

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 23 February 2023.

Present:

Councillor Andrew Morrison (Chair)
Councillor Paul Edlin (*)

Councillor Annette Ireland
Councillor David Macdonald

Councillor Morrison in the Chair

(*) indicates remote attendance

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Phil Daws, Head of Environment (Strategic Services); Michelle Blair, Chief Auditor; Barbara Clark, Chief Accountant; Linda Hutchison, Clerk to the Committee; Jennifer Graham, Committee Services Officer; and Liona Allison, Assistant Committee Services Officer.

Apologies:

Provost Mary Montague; and Councillors Tony Buchanan (Vice Chair) and Gordon Wallace.

DECLARATIONS OF INTEREST

338. There were no declarations of interest intimated.

CHAIR'S REPORT

339. The following matters were raised during the Chair's report:-

Meetings with External Audit

- (i) Under reference to the Minute of the meeting of 19 January (Page 355, Item 286(i) refers), when the committee had noted that a meeting had taken place between the Chair and the new External Auditor, the Chair advised that further meetings between them had been arranged in March, June and September in advance of various key reports being submitted to the committee.

Having also referred to correspondence sent to members of the committee by the Clerk regarding a proposed training, familiarisation and development session with the External Audit Team on 30 March, Councillor Morrison sought clarification if the date was unsuitable for any of the Members present.

(ii) Revised Risk Management Strategy 2023-25 and Risk Management Framework 2023-25

Under reference to the Minute of the meeting of 19 January (Page 356, Item 287 refers) when, further to discussions on the Revised Risk Management Strategy 2023-25 and Risk Management Framework 2023-25, the committee had agreed that further clarification be sought from the Environment Department on the approach being taken regarding the Climate Change Impact Assessment and Strategy, including if there were any plans for a climate change risk and impact assessment to be developed for East Renfrewshire, the Chair confirmed that feedback on this would be considered later in the meeting when feedback on the National External Audit Reports on *Addressing Climate Change in Scotland* and *Scotland's Councils' Approach to Addressing Climate Change* would be discussed.

He further advised that when the Cabinet had considered the Revised Risk Management Strategy 2023-25 and associated Framework earlier that day, it had been agreed that the Audit and Scrutiny Committee be invited to review the Council's risk appetite in relation to reputational risk and, following that review, submit a further report to Cabinet.

The committee noted:-

- (a) that the Chair was scheduled to meet the External Auditor in March, June and September in advance of various key reports being submitted to the committee;
- (b) that a short training, familiarisation and development session was being arranged between members of the committee and the External Auditor on 30 March;
- (c) that issues relating to the Climate Change Impact Assessment and Strategy would be considered later in the meeting;
- (d) that the Cabinet had invited the Audit and Scrutiny Committee to review the Council's risk appetite in relation to reputational risk and, following that review, to submit a further report to Cabinet; and
- (e) otherwise, the report.

TREASURY MANAGEMENT STRATEGY 2023/24

340. Under reference to the Minute of the meeting of 10 November 2022 (Page 295, Item 230 refers), when, having considered a report on treasury management activities for the first six months of 2022/23 it had been agreed to recommend to the Council approval of organisations for the investment of surplus funds, the committee considered a report by the Head of Accountancy (Chief Financial Officer) explaining that, in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice 2021, the Audit & Scrutiny Committee was responsible for ensuring effective scrutiny of the Council's treasury management strategy and policies.

In accordance with that requirement, a copy of the Treasury Management Strategy Report for 2023/24 was attached to the report for consideration in advance of its submission to the Council. It was highlighted that the figures within the report had been compiled on the basis of the latest available information, but that these may be subject to significant change, particularly as the outcome of the Council's £90m Learning Estate Improvement Programme (LEIP) bid was not yet known.

The Strategy Report included a proposal to amend treasury management practices in accordance with Annex F accompanying the report which listed organisations approved for the investment of surplus funds, in respect of which information was provided on related issues such as credit ratings and limits. It was also proposed that a policy on the repayment of loans fund advances, as specified in Section 3.4 of the report, be approved.

The Chief Accountant confirmed that the report was similar to previous years subject to a few amendments. She reported that a policy on environmental, social and governance factors had been included at Appendix G which explained how the Council would take these into account when making investments. A new Prudential Indicator (PI), the Liability Benchmark, had also been included depicting the amount of outstanding loan debt the Council needed to fund its existing debt liabilities.

The Chief Accountant confirmed that, from a borrowing or investment perspective, the approach remained as before, with the rest of the report concentrating on the Council's Borrowing and Investment Strategies, and setting out parameters that helped monitor both. To allow borrowing to be controlled, PIs had been set up which monitored permissible borrowing and allowed this to be compared against actual gross debt. The Chief Accountant highlighted plans to use the Council's reserve balances temporarily rather than fully funding capital expenditure by external borrowing, this being considered prudent and cost effective taking account of not only the cost of borrowing until it was used, but also the possibility of Capital Programme slippage. Having explained that the PIs had been set using the Council's 2023/24 Capital Programme, she confirmed that any movement in the Programme would affect how well the limits set could be adhered to; that indicators could require to be reviewed when the outcome of the LEIP bid was known; and that mid-year and year-end reports would be provided on this.

Having clarified that it remained the case that the primary objectives of the investment strategy were security and liquidity, the Chief Accountant referred to the types of investments that could be made as set out in Annexes D and E to the report respectively and associated risks; the proposed list of investors itemised in Annex F; and related monitoring arrangements. Reference was also made to a range of economic background information within the report which provided contextual information on the United Kingdom and global economic situation.

Having referred to treasury management training provided to Elected Members in 2022, the Chief Accountant confirmed that she would be happy to arrange further such training for Elected Members if that would be useful at any point, requests for which should be made through the Clerk.

In response to questions, the Chief Accountant quantified the financial benefit to the Council of the Scottish Government now providing fiscal flexibility to enable debt to be repaid over the lifetime of assets, and confirmed that the Council's treasury advisors were as confident as they could be on interest rate projections. The Head of Accountancy (Chief Financial Officer) confirmed that the Council did not place reliance on the advice of a sole group of treasury management advisors, but rather considered a range of issues as would be commented on further in a report on Financial Planning 2023/29 to be considered by the Council on 1 March. She added that there was broad agreement on interest rate projections from various sources.

It was confirmed that clarification had been sought on when the outcome of the LEIP bid would be known, but that no feedback had been provided thus far. It was also confirmed that the new liability benchmarking indicator excluded Private Finance Initiative figures.

The committee agreed:-

- (a) **to recommend to the Council** that the Treasury Management Strategy for 2023/24 be approved, including the Prudential and Treasury Indicators and the amended list of organisations for investment of surplus funds in accordance with Annex F to the report;
- (b) **to recommend to the Council** that the policy on the repayment of loans fund advances as specified in Section 3.4 of the report be approved;
- (c) **to recommend to the Council** that the forms of investment instruments for use as permitted investments be approved in accordance with Annex D to the report;
- (d) to note that a report on Financial Planning 2023/29 was due to be considered by the Council on 1 March;
- (e) to note that further training on treasury management issues could be arranged by the Chief Accountant, any requests for which should be made through the Clerk; and
- (f) otherwise, to note the report and related comments made.

NATIONAL EXTERNAL AUDIT REPORTS – ADDRESSING CLIMATE CHANGE IN SCOTLAND AND SCOTLAND’S COUNCILS’ APPROACH TO ADDRESSING CLIMATE CHANGE

341. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Addressing Climate Change in Scotland* and a report by the Accounts Commission on *Scotland’s Councils’ Approach to Addressing Climate Change*, published in March 2022 and September 2022 respectively, regarding which, under the committee’s specialisation arrangements, Councillor Ireland was leading the review of these reports. The Head of Environment (Strategic Services) had been asked to provide comments and a copy of his feedback was attached to the report. The report provided further clarification on the approach being taken regarding the Climate Change Impact Assessment and Strategy (Item 406(ii) above refers).

The report referred to work progressed by the Audit and Scrutiny Committee on climate change in 2020 and related reports; the Council’s approach to climate change, including the declaration by it of a climate emergency in October 2021; approval of the Get to Zero Ambition Statement in November 2021; approval of the Climate Change Impact Assessment process in June 2022; and agreement to set a target to achieve net-zero carbon emissions by 2045 for both direct and indirect emissions. The position on progress thus far was summarised which included a reduction of emissions through implementation of the Clyde Valley Residual Waste Contract; improvements to utilities; and changes to street lighting. Although good progress had been made in reducing emissions through the Clyde Valley Waste Partnership, further reductions from this contract were not expected in view of the gains already achieved.

Further information was provided on climate change targets in the course of which it was explained that, if the current trajectory of reductions continued, the Council would not meet

the 2045 target for net zero carbon emissions. Additional step-change was therefore required, this being a situation that was not unique to East Renfrewshire. Although no interim targets had been set by the Council, the Scottish Government had set a national interim target of 75% reduction by 2030 and 90% reduction by 2040, from a baseline year of 1990.

Having referred to key areas in relation to which the Council was required or expected to make significant change to its future plans and operations, the report clarified that many of these targets were currently non-statutory and described as 'policy expectations' for the time being. It was highlighted that should these targets become statutory, such as in relation to social housing, it could be that additional funding would be made available.

Whilst commenting on a range of related challenges, the report explained that many recommendations made by the Accounts Commission required investment of financial and non-financial resources. Whilst the Council could work to estimate and define costs, its ability to deliver a number of the recommendations and the draft Get to Zero Action Plan (GTZAP) was significantly diminished given current budgetary constraints and other challenges such as in relation to new technology development and market design, regulation and planning, procurement and market readiness, availability of quality data, and fairness and equality. For example, reference was made to the scope and scale of change required to the Council's buildings alone and how the pace of related work needed to be increased, with, for example, there being similar other challenges in relation to vehicles.

It was concluded that the Council had made progress to improve responses to the climate change challenge, but that it remained very challenging for it to meet net-zero related targets due to the lack of a national policy framework, route map and funding constraints. Other local authorities faced the same challenges and the country, as a whole, was 'off-track' to meeting its interim net-zero target of 75% reduction by 2030. Transformational change was required across all areas of Council and community activity and needed to start now if targets were to be met. It was emphasised that much of the action required would need to be delivered at a national and regional level, with local councils fulfilling a partnership and delivery role.

In reviewing the Accounts Commission recommendations on action to be taken by councils, there were a number of areas where the Council was performing well but gaps also existed. These would be addressed, as far as possible, in the forthcoming GTZAP but additional funding and joint working with other local authorities and partners would be necessary in order to fulfil recommendations and delivery of the plan. The GTZAP would identify funding requirements as far as possible.

Whilst highlighting key aspects of the report, the Head of Environment (Strategic Services) cited examples of the types of work required on the Council's current school estate to improve energy efficiency, referring to the financial and logistical challenges associated with retrofitting buildings. He also referred to changes being made to reports submitted to committees and revenue and capital funding related forms in the interests of pursuing the Get to Zero agenda. He added that further scrutiny by Audit Scotland was anticipated in the progress being made by local authorities on addressing climate change issues.

In response to questions from Councillor Ireland, the Head of Environment (Strategic Services) confirmed that the Council's draft GTZAP was expected to be issued for public consultation in April/May 2023, although the length of the consultation period was still to be determined. Following receipt of responses, a report would be submitted to the Cabinet as soon as possible thereafter. Regarding procurement, he referred to the scale of annual expenditure on this across the Council as a whole, the need for further work to be done on procurement issues, but also the need for caution to ensure that any related changes made were manageable and robust, adding that this was an area of work where a national framework would be valuable.

In the context of the Council's current financial situation, Councillor Edlin expressed serious concerns regarding the level of capital expenditure required to enable climate change targets to be met, commenting that he did not consider the level of expenditure at all feasible without further financial resources being made available. The Head of Environment (Strategic Services) concurred that related costs could be substantial and that additional capital investment would be needed.

In response to Councillor Edlin who referred to the costs of retro-fitting buildings, and Councillor Morrison who highlighted the cost of replacing vehicles to address climate change issues, the Head of Environment (Strategic Services) commented that it was hoped and expected that, as more suppliers entered the market to provide carbon neutral goods and services, the costs of these would reduce in future, but it remained to be determined if they would reduce sufficiently and become more affordable. He explained that the costs involved would be very substantial, but that it was very challenging to quantify the net costs of all the Get to Zero work accurately at present, such as that required on buildings for example when related survey work still required to be undertaken. He added that a further factor to consider on net Get to Zero costs was that work was required on buildings between now and 2038 irrespective of the Get to Zero agenda.

Responding to Councillor Morrison, he further commented that it did not appear to be the case that new government funding would be made available to meet the costs of expenditure required, but that it was needed by local authorities if they were expected to address Get to Zero targets. Having confirmed that many of the targets set were non-statutory at present, he expressed hope that, if legal statutory requirements needed to be met in future, additional funding would become available.

In response to further questions from Councillor Ireland, the Head of Environment (Strategic Services) advised that the Climate Change Impact Assessment had only recently been introduced and would take some time to become fully embedded in mainstream working practices across the Council. He added that related scrutiny at Council, Cabinet and the Audit and Scrutiny Committee for example was helpful, and that the introduction of a climate change risk assessment for East Renfrewshire could be considered if felt beneficial, but that work would be required to ensure that a meaningful approach to this was adopted, not just one that required a tick box approach to be taken which he considered insufficient. He undertook to consider this further.

Also in response to Councillor Ireland, he referred to the importance of working with local communities and neighbouring authorities to develop solutions to climate change issues, confirmed that some local climate groups had started to be established in summer 2022 to work with community councils on which further progress would be useful, and commented that consideration was also being given to placing some focus on green issues as part of the participatory budgeting process. He added that any suggestions from Elected Members on how such approaches could be rolled out successfully would be welcomed.

Councillor Morrison referred to the report and to the sources of the Council's carbon emissions, 80% of which came from gas and electricity use. Having highlighted that any electricity used by the Council came from wholly renewable sources, he sought the views of the Head of Environment (Strategic Services) on the Council being obliged to use the power generation that goes into the national grid as a measurement of its supply, which did not seem appropriate to him. The Head of Environment (Strategic Services) acknowledged the issue being raised, reported that he was not aware of the proportion of electricity used in the United Kingdom or Scotland that came from renewable sources, but added that if everyone living in Scotland for example moved to a renewable tariff, it could be argued that no one was using

electricity that was not generated from renewable sources. However, the market was not currently supplying wholly renewable energy at present. Councillor Morrison highlighted that the only way the Council could address this was to use less electricity or generate its own.

Councillor Morrison referred to the energy efficiency of the Council's social housing and highlighted reference in a report, to be considered at the forthcoming meeting of the Cabinet, to the fact that only essential energy efficiency works were being progressed with less urgent works deferred while management awaited revised energy efficiency guidance from the Scottish Government. In response to a question from him on when the guidance would be forthcoming, in the interests of both energy efficiency and the cost of living, the Head of Environment (Strategic Services) confirmed that local authorities had been required to achieve Energy Efficiency in Social Housing (EESH) which most achieved, with work now moving to EESH2. He highlighted that achieving carbon neutral standards for new buildings was relatively easy and inexpensive, but that doing so for existing housing required retrofitting which was more challenging, especially when there was shared ownership of a property. He explained that from a social housing service perspective the only source of income to pay for such work was rental income, increases in which would impact on the cost of living of tenants. He confirmed that this issue was the subject of on-going discussions with the Scottish Government, but it remained unknown when they would be concluded.

In response to Councillor Ireland, the Head of Environment (Strategic Services) confirmed that he was not aware of any plans to establish a climate change committee or board locally as some other Councils had done. He did not consider them unhelpful, but was not sure how beneficial that would be locally given that there was already a sufficient range of formal bodies at which climate change related issues could be raised to complement more informal discussions undertaken.

The committee noted:-

- (a) the assessment of progress made to date with respect to the Council's action on addressing climate change matters;
- (b) that making progress would be challenging due to the lack of a detailed national policy framework, route plan and uncertainty on funding; and that a national step-change would be required to facilitate successful delivery of the draft Get to Zero Action Plan at a local level;
- (c) that local authorities would be subject to greater scrutiny by Audit Scotland in terms of action against climate change; and
- (d) otherwise, the report and related comments made.

INTERNAL AUDIT PLAN 2022/23 – IMPLEMENTATION PROGRESS – OCTOBER TO DECEMBER 2022

342. The committee considered a report by the Chief Auditor regarding progress made on the implementation of the 2022-23 Internal Audit Plan from 1 October to 31 December 2022. It was confirmed that three audit reports in relation to planned 2022-23 audit work had been completed in quarter 3, information on which was provided. Details of reports which were carried out as part of the 2022-23 plan, on which responses had been received since the previous progress report had been submitted, were also provided.

Reference was made to the quarterly performance indicators (PIs) for the section. On the basis of the current resources within the section, it was proposed that six audits be deleted from the 2022/23 plan and be reconsidered as part of future audit plans. The report also confirmed that there had been three new requests for assistance dealt with using contingency time, which had not resulted in a financial loss to the Council.

The Chief Auditor referred to key aspects of the report, during which she confirmed that two reports issued in the quarter relating to planned 2022-23 audit work were follow-up reports which had already been circulated to members of the committee. Further comments on both were provided. Regarding the use of contingency time, she highlighted that one of the issues looked at concerned a contract on which there had been a significant overspend, and another related to an investigation of a payroll anomaly which had come to light while some payroll work on behalf of the Culture and Leisure Trust had been undertaken. She summarised the outcome of both and the related action to be taken.

Having confirmed that two vacancies remained in the Internal Audit section, she explained that, whilst this remained the case, it was proposed that six audits be deleted from the 2022/23 plan to be reconsidered as part of future audit plans. This would allow priority to be given to completing audits which would provide the most overall assurance on system controls.

In response to Councillor Morrison, the Chief Auditor confirmed why it had been proposed to delete two Education audits from the plan. She clarified that payroll, which constituted most of the Education budget, was covered in payroll audits and that other issues that would have been the focus of work did not generally impact on the assurance statement.

The committee agreed:-

- (a) to approve the amended Internal Audit Strategic Plan for 2022/23;
- (b) not to seek any of the reports issued during the quarter at this stage; and
- (c) otherwise, to note the report and related comments made.

CHAIR