through to generating and assessing options and making a decision on a suitable course of action. It also considers when an option appraisal should be undertaken and how financial and non-financial factors can be factored into the appraisal process. It also explores how the results of the option appraisal can be communicated effectively.

Financial Management Standard L:

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget

The FM Code sets out clearly that stakeholder consultation can help to set the authority's priorities and to reduce the possibility of legal or political challenge. Furthermore, stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery.

This is especially the case when the authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector and other partners, may facilitate future reductions in service costs.

Stakeholders are the individuals, groups and organisations that have an interest in how the authority operates, the services that it delivers and how it delivers them. Not only may stakeholders be affected by what the authority does, they may also have the power to influence how it goes about its activities.

In many cases, authorities seek to develop and maintain long-term strategic relationships with key stakeholders, which they use to drive the delivery of efficiency and effective services that meet the needs of their local community.

The FM Code requires the authority to engage, where appropriate, with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget. In complying with this element of the FM Code, there are a number of things to consider, namely:

- how to identify key stakeholders
- how to engage effectively with these stakeholders
- how to use the results of this engagement wisely.

Where the authority already enjoys productive strategic relationships with its key stakeholders, this level of explicit engagement when developing the authority's long-term financial strategy, medium-term financial plan and annual budget may not be necessary, provided the needs of these stakeholders are already sufficiently well understood. Where this is not demonstrably the case, however, more focused engagement at this stage may be required.

IDENTIFYING KEY STAKEHOLDERS

The first step in engaging with the authority's stakeholders is to identify who they are.

The easiest way to do this is to make a list of (a) everyone – be it individuals, groups or organisations – who is affected by what the authority does, (b) everyone who has an influence on what the authority does, and (c) anyone else whose support is important to the authority's ability to achieve its objectives or who has an interest in how well the authority delivers its services.

These, then, are the authority's stakeholders. But not all of these stakeholders will be 'key' to the authority's ability to achieve its goals.

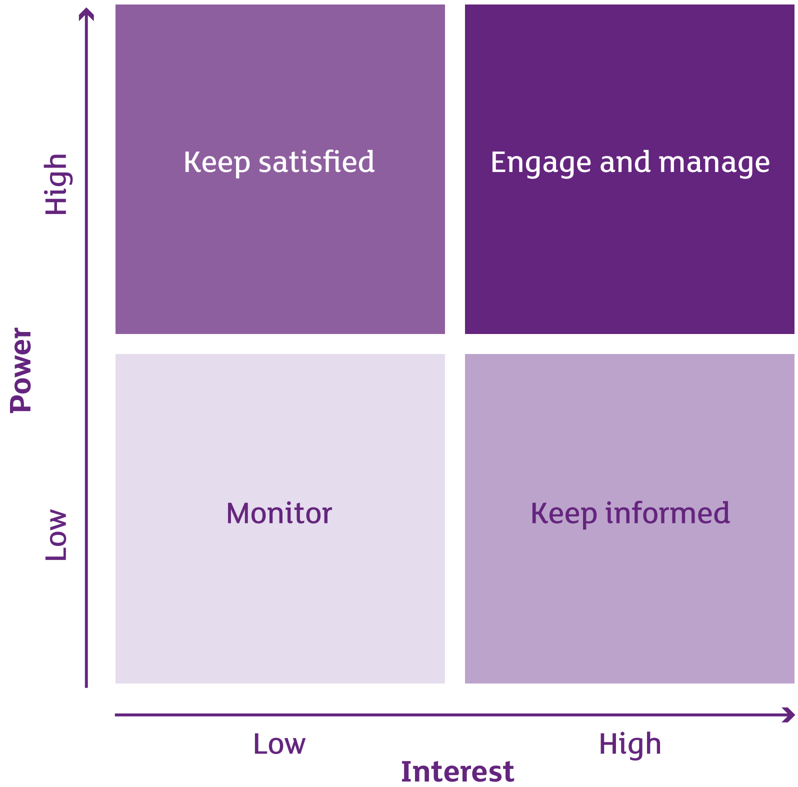
In an ideal world, the authority would be able to have an engaged and personalised relationship with each of its stakeholders. It is more likely, however, that the authority has many stakeholders and limited resources to engage with them. In such cases, the authority needs to prioritise its engagement.

A simple way to prioritise and to inform engagement with the authority's stakeholders is the 'power/interest matrix'. The matrix consists of two axes and four boxes and allows the authority to categorise each of its stakeholders in two ways, each of which features on one of the axes of the matrix:

- the stakeholder's **power** to influence the authority's activities
- the stakeholder's **interest** in influencing the authority's activities.

By allocating a 'high' and a 'low' option to each of these criteria, the authority ends up with a two-by-two matrix like the one in Figure 2 below.

Figure 2: The power/interest matrix



The authority can then use the matrix to decide how – and how much – it should engage with each of its stakeholders:

Low power/low interest	The authority should **monitor** these stakeholders, in case their level of power or interest changes, but does not need to spend too much time engaging with them or to subject them to unnecessary communications.
Low power/high interest	The authority should keep these stakeholders **informed** and draw on their expertise when it can, but should not allow these stakeholders to wield undue influence on its activities.
High power/low interest	These stakeholders can cause the authority problems if they have reason to do so, so the authority should seek to keep them **satisfied** and to avoid causing them any consternation.
High power/high interest	These are very much the authority's key stakeholders. The authority should **engage** with them, **manage** its relationship with them carefully and do everything it can to keep them on board.

ENGAGING EFFECTIVELY WITH STAKEHOLDERS

Engagement is a two-way process. Simply sending a copy of the authority's long-term financial strategy, medium-term financial plan or annual budget to its key stakeholders is not sufficient. Neither is sending these stakeholders a draft copy of the strategy, plan or budget and asking for their thoughts.

Effective engagement begins when the authority first starts to think about the development of its long-term financial strategy, its medium-term financial plan or its annual budget. It then continues throughout the development, agreement and implementation of this strategy, plan or budget.

Ideally, key stakeholders will be engaged at the following stages:

- when the authority is determining its priorities for the period covered by the strategy, plan or budget
- when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources
- when it is agreeing the strategy, plan or budget
- when it is reviewing formally its performance against the strategy, plan or budget, with a view to identifying learning points for the preparation of future strategies, plans or budgets.

As a bare minimum, the authority might wish to engage with key stakeholders at the second of these stages, ie when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources.

As to how best to engage with key stakeholders, the easiest way to determine this is simply to ask them how they would like such engagement to work. Some may favour personal contact to discuss the authority's plans face-to-face, while others may prefer written papers upon which to comment.

In reality, engagement with key stakeholders is likely to take the form of a combination of different modes of engagement, such as:

- one-to-one conversations
- informal group discussions
- structured focus groups
- surveys
- town hall meetings or drop-in sessions
- discussions at committee meetings
- review of a written document and provision of verbal or written feedback.

The key is to choose the mode of engagement that works best for the stakeholder or stakeholder group with which the authority wishes to engage, not what works best for the authority.

It is also helpful for the authority to define what it seeks to gain as a result of the engagement. This might be, for example, assistance in determining priorities for the next five years or an indication of what level of council tax increase might be acceptable if it is linked to the delivery of specific outcomes. In addition to allowing the authority to focus on the issues in which it is interested, this sort of targeted engagement is also more cost-effective for both the authority and those with whom it seeks to engage.

In these financially straitened times, the authority may not have the capacity or the resources to adopt the level of stakeholder engagement that it would normally wish to. In such circumstances, it is for the authority to decide how best to prioritise its capacity and resources to achieve the most meaningful stakeholder engagement and to secure the maximum benefit of this engagement.

USING THE RESULTS OF THE ENGAGEMENT

The authority may wish to put in place a suitable mechanism to respond to the results of its engagement with stakeholders and to be in a position to demonstrate that it has done so.

The way in which the results of the engagement process are used will depend on:

- the stakeholders involved
- the focus of the engagement
- the authority's specific aims in engaging with the stakeholder(s)
- the mode of engagement
- the results of the engagement process.

In many cases, it can be helpful to produce a separate report as a result of the engagement process, setting out its key findings. This allows the results of the engagement process to be assessed, analysed and presented in a useful format, ideally highlighting key points and recurring themes.

In an ideal world, the authority would be in a position to identify clearly the impact of the engagement process on the development of its long-term financial strategy, its medium-term financial plan or its annual budget.

In reality, though, things are rarely this simple. The authority might, however, ensure as a minimum that the main findings from the engagement process are integrated demonstrably into the development of the strategy, plan or budget.

The authority might also find it beneficial to communicate with the stakeholders with which it has engaged, setting out how the results of the engagement process have informed its thinking. If the authority does not feel able to do this, this may well be a sign that it has not engaged sufficiently conscientiously with the engagement process itself.

Key questions

- How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget?
- How effective has this engagement been?
- What action does the authority plan to take to improve its engagement with key stakeholders?

Financial Management Standard M:

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Option appraisal is about making informed choices and better decisions. Nowhere is making good decisions more important than within authorities of all types, as the choices they make dictate how public funds are spent and impact on how people live their lives. Consequently, a robust approach to undertaking option appraisals is crucial to securing value for money.

DEFINING OPTION APPRAISAL

Option appraisal is a robust and systematic approach for the authority – and, indeed, all organisations – to find the best way of doing something, whether that is restructuring a failing entity, providing a new service to the local community, financing the construction of a new municipal building, or creating an innovative public service delivery partnership.

Whatever the authority is seeking to achieve, there will inevitably be many different ways of achieving it. Option appraisal is about how the authority identifies these options, assesses them and finds the one that will work best in the particular set of circumstances in which the authority finds itself.

Clearly, the approach taken to the identification and appraisal of options should be proportional to the nature, size, importance and complexity of the activity to which the options relate. Not all appraisals need to be subjected to a formal option appraisal as detailed here.

In order to ensure that decisions benefit from an appropriate level of appraisal, it would be beneficial for the authority to set out clearly when such an option appraisal should be implemented and the circumstances in which a lighter-touch approach would be acceptable.

HOW OPTION APPRAISAL WORKS

There are many different ways of doing an option appraisal, depending on the nature of the project or activity and the specific appraisal tools and techniques that the authority chooses to use. However, all option appraisals work in essentially the same way, in that they follow the same four steps.

Understanding what the authority wants to achieve	It is vital that the authority has a clear understanding of its aims in undertaking the project or activity that is the subject of the option appraisal. It will help to identify the available options and to assess them. It will also allow the authority to identify whether the project or activity has been successful.
Generating options	The authority identifies a range of different options to consider in more detail. The more comprehensive the list of options that can be generated, the more likely it is that the authority will be able to find an option that will work well. This means engaging with different stakeholders to ensure that a wide range of options is identified.
Assessing the options	Once a range of options has been identified, the authority develops a set of criteria against which these options can be assessed. These criteria should relate back to the aims of the project or activity and may include both financial and non-financial considerations. The assessment of options may take place in more than one stage to allow a small number of more promising options to be assessed in greater detail.
Making the decision	Once the options have been assessed, the authority makes its decision on a preferred option. This can then be implemented or, in the case of a business case or plan, taken forward for further consideration.

The authority may have a formal approach to option appraisal with which it is required to comply. There is certainly merit in the authority having a consistent approach to option appraisal, not least because it allows the development of standard processes and documentation.

Nonetheless, this should not be at the expense of overlooking special characteristics of each decision, or the need to review and improve the methodology over time.

As a general rule, the approach taken by the authority to option appraisal should comply with the guidance set out in the IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal* (2013).

Consequently, rather than preparing its own documented appraisal methodology, the authority might prefer to record simply that any option appraisals that it undertakes should comply with the guidance set out in this publication, or in CIPFA's own guide to undertaking an option appraisal: *Option Appraisal: A Practical Guide for Public Service Organisations* (2017 Edition).

WHEN TO UNDERTAKE AN OPTION APPRAISAL

Option appraisal becomes necessary when the decision is a difficult one or will have important financial or service implications. For any significant decision, option appraisal should be considered mandatory. Option appraisal should also form an essential part of the development of an authority's capital programme.

As a rule of thumb, decisions displaying any one or more of the following characteristics might reasonably be subject to a comprehensive option appraisal.

Strategic importance	Conflicting time horizons
■ Due to its size or other characteristics, the decision has an impact on the future financial viability of the authority. ■ The decision involves partnership with another organisation, including the transfer of services or functions to the private or not-for-profit sectors. ■ The decision represents a material change to the strategic direction or mission of the authority. ■ The decision involves a fundamental change in the scale of the authority's activities. ■ The decision involves the procurement or disposal of material non-current assets.	■ The long-term options for the project or activity are based on significantly different business models than those available in the short term. ■ A balance has to be struck between an initial outlay and a stream of future financial or non-financial benefits. ■ There are material variations in the timing of the financial implications associated with the different options available.

Conflicting priorities	Risk and uncertainty
■ The costs and benefits of different potential courses of action are not all quantifiable in cash terms. ■ Limited resources mean that activities will need to be prioritised within budgetary constraints. ■ There is a choice to be made about the quality, scale, location or timing of a service. ■ There are a wide range of stakeholders or stakeholders with diverging or conflicting interests.	■ There are options with a high level of risk and uncertainty in their delivery. ■ There is doubt as to whether or not any action should be taken. ■ Some of the potential options – such as new delivery models – are unfamiliar to the authority. ■ There is likely to be significant public interest in the chosen course of action.

This list does not, of course, capture all of the circumstances in which an option appraisal is necessary. When faced with circumstances not covered by this list, the authority might wish to consider the risks involved with getting the decision wrong. If these are significant, then a formal option appraisal is advisable.

THE APPRAISAL PROCESS

The key to reducing uncertainty in decision making is clarity about what the authority wants to achieve. Consequently, the starting point for an effective option appraisal is a clear, concise and specific statement of the objectives to be achieved by the decision.

The next step is to generate a broad range of options for how these objectives could be achieved. These options should always include the 'base case', which is the minimum action necessary to meet statutory requirements and unavoidable policy commitments.

Once a suitable 'long list' of options has been generated, the authority can decide which criteria it will use to undertake an initial assessment of the suitability of these options.

This sifting process will allow the authority to identify a 'short list' of technically feasible and politically acceptable options for further consideration. This is when the detailed appraisal of these options begins in earnest. This detailed appraisal may draw on a number of financial and non-financial techniques.

It is unlikely that the authority will plan or deliver projects or activities where money is no object. Consequently, consideration of income, expenditure and the associated cash flows forms a significant part of most option appraisals.

One common approach to the financial analysis of options – and the one that might currently be used – is net present value analysis. Using this approach, all incremental future cash flows are discounted to their present day value to calculate a net present value for each option as a whole. The option with the highest net present value (which may, in some cases, be the least negative net present value) is the optimum from a financial perspective.

The authority might also consider the affordability of the options under consideration. In doing so, the authority will need to explore a range of issues concerning the income and expenditure generated by the project, including their nature, timing and amount.

It is also important to consider the implications of these for the authority's financial strategy and, where capital investment or financing is required, for the authority's compliance with its prudential indicators. In addition, the authority may wish to consider the appropriate accounting treatment associated with the options under consideration, together with any implications of this for the authority and for the appraisal process.

As the authority's activities focus, in the main, on the delivery of non-financial outcomes, it is not sufficient for a selected option to simply be the most financially advantageous. It must also achieve the authority's objectives in respect of service delivery. Consequently, the non-financial aspects of option appraisals are just as important as the financial ones.

There are a number of common approaches to the consideration on non-financial factors in an option appraisal, including:

Economic appraisal	A financial evaluation that considers the costs and benefits of a proposed course of action for the economy as a whole, rather than just for a particular authority.
Cost-benefit analysis	An extension of the economic appraisal, which also considers the social costs and benefits of a project or activity.
Multi-criteria analysis	An approach that allows the impact of various non-financial factors on the relative desirability of different options to be assessed through a methodical weighting and scoring of different criteria.
Impact assessments	A technique that allows the impact of a proposed course of action in different areas (eg promoting equality, safeguarding human rights, protecting the environment) to be assessed in a robust way.

These approaches will not all be feasible in all circumstances. It is for the authority to decide which, if any, approach is most relevant to the option appraisal being undertaken and to ensure that it undertakes sufficient analysis to arrive at an informed decision.

ADDRESSING UNCERTAINTY

The authority operates in an uncertain world. Consequently, it is important that the authority reflects this uncertainty in its option appraisals. It is equally important that it puts into place appropriate mechanisms to learn from its experiences.

There are a range of techniques that the authority can use to address uncertainty and to facilitate learning, including:

Risk and uncertainty	Using adjusted discount rates to compensate for the inherent uncertainty surrounding cash flows for higher-risk projects or activities.
Sensitivity analysis	Identifying key assumptions made in the option appraisal and quantifying the impact on the appraisal of variations in these assumptions.
Optimism bias	Compensating for the unwitting tendency of organisations undertaking option appraisal to understate the cost of options and to overstate the benefits.
Peer reviews	Using independent external review both during and after the option appraisal to scrutinise, challenge and improve the quality of the option appraisal process.

Post-implementation reviews	Testing the reasonableness of the assumptions and judgements made at the time of the original appraisal through a post hoc assessment of the decision-making process and the results, benefits and outcomes of the decision.

REPORTING THE RESULTS OF THE OPTION APPRAISAL

The reporting requirements for an option appraisal will have an impact on the nature and scope of the work to be undertaken, so it is sensible to consider a reporting framework at the outset of the appraisal itself.

By considering the messages and information that need to be conveyed, as well as to whom they need to be communicated, the authority can generate a work plan for the option appraisal that sets out the issues that must be addressed.

The focus of the report should be on providing the leadership team or other decision-making body with the information that it needs to make the necessary decision. Most importantly, however, the report should provide a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

While the authority will need to tailor the appraisal report to the needs of the particular decision to be made, the following elements might usefully be included.

Approach	■ An overview of the approach adopted for undertaking the option appraisal. ■ Details of any assumptions made and how these assumptions have been reached. ■ Information on any specialist advice that has been sought. ■ An overview of how relevant stakeholders have been identified and engaged in the appraisal process. ■ The accounting treatment of the proposed options and the implications of this for the authority and for the appraisal process.
Constraints	■ A summary of the main constraints, including contractual commitments, affordability and the scope for fundamental business change. ■ An explanation of the implications of not proceeding.
Long and short list of options	■ A statement of the base case. ■ The long and short lists of options. ■ A statement explaining the short-listing process. ■ A summary of the full analysis of (ideally) at least three options for meeting the business need.
Financial analysis of short-listed options	■ An evaluation of the net cash flows anticipated from the alternative options. ■ An assessment of the affordability of the selected option, including an explanation of any special financial arrangements. ■ A record of technical details, such as the price basis and the base date for discounting.

Non-financial analysis of short-listed options	■ An assessment of the non-financial elements of the project or activity, using economic appraisal, cost benefit analysis, multi-criteria analysis or some other appropriate technique. ■ Identification and discussion of any unquantifiable costs and benefits and their implications for the appraisal. ■ The results of relevant impact assessments and their implications for the appraisal.
Risk	■ Identification and assessment of the risks associated with the project or activity and the arrangements to be put in place for their management and mitigation.
Sensitivity analysis	■ An analysis of the implications of variations in the drivers determining the outcome of the appraisal, with an explanation of how any significant implications will be addressed.
Optimism bias	■ An account of how the appraisal process has addressed the systematic tendency for people and organisations to be overly optimistic about the outcome of planned actions.
Peer review	■ An account of any peer review processes carried out during the appraisal process.
Post-implementation review	■ An outline plan for implementing the project or activity and for achieving the desired outcomes, with key milestones and timescales. ■ An explanation of the mechanisms in place for a post-implementation review, if required.

In all cases, it is important that the report remains objective and that it provides a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

Even the most comprehensive and diligent option appraisal can come into question if it is reported poorly. Therefore, a high-quality report can provide considerable assurance to all stakeholders that the resulting decision has been made openly, honestly and with due regard to the issues involved.

Key questions

- Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal*?
- Does the authority offer guidance to officers as to when an option appraisal should be undertaken?
- Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?
- Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?
- Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?

CHAPTER 6

Monitoring financial performance

The authority's long-term financial strategy, medium-term financial plan and annual budget set out its financial plans for the periods that these documents cover. Unexpected pressures can, nevertheless, impact on the authority's ability to manage its financial resources in line with these plans. It is important, therefore, that the authority is able to identify such pressures and to take prompt action to address them.

This chapter of the guidance notes considers:

- the way in which the leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- how the leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

This chapter considers the things that the authority's leadership team needs to be aware of if it is to be able to identify and to respond to risks to its budget strategy and financial sustainability, such as deviation from planning assumptions, expenditure against budget, service pressures and the implementation of savings initiatives. It also discusses the characteristics of an effective report and the need for reports to be prepared in a timely manner.

It is a requirement of the FM Code that authorities should monitor closely the material elements of their balance sheet that may give indications of a departure from financial plans. This chapter outlines good practice for balance sheet management from a governance perspective and considers the risks that could arise from the different elements of the authority's balance sheet. It also discusses how the authority can seek to identify, monitor and respond to such risks.

Financial Management Standard N:

The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The earlier the authority identifies that it is deviating from its plans, the easier it is to get things back on course. Consequently, proactive review of focused financial and activity performance reports should be a regular task for the leadership team.

In order for the leadership team to have access to the information it needs to identify emerging risks, the authority needs to ensure that its leadership team:

- receives reports about the right things
- receives reports at the right time
- receives reports in the right format
- takes action in respect of any issues identified.

RECEIVING REPORTS ABOUT THE RIGHT THINGS

The earlier the authority becomes aware of a potential risk to the achievement of its financial strategy, medium-term financial plan or its annual budget, the sooner – and the more effectively – it can take action to address that risk and to mitigate its impact on the authority.

Consequently, the authority might seek to include in its reporting, where possible, forward-looking indicators of financial and operational performance. This is not to say that backward-looking performance information is not important – it is simply that, by its very nature, it is less useful in identifying problems that may arise in the future.

Useful forward-looking indicators do not necessarily need to relate to the authority's own performance. Information in respect of the environment in which the authority is operating can also be a helpful way of identifying issues or trends that may impact on the authority's ability to deliver its services and to maintain financial sustainability.

Some examples of information and other factors that it might be helpful to report to the authority's leadership team include:

- the key **planning assumptions** used in developing the financial strategy, the medium-term financial plan and the annual budget, together with a review of these assumptions that highlights any significant deviation from the initial estimates used and assesses the impact of any such deviation on the achievability of the authority's financial plans
- ongoing **financial performance against budget** across different service areas, including capital projects and programmes, which can allow the leadership team to identify potential financial issues – provided the budget is profiled effectively or a forecast outturn position is provided
- the **significant risks** to the achievement of the authority's financial plans in the short, medium and long term, together with an indication of the current status of each of these risks (ie are they 'crystallising') and any action that the authority should take to mitigate them
- performance in **implementing savings initiatives** and in realising targeted savings or efficiency gains
- the authority's **performance in delivering its key services**, including things like service performance indicators, capacity issues, backlogs, etc, which will allow the leadership team to identify any pressures on these services and to assess the implications for the authority's ability to achieve its financial plans
- the **performance of key partners**, especially those involved in the delivery of critical services including contract monitoring information which will allow risk to be managed and
- **staff and service user feedback**, which can be a helpful indicator of financial and operational pressures and can allow the leadership team to address such pressures before they impact on the authority's ability to deliver its services effectively and to maintain financial sustainability.

RECEIVING REPORTS AT THE RIGHT TIME

In order to be effective, information reported to the leadership team needs to be timely. This means that data included in reports to the leadership team needs to be collected, analysed and reported within suitable timescales.

It has become normal for authorities to collect a range of financial and performance data on a monthly basis and to report this to the leadership team in line with the meeting schedules of its constituent elements, such as senior leadership team meetings, finance committee meetings, full council meetings, etc.

In times of considerable financial pressure, however, where issues can arise that need to be addressed urgently, the authority may wish to consider whether such timescales allow information to be reported to the leadership team in a sufficiently timely manner.

In some circumstances it may be more appropriate to report critical information on a more frequent basis. For example, in a critical service area facing significant financial pressure and with limited capacity to manage demand, daily reports on capacity, demand and performance may be desirable. Where services are commissioned or delivered in partnership there should be a clear understanding around such reporting requirements.

Such situations may require the authority to develop suitable reporting lines to provide the leadership team with the information that it requires.

There should also be minimal delay between the period to which the performance information relates and the reporting of this information to the leadership team. This may require the authority to streamline the way in which it collects, collates, analyses and reports performance information.

RECEIVING REPORTS IN THE RIGHT FORMAT

The authority will wish to ensure that reports to the leadership team are:

Clear	Reports are written in clear and understandable language, with any technical terminology defined or explained. Key information is highlighted. Graphs, charts and tables are used, where suitable, to present information effectively.
Accurate	Information provided in reports is free from material errors. Where estimates have been included, this is made clear. Care is also taken to ensure that the presentation of any data is not misleading.
Timely	The leadership team receives reports in a timely manner, so that they can identify issues and risks before these become critical to the achievement of the authority's budget strategy and to its financial sustainability.
Relevant	Reports focus on what the leadership team needs to know. Clear statements of fact are more useful than pages of discussion or long tables of data. Extraneous detail is avoided. Any necessary supplementary information is put in an annex.
Well-structured	Reports have a clear structure and a strong narrative flow. The main point(s) of the report are set out at the beginning, so that the reader knows why they are reading the report. Those writing reports consider the questions that the reader may have and how these questions can best be answered.
Concise	Reports are as brief as possible.

Reports that allow the monitoring of financial performance against budget, in particular, might include sufficient information for the leadership team to understand how well the authority is performing against budget and, where relevant, the reasons for any significant variations against budget.

Such reports could include, for example:

- the budget for the period under consideration
- accruals-based income and expenditure to date
- a forecast for the remainder of the year and an estimate of the year-end position
- relevant underlying service activity data
- action to be taken to address any variation from budget
- who to contact for further information (eg the relevant budget holder).

TAKING ACTION IN RESPECT OF ISSUES IDENTIFIED

Critical issues raised in respect of the authority's financial sustainability need to be acted upon promptly.

It is, ultimately, up to the leadership team itself to ensure that it takes appropriate action in response to reports that it has received. However, the authority can facilitate the taking of such action by setting out, when presenting information to leadership team, recommendations as to what action is required.

Under some circumstances, it may be apparent that the authority's activities or the environment within which it operates may have changed to such an extent that its financial plans, for example the annual budget, are no longer realistic. In such cases, it may be prudent to recalibrate such plans.

The leadership team may wish to keep a record of action that it has taken in response to reports that it has received, whether through minutes of its meetings or other mechanisms. It might also gain benefit from reviewing the impact of the action that it has taken, to ensure that it has had the desired effect.

Key questions

- Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?
- Do the reports cover both forward and backward-looking information in respect of financial and operational performance?
- Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data?
- Are the reports provided to the leadership team in a timely manner and in a suitable format?
- Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?

Financial Management Standard O:

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The CIPFA publication *Balance Sheet Management in the Public Services: A Framework for Good Practice* (2017) outlines a number of elements of good practice for balance sheet management from a governance perspective.

These are as follows:

1. In organisational culture, appropriate emphasis is placed on balance sheet management activities and considerations.
2. Balance sheet management requirements are addressed coherently and comprehensively across all relevant strategies and plans.
3. Balance sheet management responsibilities are identified and assigned to appropriate people.
4. The authority's decision-making framework is effective and requires appropriate consideration of balance sheet implications.
5. Appropriate levels of assurance are provided over all aspects of balance sheet management.
6. Financial and operational risk management activity pays due regard to balance sheet drivers and impacts.

The authority might seek to comply with the FM Code by engaging with these elements of good practice, as they allow it to create an environment within which effective management of the balance sheet is promoted and valued.

In order for the leadership team to be able to monitor the elements of the authority's balance sheet which pose a significant risk to its financial sustainability, a more targeted approach may be required.

Consequently, to comply with the FM Code, the authority might choose to:

- determine which elements of its balance sheet pose a significant risk to its financial sustainability, through a comprehensive review of its assets and liabilities
- put in place mechanisms to monitor these elements of its balance sheet
- respond promptly and proactively to any issues that these mechanisms identify.

While this financial management standard focuses specifically on the authority's balance sheet, it is worth recognising that the various elements of the authority's balance sheet do not exist in isolation. Rather, they are linked to other aspects of the authority's activities, such as service provision asset management, capital investment, treasury management, etc.

Consequently, while the monitoring of risk inherent to the authority's balance sheet can be undertaken as a stand-alone activity, it should also usefully be integrated into other aspects of the authority's performance monitoring and risk management processes. The main thing is that any such risks are identified and managed.

DETERMINING RISK ON THE BALANCE SHEET

The elements of the balance sheet that pose a risk to the authority's financial sustainability will depend on the authority's activities and on the assets and liabilities that it holds on its balance sheet.

It is useful, therefore, for the authority to review its balance sheet in the light of its financial strategy and its medium-term financial plan and to identify those elements that are critical to the achievement of its long and medium-term objectives.

Some aspects of the balance sheet that may be critical to the authority's financial sustainability include:

Non-current assets (ie fixed assets)	Where the authority uses its physical assets (eg buildings such as housing and schools) to deliver services, it is important that these are maintained in a suitable condition and the right assets to deliver services.
Long-term and short term investments	Where the authority holds investments it must operate within current guidance and reflect a clear understanding of the implications of these on its financial planning and risk management arrangements, since they can have a significant impact on an authority's financial sustainability (see CIPFA's *Prudential Property Investment* (2019)).
Debtors	The collection of payments from service users and other 'trade' debtors provides valuable income to support the authority's services. Should the authority experience difficulty in collecting this debt, the financial sustainability of the associated services could be threatened.
Cash	The maintenance of a sufficient cash balance to pay the authority's expenditure and debts as they become due is imperative. A shortfall in cash represents a fundamental and imminent problem and could threaten the authority's very ability to function.
Current liabilities	Where payments are due to be made to creditors in the short term, it is vital that the authority has sufficient cash – or assets that can quickly be converted to cash – to ensure that such payments can be made.
Provisions	The risk is not just existing provisions and the potential for their value to increase, but also events that may give rise to provisions that the authority was not expecting. While such provisions may not require immediate cash settlement, they can reduce the usable reserves of the authority on the balance sheet. This effectively means that assets, for example cash, are being held by the authority in case settlement is required. It may only become clearer later if settlement is absolutely required, and how much the cash outlay will be.
Pensions Liabilities	Authorities will normally have a liability to fund part or all of the future pensions which are payable to retired employees. The measurement of these liabilities is reflected on the balance sheet, but authorities are not normally required to fund them (ie reduce usable reserves) when the liabilities are incurred. Instead such liabilities are normally managed in the longer term, including adjustments to the employer's annual contributions to the pension scheme involved. The legal commitments to fund pension liabilities, and the profile of those payments over future years, will need to be considered in financial sustainability assessment.
Long-term borrowing	Long-term borrowing has become a normal part of authorities' balance sheets. The critical risk here, though, is the authority's ability to make interest or other payments when they are due.

Service concession arrangements	If the authority benefits from service concession arrangements operated under the private finance initiative, it may rely heavily on these concessions for the delivery of services to the public. It will also be required to make regular payments to the provider organisation. A failure to make these payments will have a significant impact on service delivery and on the authority's continued ability to function.
Usable reserves	Usable reserves may be held for variety of reasons, including to balance out uneven cash flows or unexpected events. They are also a means of funding strategic developments, especially those for which it would be difficult to secure external funding or borrowing. An insufficient – and especially an insufficient and falling – level of reserves is reason for additional scrutiny.

MONITORING RISK ON THE BALANCE SHEET

In monitoring elements of the balance sheet that could pose a risk to its financial sustainability, the authority might opt to operate a two-pronged approach of prevention and detection.

The prevention element of monitoring risk addresses the way in which the authority avoids risk arising in the first place.

It includes the following (this list is not intended to be exhaustive):

- treasury management policies and how the authority selects approved counterparties for its investments
- credit control policies for trade debtors and how the authority pursues unpaid debts
- cash management strategies
- how the authority identifies the need for new provisions
- management of borrowing, including the setting of the authority's prudential indicators
- management of service concessions arrangements
- policies on levels of reserves and what reserves may be used for.

The detection element of monitoring risk, on the other hand, concerns how the authority identifies when such risk has 'crystallised', ie when it has turned from a theoretical threat to a practical problem.

To ensure that the crystallisation of such risks is identified promptly, the authority might usefully develop suitable 'early warning' mechanisms for the elements of the balance sheet that it considers to be critical to its financial sustainability.

This could include, for example:

- close monitoring of the authority's financial performance and of its impact on the authority's reserves
- reporting to the leadership team of any unplanned use of the authority's reserves
- monitoring of investment returns and the forecasting of future cash inflows
- regular review of aged debtors and of the actions being taken to secure recovery
- forecasting of cash balances and of the authority's ability to pay amounts coming due

- regular monitoring of performance against the authority's prudential indicators
- forecasting of service concession arrangement payments and modelling of their future affordability
- inclusion in regular management accounting reports of relevant balance sheet information.

For each element of the balance sheet that poses a threat to the authority's financial sustainability, the authority could seek to develop a suite of preventative and detective measures that, together, (a) reduce the likelihood of the risk occurring and (b) maximise the chance of the authority detecting it should the risk crystallise.

This means that the balance sheet is not something that the authority can worry about just at year end when it is preparing its financial statements. Instead, it needs to receive the same level of regular attention as the authority's income and expenditure records.

RESPONDING TO RISK INHERENT TO BALANCE SHEET ITEMS

It might also be sensible for the authority to seek to mitigate the potential impact on its financial sustainability should one of more of the identified balance sheet risks crystallise. This is, however, difficult to achieve in practice. As such it is important for the authority to respond promptly when risks crystallise.

The action that the authority takes will depend on:

- the element of the balance sheet in question
- the risk or issue that has arisen
- the impact that it is likely to have on the authority.

In some cases, the authority may be able to reduce the risk to which it is exposed relatively quickly and easily. In other cases, the issue may be less tractable and might require a more engaged response. In some cases the authority may not be able to respond effectively acting alone, so may need to work with other authorities or branches of government to resolve the issue.

The key, though, is for the authority to identify the issue and to take action promptly. This can only happen if the leadership team knows what is important, knows what to look for and monitors the critical elements of its balance sheet proactively and effectively.

Key questions

- Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?
- Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?
- Is the authority taking action to mitigate any risks identified?
- Does the authority report unplanned use of its reserves to the leadership team in a timely manner?
- Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?

CHAPTER 7

External financial reporting

The publication of financial information is one of the primary ways in which the authority demonstrates accountability to service users, taxpayers, to citizens and to other organisations across the public sector. Furthermore, the authority's statutory financial statements provide a definitive audited record of its financial position and financial performance, as well as a secure foundation for effective financial management.

This chapter of the guidance notes considers:

- the extent to which the chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- the degree to which the presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

This chapter starts by summarising the statutory basis for local government financial reporting in the UK and by exploring the purpose of the annual financial statements.

It then considers explicitly the role of the authority's chief finance officer in the preparation and publication of the financial statements and how the authority can ensure that the chief finance officer has met their obligations in this regard.

Effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year. This chapter considers how financial outturn information can be reported effectively and sets out some key questions that the leadership team should ask when presented with such information.

Financial Management Standard P:

The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*

The external financial reporting process for authorities is prescribed by statute. Local authorities are required to produce their statutory accounts on an annual basis in accordance with:

- the Accounts and Audit Regulations 2015 for English Authorities
- the Local Government (Accounts and Audit) Regulations Northern Ireland 2015
- the Local Authority Accounts (Scotland) Regulations 2014 or
- the Accounts and Audit (Wales) Regulations 2014, as amended.

The *Code of Practice on Local Authority Accounting in the United Kingdom* (the local authority accounting Code) is prescribed by the above-mentioned statutory instruments as proper (accounting) practices to specify the principles and practices of accounting that are required to give a 'true and fair' view of the authority's financial position, financial performance and cash flows (including the group accounts where the authority has material interests in subsidiaries, associates or joint ventures).

THE PURPOSE OF THE STATUTORY FINANCIAL STATEMENTS

The local authority accounting Code specifies that the objective of local authority financial statements is to provide information about the authority's

- financial performance (income and expenses)
- financial position (assets, liabilities and reserves)
- cash flows.

That is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions. They should therefore be able to give electors, service users, those subject to locally levied taxes and charges, members of the authority (as representatives of service recipients) and other interested parties clear information about the authority's finances.

The financial statements should answer such questions as:

- What did the authority's services cost to deliver over the course of the year?
- Where did the money to fund the authority come from?
- What were the authority's assets and liabilities at the end of the year?

It is important that two particular aspects are understood clearly. First, all financial statements should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the local authority accounting Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published statements of accounts.

Secondly, interpretation and explanation of the accounts are important mechanisms to ensure that the messages in the financial statements are communicated effectively to the users of the financial statements. The local authority accounting Code requires that there should be a narrative report to accompany the financial statements, which should explain the more significant features of the accounts. It should be based on the information contained in the financial statements and should not contain material inaccuracies or misleading statements.

The narrative report (management commentary in Scotland), however, has another important function. Its purpose is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The narrative report should provide a commentary on how the authority (including the group accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies. It will support the financial statements in responding to the three questions set out above.

Wherever possible, the financial statements and the supporting notes should be written in clear, comprehensible language. Technical terms or jargon should be used only sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly.

Where the authority also publishes a summarised or simplified version of its financial statements, this should contain a clear reference to the existence of the full financial statements and should explain how the full financial statements can be accessed.

THE ROLE OF THE CHIEF FINANCIAL OFFICER

CIPFA's *Statement on The Role of the Chief Financial Officer in Local Government* states that it is the responsibility of the authority's CFO to publish annual financial statements on a timely basis, in order to communicate the authority's activities and achievements, its financial position, financial performance and cash flows.

Furthermore, the local authority accounting Code requires the authority to provide in its financial statements a 'statement of responsibilities' setting out the responsibilities of the authority and the CFO in respect of the financial statements. The statement of responsibilities must confirm that the financial statements have been prepared in accordance with the requirements of the local authority accounting Code.

For local authorities in England, Wales and Scotland, the following wording is recommended, but not mandatory:

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts (England and Wales only).

The chief financial officer's responsibilities

The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this statement of accounts, the chief financial officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The chief financial officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

In England and Wales, the chief financial officer should sign and date the financial statements, stating that they give a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

In Scotland, the proper officer is required to submit the unaudited accounts to the authority and to its appointed auditor by 30 June. The audited financial statements must be laid before a meeting of the authority or a committee of that authority whose remit includes audit or governance functions no later than 30 September.

For authorities in Northern Ireland, the following wording of the statement of responsibilities is proposed:

The council's responsibilities

Under Section 1 of the Local Government Finance Act (Northern Ireland) 2011, the council shall make arrangements for the proper administration of its financial affairs. Under this section, the council is required to designate an officer of the council as its chief financial officer. Arrangements for the proper administration of its financial affairs shall be carried out under the supervision of its chief financial officer.

The council is required to approve the statement of accounts.

The chief financial officer's responsibilities

Under Regulation 8 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, the chief financial officer is responsible for the preparation of the council's statement of accounts in the form directed by the Department for Communities (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this statement of accounts, the chief financial officer is required to:

- observe the accounts direction issued by the Department for Communities (NI), including compliance with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The chief financial officer should sign and date the statement of accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

THE CFO'S RESPONSIBILITIES FOR THE ACCOUNTS OF THE AUTHORITY

In order to demonstrate compliance with the requirement of the FM Code that the authority's CFO has both personal and statutory responsibilities for ensuring that its financial statements comply with the local authority accounting Code, the authority could:

- ensure that the preparation and submission of annual financial statements that comply with the local authority accounting Code is included within the CFO's job/role description and annual performance management objectives

- consider the extent to which the CFO has prepared and submitted annual financial statements that comply with the local authority accounting Code as part of the CFO's performance management review (or equivalent) and used to inform any performance management ratings or judgements
- challenge the CFO in the event that the annual financial statements are not prepared and submitted in line with the required timescales or if the review of the financial statements by the authority or its auditors identifies any other issues in respect of their preparation.

The authority should, however, also ensure that the CFO is provided with sufficient resources – including a suitably-resourced finance team – to fulfil their personal and statutory responsibilities under this element of the FM Code.

Key questions

- Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?
- Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?
- Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom?*

Financial Management Standard Q:

The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

The FM Code states that effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year, including how material variances from initial and revised budgets to outturn have arisen and been managed.

The success of these arrangements will be demonstrated by the ability of the leadership team to use them to make informed decisions about the authority's future financial strategy and plans. In some circumstances, such reporting might lead to a reappraisal of the achievability of the long-term financial strategy and of the financial resilience of the authority.

PRESENTING EFFECTIVE FINANCIAL OUTTURN INFORMATION

The key to presenting financial outturn figures and budget variations so that they can allow the leadership team to make strategic financial decisions is to ensure that this information is:

Accurate	Information on financial outturn and variation from budget needs is robust and reliable. If it cannot be relied upon, then it should not be used to inform strategic decision making. The authority also ensures that budgets are set – and profiled – in a robust and realistic manner.
Relevant	The information is relevant to the decisions to be made and provides the leadership team with the information that it needs to make these decisions. It also seeks to give an insight into the drivers of the cost of the service and how actual figures for these drivers have compared against planning estimates.
Granular	The leadership team is able to 'drill down' into the data to gain greater insight into the authority's financial performance. For example, if the leadership team is interested in the success of the authority's savings plans, it is able to look beyond the headline figures into the specific savings achieved – or not achieved – by individual activities and projects.
Analysed	A robust analysis of the financial information provided is vital. For example, if a particular service has overspent against budget, it is important to know why this is the case. Has demand been higher than anticipated while unit costs have remained on budget? Or have unit costs risen beyond expected levels?.
Put into context	Financial information is put into the proper context. This means that it is presented in the context of relevant internal and external factors such as: ■ changes to legislation ■ changes to the way in which a service is delivered ■ changing patterns of demand ■ service demand and performance. It may also be helpful to present financial information in the context of performance by other authorities or of relevant performance benchmarks.

The authority might usefully choose to take these factors into account whenever outturn figures and variations from budget are presented to the leadership team.

SPECIFIC QUESTIONS FOR THE LEADERSHIP TEAM TO ASK

When reviewing financial outturn figures and variations from budget, there are a number of key questions that the leadership team might usefully ask. Asking these questions will help the authority to comply with the FM Code, by ensuring that outturn figures and variations from budget are presented in a manner that facilitates strategic decision making.

These include:

- **Is the final outturn position broadly in line with the budget?**

While the authority should prepare its annual budget diligently, variations in income and expenditure budgets will inevitably arise. If the budgeted outturn position and the actual outturn position differ significantly, however, the leadership team will need to review the authority's approach to setting its budget.

- **How well have different services performed against budget?**

It is reassuring if services have performed in line with budget, as this is an indication that income, activity and expenditure are (probably) in balance. If services have overspent against budget, either because of a shortfall in income or an excess of expenditure, this is a concern and should be addressed. Similarly, if a service has spent less than budgeted or has generated more income than expected, the reason for this should be determined.

- **Have any issues been highlighted prior to the end of the year?**

There should be no real surprises in the year-end financial outturn of budget variance information, as any significant issues should have been communicated to the leadership team as and when they became apparent. Where issues are raised only in the year-end reports, this is indicative of a problem in the way in which financial information is reported throughout the year.

- **Has the authority achieved its savings targets?**

If the authority has set savings targets for specific services or activities, the leadership team should ensure that these targets have been achieved. This is especially the case when such savings have been integrated into service budgets, as it is easy for them to 'disappear' in the overall figures for the service as a whole.

- **Is the authority's capital programme on track?**

Where the authority has a programme of capital projects and expenditure, the leadership team should ensure that progress against the programme – in terms of expenditure and timescales – is in line with what has previously been agreed. Where projects are exhibiting cost overruns or delays in the completion schedule, these should be addressed promptly.

The leadership team might also usefully undertake a critical examination of the financial outturn figures and budget variations and assess them against the picture of the authority's performance that it has received from other sources of information, such as service reports, inspection reports, feedback from staff and service users, etc. If these sources of information do not all present a consistent picture of the authority's performance, the leadership team may wish to take action to understand why this is the case.

Key questions

- Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?
- Is the information in these reports presented effectively?
- Are these reports focused on information that is of interest and relevance to the leadership team?
- Does the leadership team feel that the reports support it in making strategic financial decisions?

Other sources of guidance and support

CIPFA has produced or contributed to a range of publications upon which the authority may wish to draw when considering the extent to which it complies with the FM Code and when thinking about how it might wish to improve its financial management arrangements.

- *Balance Sheet Management in the Public Services: A Framework for Good Practice (2017)*
- *Capital Strategies and Programming (2014)*
- *CIPFA Prudential Property Investment (2019)*
- *CIPFA Standard of professional Practice on Ethics (2018)*
- *CIPFA/IFAC International Framework: Good Governance in the Public Sector (2014)*
- *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom*
- *Delivering Good Governance in Local Government Framework (2016), along with the associated guidance notes for local authorities and other public sector organisations*
- *Leadership Matters (2020)*
- *The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners*
- *The Prudential Code for Capital Finance in Local Authorities (2017)*
- *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018)*
- *The Role of the Chief Financial Officer in Local Government (2016)*
- *The Role of the Chief Financial Officer of the PCC and the Chief Finance Officer of the Chief Constable (2012)*
- *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017)*
- *Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Forces and Fire and Rescue Authorities (2018)*

Beyond these titles, CIPFA has also published guides to a range of related topics that may help the authority to improve its financial management arrangements, such as developing a financial strategy and undertaking an option appraisal.

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APPENDIX 2 – CIPFA FINANCIAL MANAGEMENT CODE EVIDENCE OF CURRENT COMPLIANCE AND PROPOSED ACTION PLAN

The CIPFA Financial Management Code is intended to support good practice in financial management and assist in demonstrating a body's financial sustainability. The code sets out the standards of financial management for local government bodies. The table below provides an assessment of how West Lothian IJB currently complies with the Code and sets out proposed actions to ensure compliance with the code for 2021/22.

Section 1 – The responsibilities of the chief finance officer and leadership team

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard A – The leadership team is able to demonstrate that the services provided by the authority provide value for money.	The leadership team of the IJB utilise a number of frameworks and documents to ensure that the IJB provides value for money. These include: • Ensuring compliance with the IJB's Best Value Framework • Review of financial business cases for service projects • Ensuring compliance with Financial Regulations and Reserves Policy • Monthly financial monitoring and risk based monitoring providing necessary and required scrutiny and feedback.	Continue with the existing systems of internal control and the management of risk. The Financial Regulations will be reviewed to ensure that they fully reflect the requirements of the Code, and the amended regulations reported to the Board for approval.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard B – The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.	The role description of the Chief Financial Officer for West Lothian IJB, complies with the principles set out in the CIPFA statement; this is evidenced by the role, responsibilities and status of activities undertaken. **Principle 1** – Is a key member of the Leadership Team (at West Lothian this is as a Board member and a member of the Health and Social Care Partnership Management Team) **Principle 2** – Takes lead role in the IJB's financial strategy (the CFO reports to the Chief Officer and the Board on all financial strategy matters)	Update the Scheme of Delegation, including the section 95 officer role and responsibilities, to demonstrate compliance with the CIPFA statement, following consideration of the Code by the Board.

	Principle 3 – Leads and promotes good financial management (the CFO encourages and emphasises sound financial management via a variety of means) **Principle 4** – Leads and directs the finance functions of the IJB which is fit for purpose (the CFO manages and is responsible for the financial management and reporting in respect of the IJB) **Principle 5** – Is professionally qualified with suitable experience (the Section 95 Officer is a qualified accountant, with significant relevant experience)	

Section 2 – Governance and financial management style

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard C – The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	The governance structure of the IJB demonstrates the actions and internal controls in place. This includes the IJB's Financial Regulations, Standing Orders, the Local Code of Corporate Governance and the Scheme of Delegation.	The relevant governance documents are reviewed per timescales agreed by the Board.
Financial Management Standard D – The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016.	The IJB has a Code of Corporate Governance and a compliance process which is aligned to the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016. The Code of Corporate Governance is reported annually to the Audit, Risk and Governance Committee and is reviewed on a bi-annual basis.	None. The IJB fully applies the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.
Financial Management Standard E – The financial management style of the authority supports financial sustainability.	The financial management style of the IJB has been recognised by external auditors Ernst and Young who are satisfied with the financial management arrangements in place although financial sustainability continues to be a risk.	Continue to work with partner bodies around financial sustainability of the IJB and further development of the medium term financial strategy.

Section 3 – Medium to long-term financial management

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard F – The authority has carried out a credible and transparent financial resilience assessment.	The IJB is presented with regular finance updates from the Chief Officer which consider key budget risks both operational and strategic. A financial assurance process is undertaken each year on budget resources provided by partner bodies to identify any funding risks to the IJB which could impact on financial resilience.	Building on existing activities, it is proposed that from 2021/22, the budget report will include a section that notes the position on financial resilience and sustainability.
Financial Management Standard G – The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	The IJB's Strategic Plan and commissioning plans set out the vision for the delivery of the IJBs priorities, the Strategic Plan and associated commissioning plans have gone through the necessary scrutiny and approval processes and take account of MTFP budget assumptions.	The IJBs Strategic Plan is currently for the period 2018/19 to 2022/23. Although the code is not prescriptive it notes the importance of a long term strategy and strategic vision. An updated two year budget to 2022/23 will be presented to the Board in June 2021. Going forward, a five year financial strategy will be developed in conjunction with the Strategic Plan for 2023/24 to 2027/28 setting out a range of assumptions on expenditure and funding.
Financial Management Standard H – The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	Not applicable.	Not applicable.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard I – The authority has a rolling multi-year medium term financial plan consistent with sustainable service plans.	The IJB has a medium-term financial plan for the period 2018/19 to 2022/23 with budgets updated annually to ensure they reflect the latest circumstances and most up-to-date information. Commissioning plans are prepared that are consistent with financial resource assumptions and align with the IJB's Strategic Plan.	The IJB's MTFP financial plan covered a five year period, 2018/19 to 2022/23. A new financial plan will be prepared for the next five year period 2023/24 to 2027/28 and will take account of the new Strategic Plan and commissioning plans.

Section 4 - The annual budget

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard J – The authority complies with its statutory obligations in respect of the budget setting process.	The IJBs annual budget report, including issue of Directions, complies with statutory requirements included in the Public Bodies (Joint Working) (Scotland) Act 2014.	Continue to met statutory obligations by approving Directions associated with annual budget resources agreed.
Financial Management Standard K – The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	The budget report undertakes financial assurance on the robustness of estimates and assumptions for the annual budget. Given the IJB has not had any uncommitted reserves the budget report has not to date included a statement on the adequacy of financial reserves.	Currently there is no specific statement from the chief finance officer on the adequacy of reserves. Therefore, the annual budget report to the IJB will be updated to include a statement in respect of IJB reserves.

Section 5 – Stakeholder engagement and business cases

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard L – The authority has engaged where appropriate with key stakeholders on long-term financial strategy, medium-term financial planning and annual budget.	The IJB engages on a collaborative basis with NHS Lothian and West Lothian Council in respect of medium term financial planning and the annual budget process.	The IJB will continue to engage on financial plans and on specific elements of the financial plan. In particular, there will be engagement on new plans for 2023/24 onwards

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard M – The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	The utilisation of business cases is an essential element of service delivery plans and transformation. The IJB considers key business cases related to IJB functions for agreement. (e.g. REH and St John's Hospital business cases)	The IJB will continue to review and approve relevant strategic outline business cases to prioritise resources and demonstrate value for money.

Section 6 – Monitoring Financial Performance

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard N – The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	The IJB has Financial Regulations and an approved Integration Scheme which includes the process for monitoring and reporting of budgets and the identification of risks which allows for mitigating actions being undertaken. This is completed in conjunction with reports being presented on the outcome of UK and Scottish Government budget announcements.	There are regular reports to the HSCP SMT and Board on the progress on the current year budget and any changes to budget assumptions for future years. These will be reviewed to identify any potential improvements.
Financial Management Standard O – The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	The IJB adopts a monthly approach to monitoring with budget monitoring reported to each Board meeting during the year. Any balance sheet areas posing a risk to financial sustainability, are identified through the budget monitoring process. The Audit, Risk and Governance Committee receive regular reports on high risks areas and risks relating to the delivery of the financial plan.	In addition to regular monitoring, a statement on any risks to elements of the balance sheet will be included in the covering report to the IJB's final accounts for 2020/21 which will be reported in June 2021.

Section 7 – External financial reporting

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard P – The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	The Scheme of Delegation includes the role and responsibility of the chief finance officer for ensuring that the IJB complies with relevant legislation and guidance including the Code of Practice on Local Authority Accounting. The outturn and final accounts are reported to the Audit, Risk and Governance Committee for review and any recommendations prior to being reported to the Board for approval, with the final accounts being audited and signed off by an external auditor.	This responsibility is clearly set out in the IJB's governance arrangements. Accounts will continue to be produced in accordance with the Code of Practice.
Financial Management Standard Q – The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	The final outturn figures are presented to the IJB annually, as part of the unaudited accounts report presented in June each year. The accounts provide information on performance against budget and identify reasons for key variances.	There is a robust process in place for reporting final outturn figures to the IJB, and this allows Board members to consider strategic financial matters.

Date	24 February 2021
Agenda Item	13

Report to West Lothian Integration Joint Board Audit, Risk and Governance Committee

Report Title: IJB Best Value Framework Review

Report By: Chief Finance Officer

Summary of Report and Implications	
Purpose	This report: (tick any that apply). - seeks a decision ✓ - is to provide assurance ✓ - is for information ☐ - is for discussion ☐ The purpose of this report is to provide the committee with an updated Best Value framework for consideration and approval. This reflects latest Scottish Government guidance on best value published in 2020.
Recommendations	It is recommended that the committee: 1. Notes the review carried out of the IJB's Best Value framework, taking into account the most recent guidance from the Scottish Government 2. Notes the proposed changes to guidance for external auditors and the increased scrutiny of Best Value 3. Agrees the revised Best Value Framework should be reported to the Board for approval
Directions to NHS Lothian and/or West Lothian Council	A direction(s) is not required.
Resource/ Finance/ Staffing	Best Value in the use of resources is a key objective of the IJB and the proposed Best Value framework will help provide assurance.
Policy/Legal	The proposed Best Value framework will provide a formal process for the IJB to demonstrate compliance with its statutory Best Value duty.
Risk	None.
Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.

Strategic Planning and Commissioning	The revised Best Value framework will assist in effective delivery of the IJB's Strategic Plan.
Locality Planning	None.
Engagement	Consultation with relevant officers in NHS Lothian and West Lothian Council.

Terms of Report

1. Background

1.1 The Local Government (Scotland) Act 2003 places a duty on Local Government bodies to secure Best Value. As a Section 106 body under the 2003 Act, Integration Joint Boards have the same statutory duty to secure best value.

1.2 The statutory duties of the 2003 Act are:

- To make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and in making those arrangements and securing the balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development;
- To achieve break-even trading accounts, subject to mandatory disclosure
- To observe proper accounting practices
- To make arrangements for the reporting to the public of the outcome of the performance of functions

The above duties apply to the IJB other than the duty to secure a break-even in trading accounts which is not relevant to the IJB as it does not have trading accounts.

2. Current Best Value Framework

2.1 The current Best Value Framework was approved by the Board on 24 September 2018 and set out the themes against which the IJB seeks to demonstrate delivery of best value. These themes were based on the latest ministerial guidance available at the time on demonstration of Best Value by local government bodies.

2.2 The existing Best Value Framework themes used by the IJB for monitoring compliance of best value are shown below:

- Management of Resources
- Effective Leadership and Strategic Direction
- Performance Management
- Joint Working with Partners
- Service Review / Continuous Improvement
- Governance and Accountability
- Engagement with Community

2.3 An Annual Statement of Compliance is prepared by the Chief Finance Officer for consideration by the IJB management team and the IJB Audit, Risk and Governance Committee. This sets out evidence on how the IJB has complied with each of the themes within the framework.

2.4 The Board agreed at the time of approval that the Best Value Framework should be reviewed after two years of operation to take account of any ongoing developments around best value for IJBs and auditing for Best Value. Since that time new statutory guidance has been published in respect of Best Value and there have also been developments in auditing for best value for IJBs. Both areas are set out in further detail below.

3. Auditing Best Value in IJBs – Audit Scotland Guidance

3.1 Guidance for auditors on auditing Best Value in local government was issued by Audit Scotland in January 2021.

3.2 The proposed new approach increases the emphasis on best value, and recommends that this should be fully integrated into annual audit work. When looking at governance arrangements, auditors will expect a body to demonstrate that Best Value arrangements are in place.

3.3 For IJBs in particular, annual Best Value audit work will, going forward, be integrated with the wider scope audit work covering areas such as financial sustainability, governance, performance and partnership working, and will be reported in Annual Audit Reports prepared by external auditors.

3.4 In addition, reports covering the Best Value arrangements in each IJB will be reported to the Accounts Commission, who will report findings and publish these reports. These reports will reflect findings from the annual accounts and also the work of other scrutiny bodies such as the Care Inspectorate and the IJB's own self evaluation. This is intended to provide the Accounts Commission with assurance on achievement of Best Value in each individual IJB.

4. Revised Best Value Framework

4.1 <u>Best Value: Revised Statutory Guidance 2020</u>
Best Value guidance from the Scottish Government helps authorities to develop arrangements which will demonstrate continuous improvement in their performance. The previous guidance has been in place since 2004, and in March 2020 a revised version was produced which was felt to better reflect the significantly changed policy and public service delivery landscape within which local government bodies now operate. The revised guidance is appended to this report.

4.2 This revised guidance again applies to other bodies as required by Section 106 of the Local Government (Scotland) Act 1973, notably health and social care integration joint boards and other joint committees or boards that are subject to the same statutory Best Value duties as local authorities and it is to be interpreted and applied accordingly.

4.3 Other devolved public bodies, such as NHS Boards, are not directly covered by the 2003 Act. They are however under a similar Best Value duty, which is set out in the Scottish Public Finance Manual and have a statutory duty under the Public Finance and Accountability (Scotland) Act to use their resources 'economically, efficiently and effectively'.

4.4 Achieving Best Value is increasingly dependent on the effectiveness of partnerships and collaborative working arrangements, in addition to how well a body manages its own activities. Since the original Best Value guidance was published in 2004, there has been an increased focus on partnership and collaborative working across the public sector, with much more of a requirement to align key plans and strategies among partners and work jointly to deliver shared outcomes. This is particularly relevant to IJBs given their strategic planning responsibilities across health and social care functions which are operationally delivered by partner bodies.

4.5 There are five themes in the new guidance which broadly replace the previous seven themes. These are shown below along with a short summary of the type of information / activity that would be relevant to assessing the achievement of Best Value:

- **Vision and Leadership** (e.g. that Board members and senior managers have a clear vision that is shared with stakeholders, drive continuous improvement, and strategic priorities reflect the needs of communities and individuals)
- **Governance and Accountability** (e.g. there are robust arrangements for scrutiny, and publication of performance information such as Annual Accounts, Governance Statements and Annual Performance reports)
- **Effective Use of Resources** (e.g. there is financial assurance and monitoring of IJB budget resources, medium term financial planning, workforce planning, regular reporting and scrutiny of IJB performance indicators)
- **Partnerships and Collaborative Working** (e.g. there is an effective approach to joint working with partners, with clarity and accountability, resulting in better and customer-focused outcomes)
- **Working With Communities** (e.g. there is effective and meaningful engagement and consultation with communities, through Locality Planning Groups and Strategic Plan consultation)

4.6 There are a further two cross-cutting themes in the new guidance that a Best Value local government body is advised to embrace across all of its activities. These are shown below:

- **Sustainable Development** (e.g. that resources are used in a way that contributes to sustainable development, and this is reflected in strategic priorities, governance arrangements and partnership working)
- **Fairness and Equality** (e.g. that equality and equity considerations are embedded in strategic planning and service delivery, along with a commitment to tackling discrimination)

4.7 It is proposed that the Best Value Framework used for assessing compliance should be updated to use these seven new themes as recommended in the updated Best Value guidance.

4.8 The updated Framework will then be used for the annual assessment of how the IJB has demonstrated best value in the delivery of delegated functions during the financial year 2020/21. This assessment is likely to take account of factors such as external scrutiny / audit and internal audit considerations, and specific audit work undertaken in the framework areas identified.

4.9 It is proposed that the Chief Finance Officer will coordinate the preparation of the Annual Compliance Statement under the new themes in the updated Best Value guidance. The Annual Compliance Statement is proposed to be reported to this committee at its next meeting on 17 June 2021.

4.10 Based on the proposed arrangements set out, it is recommended that a report should be presented to the Board seeking approval for the new Best Value Framework to be introduced for the 2020/21 assessment of compliance with Best Value.

4.11 Subject to approval, it is anticipated that the framework would be reviewed after a further period of 3 years to take account of any ongoing developments around Best Value for IJBs and auditing for Best Value.

Appendices	1. Best Value Revised Statutory Guidance 2020
References	1. Local Government (Scotland) Act 2003 2. Best Value Revised Statutory Guidance 2020
Contact	Patrick Welsh, Chief Finance Officer, West Lothian Integration Joint Board Email: patrick.welsh@westlothian.gov.uk Tel. No: 01506 281320

Local Government in Scotland Act 2003

Best Value: Revised Statutory Guidance 2020

March 2020

Scottish Government
Riaghaltas na h-Alba
gov.scot

LOCAL GOVERNMENT IN SCOTLAND ACT 2003

BEST VALUE: REVISED STATUTORY GUIDANCE 2020

CONTENTS Page

SECTION 1 – OVERVIEW

The Duty of Best Value

The **Local Government in Scotland Act 2003** introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Purpose of the Guidance

Best Value guidance has been in place since 2004, identifying the characteristics of Best Value to help local authorities develop arrangements to demonstrate continuous improvement in their performance.

In recognition of the changes since 2004 to the environment in which local authorities deliver services, a multi-agency steering group was tasked with reviewing and refreshing the guidance. The steering group endorsed the continuing relevance of the substance of the original guidance, but felt that it should be revised to reflect the current public service landscape in Scotland, with an increasing emphasis on citizens and personalised services, a focus on outcomes, and the need for innovation in designing public services for the future. The steering group also identified the need for synergy and alignment, so far as possible and appropriate, between the statutory guidance and the guidance on Best Value in public services, which applies to public bodies that are accountable to the Scottish ministers.

This revised guidance has been produced by the steering group and reflects the priorities that it identified. It replaces the previous guidance that was published in 2004, which comprised both the statutory guidance by Scottish ministers and supporting guidance by the then Best Value Task Force, so that all the relevant guidance is now contained in this single document.

Best Value Themes

This revised guidance is framed around the following Best Value themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

As in the previous guidance, sustainability and fairness and equality continue to be cross-cutting themes that should be integral to all of the functions and activities carried out by a local authority to deliver good outcomes and achieve Best Value.

Section 2 of this guidance explains these themes and how a local authority can demonstrate that it is delivering Best Value in respect of each theme.

Scope of the Guidance

This guidance applies to other bodies as required by Section 106 of the Local Government (Scotland) Act 1973, notably health and social care integration joint boards and other joint committees or boards, that are subject to the same statutory Best Value duties as local authorities and it should be interpreted and applied accordingly. Section 14 of the 2003 Act applies the Best Value duty to these other bodies and thus references throughout the guidance to 'local authorities' cover all such bodies.

Other devolved public bodies, such as the NHS, are not directly covered by the 2003 Act. They are, however, under a similar Best Value duty, which is set out in the Scottish Public Finance Manual, and a statutory duty under the Public Finance and Accountability (Scotland) Act 2000) to use their resources 'economically, efficiently and effectively'.

Since 2003, the enactment of other key legislation has had a significant impact across Scotland, extending the requirements of Best Value beyond local authorities. The Public Bodies (Joint Working) (Scotland) Act 2014 has resulted in the integration of health and social care, while the Community Empowerment (Scotland) Act 2015 has strengthened the statutory base for community planning, and for involving and engaging communities in planning and decision-making about things that matter to them.

Working with Partners

Achieving Best Value is increasingly dependent on the effectiveness of partnerships and collaborative working arrangements with a range of stakeholders, in addition to how well a local authority manages its own activities. Since the original version of this guidance was published in 2004, there has been an increased focus on partnership and collaborative working across the public sector, with much more alignment of key plans and strategies among partners, and joint working to deliver shared outcomes. Alignment of key plans and strategies with its partners, an understanding of place, a commitment to reducing inequalities, empowering communities to affect change, and being able to demonstrate improved outcomes for people who use services are now key requirements in the achievement of Best Value.

Although local authorities are not responsible for the performance of all partners in their areas, they are crucial in influencing many local services through their relationships with others. Local authorities achieving Best Value will be able to demonstrate a vision and direction of travel shared with key stakeholders in order to achieve key outcomes for local people. There are a number of areas where Best Value can be demonstrated only by working in strong partnership arrangements with bodies not covered by the statutory Best Value duties in the 2003 Act, and this is reflected in the guidance.

This guidance should be read in conjunction with the statutory guidance on community planning, which describes how local authorities and other public sector bodies should work together in the context of community planning.

Role of the Accounts Commission

The Accounts Commission for Scotland is responsible for reporting on the performance by local authorities (and those other bodies covered by section 14 of the 2003 Act as discussed above, such as integration joint boards) of their Best Value and community planning duties. The Commission considers, in public, statutory reports from the Controller of Audit on Best Value, based upon the annual audit work by appointed external auditors in individual councils. Having considered such a report, the Commission has a range of powers that it can use, as set out in the Local Government (Scotland) Act 1973. They also make use as appropriate of the work of other local government scrutiny and inspection bodies.

SECTION 2 – BEST VALUE THEMES

Overview

The 2004 Best Value guidance was structured around ten Best Value characteristics. This refreshed guidance reconfigures these characteristics into seven themes that better reflect the significantly changed policy and public service delivery landscape within which local authorities now operate.

Local authorities must be able to demonstrate a focus on continuous improvement in performance around each of these themes.

Theme 1 – Vision and Leadership

Effective political and managerial leadership is central to delivering Best Value, through setting clear priorities and working effectively in partnership to achieve improved outcomes. Leaders should demonstrate behaviours and working relationships that foster a culture of cooperation, and a commitment to continuous improvement and innovation.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **Members and senior managers have a clear vision for their area that is shared with citizens, key partners and other stakeholders.**
- **Members set strategic priorities that reflect the needs of communities and individual citizens, and that are aligned with the priorities of partners.**
- **Effective leadership drives continuous improvement and supports the achievement of strategic objectives.**

This means that:

1. The local authority's vision for its area is developed in partnership with its citizens, employees, key partners and other stakeholders.
2. Members set strategic priorities that contribute to achieving the local authority's vision, reflect the needs of communities and individual citizens, and are aligned with the priorities of partners. They take decisions that contribute to the achievement of those priorities, in particular when allocating resources and in setting and monitoring performance targets.
3. The local authority's vision and strategic priorities are clearly communicated to its citizens, staff and other partners.

4. Strategic plans reflect a pace and depth of improvement that will lead to the realisation of the local authority's priorities and the long-term sustainability of services.

5. Service plans are clearly linked to the local authority's priorities and strategic plans. They reflect the priorities identified through community planning, and show how the local authority is working with partners to provide services that meet community needs.

6. Priority outcomes are clearly defined, and performance targets are set that drive continuous improvement in achieving those outcomes.

7. There are clear and effective mechanisms for scrutinising performance that enable the taking of informed decisions and the measuring of impacts and service outcomes.

8. There is a corporate approach to continuous improvement, with regular updating and monitoring of improvement plans.

9. The local authority and its partners agree on how the key elements of Best Value will contribute to achieving the commonly agreed local priorities and outcomes. These key elements include the need to:

   - secure continuous improvement, in particular for those services aligned to the local authority's priorities
   - provide customer- and citizen-focused public services, which meet the needs of diverse communities
   - achieve the best balance of cost and quality in delivering services (having regard to economy, efficiency, effectiveness and equalities)
   - contribute to sustainable development
   - encourage and support innovation and creativity.

10. Members and senior managers communicate the approach to Best Value methodically throughout the local authority in terms that are relevant to its staff and set out clear expectations of them. The local authority has a positive culture in which its people understand its vision and objectives and how their efforts contribute to their achievement, and they are engaged with and committed to improvement.

11. Members and senior managers are self-aware. They commit to training and personal development to update and enhance their knowledge, skills, capacity and capabilities to deliver Best Value and perform their leadership roles, and they receive sufficient support to do so.

12. Leadership is effective and there is good collaborative working. Members and senior managers have a culture of cooperation and working constructively in partnership, informed by a clear understanding of their respective roles and responsibilities and characterised by mutual respect, trust, honesty and openness and by appropriate behaviours.

Theme 2 – Governance and Accountability

Effective governance and accountability arrangements, with openness and transparency in decision-making, schemes of delegation and effective reporting of performance, are essential for taking informed decisions, effective scrutiny of performance and stewardship of resources.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **A clear understanding and the application of the principles of good governance and transparency of decision-making at strategic, partnership and operational levels.**

- **The existence of robust arrangements for scrutiny and performance reporting.**

- **The existence of strategic service delivery and financial plans that align the allocation of resources with desired outcomes for the short, medium and long terms.**

This means that:

1. Members and senior managers ensure accountability and transparency through effective internal and external performance reporting, using robust data to demonstrate continuous improvement in the local authority's priority outcome measures.

2. Management information and indicators that allow performance to be assessed are widely and consistently used by the local authority. Senior management regularly receives information that is used to inform members about performance.

3. Performance is reported to the public, to ensure that citizens are well informed about the quality of services being delivered and what they can expect in future.

4. Learning from previous performance, and from the performance of other local authorities, informs the review and development of strategies and plans to address areas of underperformance.

5. Key organisational processes are linked to, or integrated with, the planning cycle; these include strategic analyses, stakeholder consultations, fundamental reviews, performance management, staff appraisal and development schemes, and public performance reporting.

6. The local authority has a responsible attitude to managing risk, and business continuity plans (including civil contingencies and emergency plans) are in place to allow an effective and appropriate response to planned and unplanned events and circumstances.

7. Key discussions and decision-making take place in public meetings, and reasonable measures are taken to make meeting agendas, reports and minutes accessible to the public, except when there are clear reasons why this would be inappropriate.

8. The local authority's political structures support members in making informed decisions.

9. The scrutiny structures in the local authority support members in reviewing and challenging its performance.

10. Members and senior managers promote the highest standards of integrity and responsibility, establishing shared values, mutual trust and sound ethics across all activities. Effective procedures are in place to ensure that members and staff comply with relevant codes of conduct and policies. This includes ensuring that appropriate policies on fraud prevention, investigation and whistleblowing are established and implemented.

11. Members and senior managers understand and effectively communicate their respective and collective roles and responsibilities to members and staff. They understand that effective delegation enables and supports the local authority's ability to achieve Best Value.

12. An information governance framework is in place that ensures proper recording of information, appropriate access to that information including by the public, and legislative compliance.

13. Technological innovation and digital transformation are promoted and used to ensure accessibility of performance information and public accountability.

14. Members and employees across the local authority understand and implement their responsibilities in relation to its Standing Orders and Financial Regulations.

15. There are clear governance and lines of accountability when delivering services via a third party, and there is evidence of the application of the principles within the 'Following the Public Pound' guidance when funding is provided to external bodies.

Theme 3 – Effective Use of Resources

Making the best use of public resources is at the heart of delivering Best Value. With clear plans and strategies in place, and with sound governance and strong leadership, a local authority will be well placed to ensure that all of its resources are deployed to achieve its strategic priorities, meet the needs of its communities and deliver continuous improvement.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **It makes best use of its financial and other resources in all of its activities.**

- **Decisions on allocating resources are based on an integrated and strategic approach, are risk-aware and evidence-based, and contribute to the achievement of its strategic priorities.**

- **It has robust procedures and controls in place to ensure that resources are used appropriately and effectively, and are not misused.**

- **It works with its partners to maximise the use of their respective resources to achieve shared priorities and outcomes.**

This means that:

<u>Staff</u>

1. A workforce strategy is in place that sets out expectations on how the local authority's staff will deliver its vision, priorities and values.

2. The strategy is translated into workforce plans, covering employee numbers, skills, knowledge, competencies and organisational structures, that demonstrate how staff will be deployed to deliver the services planned for the future. Plans are regularly reviewed at appropriate intervals according to a clear review cycle.

3. All employees are managed effectively and efficiently, and know what is expected of them. Employee performance is regularly assessed through performance appraisal, with individuals and teams being supported to improve, where appropriate.

4. Members and senior managers understand and demonstrate that effective delegation is an important contribution to the local authority's ability to achieve Best Value.

5. The contribution of staff to ensuring continuous improvement is supported, managed, reviewed and acknowledged.

6. The local authority demonstrates a commitment to fairness, equity and safety in the workplace; it adopts relevant statutory guidance through progressive workplace policies and a commitment to best practice in workplace relationships.

7. Leaders ensure that there is the organisational capacity to deliver services through effective use of all employees and other resources. They communicate well with all staff and stakeholders, and ensure that the organisation promotes a citizen- and improvement-focused culture that delivers meaningful actions and outcomes.

Asset management

1. There is a corporate approach to asset management that is reflected in asset management strategies and plans, which are subject to regular review.

2. There is a systematic and evidence-based approach to identifying and managing risks in relation to land, buildings, plant, equipment, vehicles, materials and digital infrastructure.

3. The local authority actively manages its asset base to contribute to its objectives and priorities.

4. Fixed assets are managed efficiently and effectively, taking account of availability, accessibility, safety, utilisation, cost, condition and depreciation.

Information

1. Information is regarded as a strategic resource and is managed accordingly.

2. There is a clear digital strategy in place, which includes resilience plans for information systems.

3. Information is shared appropriately, and the local authority seeks to develop data compatibility with its partners.

Financial management and planning

1. There is clear alignment between the local authority's budgets and its strategic priorities.

2. Regular monitoring and reporting of financial outturns compared with budgets is carried out, and corrective action taken where necessary to ensure the alignment of budgets and outturns.

3. Financial plans show how the local authority will fund its services in the future. Long-term financial plans that include scenario planning for a range of funding levels are prepared and linked to strategic priorities.

4. An appropriate range of options is considered when taking decisions, and robust processes of option appraisal and self-assessment are applied.

5. The local authority has clear plans for how it will change services and realise efficiencies to close future budget gaps.

6. Members and senior managers have a clear understanding of likely future pressures on services and of how investment in preventative approaches can help alleviate those pressures, and they use that understanding to inform decisions.

7. Financial performance is systematically measured across all areas of activity, and regularly scrutinised by managers and members.

8. There is a robust system of financial controls in place that provides clear accountability, stakeholder assurance, and compliance with statutory requirements and recognised accounting standards.

9. The local authority complies with legal and best practice requirements in the procurement and strategic commissioning of goods, services and works, including the Scottish Model of Procurement. There is clear accountability within procurement and commissioning arrangements.

10. There are clear and effective governance and accountability arrangements in place covering partnerships between the local authority and its arm's-length external organisations (ALEOs), including for performance monitoring and the early identification of any significant financial and service risks; there is evidence of the application of the principles of 'Following the Public Pound.'

11. The local authority has a reserves policy that supports its future financial sustainability, and its reserves are held in accordance with that policy.

Performance management

1. Effective performance management arrangements are in place to promote the effective use of the local authority's resources. Performance is systematically measured across all areas of activity, and performance reports are regularly scrutinised by managers and elected members. The performance management system is effective in addressing areas of underperformance, identifying the scope for improvement and agreeing remedial action.

2. There is a corporate approach to identifying, monitoring and reporting on improvement actions that will lead to continuous improvement in priority areas. Improvement actions are clearly articulated and include identifying responsible officers and target timelines.

3. The local authority uses self-evaluation to identify areas for improvement. This includes the use of comparative analyses to benchmark, monitor and improve performance.

4. The local authority takes an innovative approach when considering how services will be delivered in the future. It looks at the activities of other organisations, beyond its area, to consider new ways of doing things. A full range of options is considered, and self-assessment activity and options appraisal can be demonstrated to be rigorous and transparent.

5. Evaluation tools are in place to link inputs, activities and outputs to the outcomes that they are designed to achieve. There is evidence to demonstrate that improvement actions lead to continuous improvement and better outcomes in priority service areas.

6. The local authority seeks and takes account of feedback from citizens and service users on performance when developing improvement plans.

7. Improvement plans reflect a pace and depth of improvement that will lead to the realisation of the local authority's priorities and the long-term sustainability of services.

8. Performance information reporting to stakeholders is regular and gives a balanced view of the local authority's performance, linked to its priority service areas. The information provided is relevant to its audience, and clearly demonstrates whether or not strategic and operational objectives and targets are being met.

9. The local authority demonstrates a trend of improvement over time in delivering its strategic priorities.

Theme 4 – Partnerships and Collaborative Working

The public service landscape in Scotland requires local authorities to work in partnership with a wide range of national, regional and local agencies and interests across the public, third and private sectors.

A local authority should be able to demonstrate how it, in partnership with all relevant stakeholders, provides effective leadership to meet local needs and deliver desired outcomes. It should demonstrate commitment to and understanding of the benefits gained by effective collaborative working and how this facilitates the achievement of strategic objectives.

Within joint working arrangements, Best Value cannot be measured solely on the performance of a single organisation in isolation from its partners. A local authority will be able to demonstrate how its partnership arrangements lead to the achievement of Best Value.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **Members and senior managers have established and developed a culture that encourages collaborative working and service provision that will contribute to better and customer-focused outcomes.**

- **Effective governance arrangements for Community Planning Partnerships and other partnerships and collaborative arrangements are in place, including structures with clear lines of responsibility and accountability, clear roles and responsibilities, and agreement around targets and milestones.**

This means that:

1. Members and senior managers actively encourage opportunities for formal and informal joint/integrated working, joint use of resources and joint funding arrangements, where these will offer scope for service improvement and better outcomes.

2. The local authority is committed to working with partner organisations to ensure a coordinated approach to meeting the needs of its stakeholders and communities. This includes:

   - scenario planning with partners to identify opportunities to achieve Best Value
   - collaborative leadership to identify Best Value partnership solutions to achieve better outcomes for local people
   - proactively identifying opportunities to invest in and commit to shared services
   - integrated management of resources where appropriate
   - effective monitoring of collective performance, including self-assessment and reviews of the partnership strategy, to ensure the achievement of objectives

- developing a joint understanding of all place-based capital and revenue expenditure.

3. Members and senior managers identify and address any impediments that inhibit collaborative working. The local authority and its partners develop a shared approach to evaluating the effectiveness of collaborative and integrated working.

4. In undertaking its community planning duties the local authority works constructively with partners to agree a joint vision for the Community Planning Partnership and integrates shared priorities and objectives into its planning, performance management and public reporting mechanisms. Service plans clearly reflect the priorities identified through community planning, and show how the local authority is working with partners to provide services that meet stakeholder and community needs.

Theme 5 – Working with Communities

Local authorities, both individually and with their community planning partners, have a responsibility to ensure that people and communities are able to be fully involved in the decisions that affect their everyday lives. Community bodies – as defined in the Community Empowerment Act 2015 (section 4(9)) – must be at the heart of decision-making processes that agree strategic priorities and direction.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **Early and meaningful engagement and effective collaboration with communities to identify and understand local needs, and in decisions that affect the planning and delivery of services.**

- **A commitment to reducing inequalities and empowering communities to effect change and deliver better local outcomes.**

- **That engagement with communities has influenced strategic planning processes, the setting of priorities and the development of locality plans.**

This means that**:**

1. Members and senior managers ensure that meaningful consultation and engagement in relation to strategic planning take place at an early stage and that the process of consultation and engagement is open, fair and inclusive.

2. Members and senior managers are proactive in identifying the needs of communities, citizens, customers, staff and other stakeholders; plans, priorities and actions are demonstrably informed by an understanding of those needs.

3. Communities are involved in making decisions about local services, and are empowered to identify and help deliver the services that they need. Suitable techniques are in place to gather the views of citizens, and to assess and measure change in communities as a result of service interventions.

4. Active steps are taken to encourage the participation of hard-to-reach communities.

5. The local authority and its Community Planning Partnership work effectively with communities to improve outcomes and address inequalities.

6. A locality-based approach to community planning has a positive impact on service delivery within communities, and demonstrates the capacity for change and for reducing inequality in local communities by focusing on early intervention and prevention.

7. Members and senior managers work effectively with partners and stakeholders to identify a clear set of priorities that respond to the needs of communities in both the short and the longer term. The local authority and its partners are organised to deliver on those priorities, and clearly demonstrate that their approach ensures that the needs of their communities are being met.

8. The local authority engages effectively with customers and communities by offering a range of communication channels, including innovative digital solutions and social media.

9. The local authority plays an active role in civic life and supports community leadership.

The two cross-cutting themes that a Best Value local authority should fully embrace across all of its activities are Theme 6, sustainable development, and Theme 7, fairness and equality.

Theme 6 – Sustainable Development

Sustainable development is commonly defined as securing a balance of social, economic and environmental wellbeing in the impact of activities and decisions, and seeking to meet the needs of the present without compromising the ability of future generations to meet their own needs. The United Nations Sustainable Development Goals provide a fuller definition and set out an internationally agreed performance framework for their achievement.

Sustainable development is a fundamental part of Best Value. It should be reflected in a local authority's vision and strategic priorities, highlighted in all plans at corporate and service level, and a guiding principle for all of its activities. Every aspect of activity in a local authority, from planning to delivery and review, should contribute to achieving sustainable development.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **Sustainable development is reflected in its vision and strategic priorities.**

- **Sustainable development considerations are embedded in its governance arrangements.**

- **Resources are planned and used in a way that contributes to sustainable development.**

- **Sustainable development is effectively promoted through partnership working.**

This means that:

1. Leaders create a culture throughout the local authority that focuses on sustainable development, with clear accountability for its delivery across the leadership and management team.

2. There is a clear framework in place that facilitates the integration of sustainable development into all of the local authority's policies, financial plans, decision-making, services and activities through strategic-, corporate- and service-level action. In doing so, the local authority will be able to demonstrate that it is making a strategic and operational contribution to sustainable development.

3. The local authority has set out clear guiding principles that demonstrate its, and its partners', commitment to sustainable development.

4. There is a broad range of qualitative and quantitative measures and indicators in place to demonstrate the impact of sustainable development in relation to key economic, social and environmental issues.

5. Performance in relation to sustainable development is evaluated, publicly reported and scrutinised.

Theme 7 – Fairness and Equality

Tackling poverty, reducing inequality and promoting fairness, respect and dignity for all citizens should be key priorities for local authorities and all of their partners, including local communities.

In achieving Best Value, a local authority will be able to demonstrate the following:

- **That equality and equity considerations lie at the heart of strategic planning and service delivery.**

- **A commitment to tackling discrimination, advancing equality of opportunity and promoting good relations both within its own organisation and the wider community.**

- **That equality, diversity and human rights are embedded in its vision and strategic direction and throughout all of its work, including its collaborative and integrated community planning and other partnership arrangements.**

- **A culture that encourages equal opportunities and is working towards the elimination of discrimination.**

This means that:

1. The local authority demonstrates compliance with all statutory duties in relation to equalities and human rights.

2. The local authority is taking active steps to tackle inequalities and promote fairness across the organisation and its wider partnerships, including work and living conditions, education and community participation.

3. The local authority and its partners have an agreed action plan aimed at tackling inequality, poverty and addressing fairness issues identified in local communities.

4. The local authority engages in open, fair and inclusive dialogue to ensure that information on services and performance is accessible to all, and that every effort has been made to reach hard-to-reach groups and individuals.

5. The local authority ensures that all employees are engaged in its commitment to equality and fairness outcomes, and that its contribution to the achievement of equality outcomes is reflected throughout its corporate processes.

6. The local authority engages with and involves equality groups to improve and inform the development of relevant policies and practices, and takes account of socio-economic disadvantage when making strategic decisions.

7. The equality impact of policies and practices delivered through partnerships is always considered. Equality impact information and data is analysed when planning the delivery of services, and measuring performance.

8. The local authority's approach to securing continuous improvement in delivering on fairness and equality priorities and actions is regularly scrutinised and well evidenced.

Best Value Guidance Refresh – National Steering Group

The steering group comprised officials from the Scottish Government, the Convention of Scottish Local Authorities (COSLA), the Society of Local Authority Chief Executives (SOLACE), the Scottish Trades Union Congress (STUC) and the Scottish Public Services Ombudsman (SPSO). Officials from Audit Scotland also attended meetings in an observational capacity**:**

David Martin, SOLACE and Chief Executive of Dundee City Local Authority (Chair)
Fiona Mitchell-Knight, Audit Scotland (observer)
Fraser McKinlay, Audit Scotland (observer)
Garrick Smyth, COSLA
James Fowlie, COSLA
Sandra Lorimer, Dundee City Local Authority
Brian Peddie, Scottish Government
John Stevenson, SPSO
Mike Kirby (Unison), STUC

<u>Contributors:</u>
Anne Margaret Black, East Ayrshire Integration Joint Board
Lorraine Gillies, Audit Scotland

Useful Resources

Audit Scotland

Further information on the audit of Best Value can be found on the Audit Scotland website

Audit Scotland issued on behalf of the Strategic Scrutiny Group Principles for community empowerment which aims to raise awareness of community empowerment and promote a shared understanding across scrutiny bodies to support high-quality scrutiny of community empowerment.

Accounts Commission

The "How Councils Work" series of reports produced by the Accounts Commission provides useful information and practical advice on a range of issues that are relevant to Best Value.

'Following the Public Pound' guidance is intended to ensure proper accountability for funds or other resources that are transferred by councils to arm's-length bodies, such as companies, trusts and voluntary bodies funds, and to ensure that the principles of regularity and probity are not circumvented. It has the support of the Convention of Scottish Local Authorities.

Scottish Government

Best Value in Public Services: Guidance for Accountable Officers

Community empowerment: information can be found on the Scottish Government website.

Other resources

The European Foundation for Quality Management (EFQM) Excellence Model was developed by the EFQM. It is widely used as a framework for continuous improvement activity by private, public and voluntary sector organisations. More information can be found on the Quality Scotland web site.

The National Standards for Community Engagement are good-practice principles designed to improve and guide the process of community engagement.

The Place Standard tool provides a simple framework to structure conversations about place taking into account both the physical elements of a place and its social aspects.

The Public Service Improvement Framework (PSIF), produced by the Improvement Service, is a self-assessment framework that enables organisations to conduct a comprehensive review of their own activities and results.

The Sustainable Development Network provides information and advice on sustainable development in the public sector in Scotland.

Scottish Government
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This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at

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Agenda Item: 14

- 289 -

WORKPLAN FOR WEST LOTHIAN INTEGRATION JOINT BOARD AUDIT RISK AND GOVERNANCE COMMITTEE

Date of Meeting	Agenda Setting	Title of Report	Lead Officer	Action
24 February 2021				**Conference Room 3, WL Civic Centre**
		IJB Risk Management	K Ribbons	
		Timetable of Meetings for 2021/22	Clerk	
		Data Protection Officer	L Kemp	
		External Audit Annual Plan	P Welsh/EY	
		Internal Audit Annual Plan - Financial Planning	K Ribbons	
		External audit/scrutiny report(s) - TBC	A Short	
17 June 2021				**Conference Room 3, WL Civic Centre (tbc)**
		IJB High Risks	K Ribbons	
		Risk Management Annual Report	K Ribbons	
		Internal Audit Annual Report (inc review of system of internal control)	K Ribbons	
		Annual Governance Statement	J Millar	
		Governance Issues – Update	J Millar	

		Best Value Framework – Annual Compliance Report	P Welsh	
		Internal Audit report(s) - TBC	K Ribbons	
		External audit/scrutiny report(s) - TBC	A Short	
Sept 2021 Mtg (tbc)		Review of Best Value Protocol	K Ribbons	
		IJB Risk Management	K Ribbons	
		Self-Assessment Questionnaire	L Kemp	
		Audited Accounts (inc external audit report)	P Welsh	
		Corporate Governance Annual Report	J Millar	
		Internal Audit report(s) - TBC	K Ribbons	
		External audit/scrutiny report(s) - TBC	A Short	

REPORTING CYCLE FOR WEST LOTHIAN INTEGRATION JOINT BOARD AUDIT RISK AND GOVERNANCE COMMITTEE

WHAT	WHEN	WHY	LAST	NEXT
AUDIT				
External Audit Annual Plan	Annual	Audit Scotland guidance	Mar 20	Feb 21
Internal Audit Annual Plan	Annual	PSIAS and Internal Audit Charter	Mar 20	Feb 21
Internal Audit Annual Report including review of system of internal control	Annual	Accounts Regulations; PSIAS; Internal Audit Charter; IJB, 24 September 2018	Jun 19	Jun 21
Review the internal audit charter	Quinquennial	Accounts Regulations 2014; PSIAS; IJB, 6 January 2017	Jan 17	Feb 21
External assessment of conformance with PSIAS	Quinquennial	PSIAS; Internal Audit Charter; IJB, 6 January 2017	Mar 17	Mar 22
RISK				
IJB Risk Register	Biannual	Risk Management Strategy; IJB, 26 June 2018	Mar 20	Sept 20
IJB High Risks	Biannual	Risk Management Strategy; IJB, 26 June 2018	Dec 19	Jun 20
Risk Management Annual Report	Annual	Risk Management Strategy; IJB, 26 June 2018	Jun 19	Jun 20
Review of Risk Management Strategy and Policy	Quadrennial	Risk Management Strategy; IJB, 26 June 2018	Jun 18	Jun 22
FINANCE				
Audited Accounts, including external audit report	Annual	IJB, 24 September 2018	Sep 19	Sept 20
Review of Best Value Protocol	Biennial	IJB, 24 September 2018	Sep 18	Sept 20
Best Value Protocol Compliance Statement	Annual	IJB, 24 September 2018	Jun 19	Jun 20

WHAT	WHEN	WHY	LAST	NEXT
GOVERNANCE				
Corporate Governance Annual Report	Annual	CIPFA/SOLACE Framework; IJB Code of Corporate Governance; IJB, 1 May 2018	Sept 19	Sept 20
Update on Governance Issues	Biannual	IJB, 10 September 2019		Dec 20
Review of Standing Orders, Scheme of Delegation and Committee Remits	Biennial	IJB, 21 January 2020	Jan 20	Jan 22
Annual Governance Statement	Annual	IJB, 24 September 2018	Jun 20	Jun 21
Review of Code of Corporate Governance	Biannual	IJB, 10 September 2019	Sept 19	Sept 21
OTHERS				
Meetings Timetable	Annual	IJB and AR&GC practice	Mar 20	Feb 21
Self-Assessment Questionnaire (Issue)	Annual	AR&GC, 12 September 2018	Sept 19	Sept 20
Self-Assessment Questionnaire (Results)	Annual	AR&GC, 12 September 2018	Dec 19	Dec 20