

MINUTE
of
AUDIT and SCRUTINY COMMITTEE

Minute of meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 22 June 2023.

Present:

Councillor Andrew Morrison (Chair)
Councillor Tony Buchanan (Vice-Chair)
Councillor Paul Edlin

Councillor David Macdonald (*)
Councillor Gordon Wallace

(*) indicates remote attendance.

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Louise Pringle, Director of Business Operations and Partnerships; Barbara Clark, Chief Accountant; Michelle Blair, Chief Auditor; Fiona Caldwell, Operations Manager (Revenues); Morag Brown, Strategic Services Senior Lead; Nick Hill, Strategic Services Assistant; Linda Hutchison, Clerk to the Committee; and John Burke, Committee Services Officer.

Also Attending:

Grace Scanlin, Ernst and Young(*).

Apologies:

Provost Mary Montague and Councillor Annette Ireland.

DECLARATIONS OF INTEREST

494. There were no declarations of interest intimated.

CHAIR'S REPORT

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

External Audit Issues

- (i) Councillor Morrison reported that, in his capacity as Chair of the Committee, he was due to have a further, routine meeting with Rob Jones of the External Audit Team on 6 July.

He explained that Mr Jones had also written to him, again in his capacity as Chair, regarding Auditing Standards which required External Audit to formally update their understanding of the Committee's arrangements for oversight of management processes and arrangements annually. Having cited examples of the questions posed and referred to the value of this, Councillor Morrison confirmed he was preparing a formal, written response.

Local Government in Scotland Overview 2023

- (ii) Councillor Morrison highlighted that the Clerk had contacted members of the Committee regarding the national External Audit report on the Local Government in Scotland Overview 2023. Specifically, given the significant range of topics covered within that report, feedback already considered on various issues referred to within it both by the Committee and the full Council and officer capacity, he highlighted that Elected Members had been asked to identify which issues, by exception, they wanted the feedback to be prepared on the Overview to focus on, and to advise the Clerk accordingly by 26 June. He emphasised the importance of this to ensure the comments on this national report prepared for the Committee best met its needs.

The Committee noted:-

- (a) regarding the national External Audit report on the Local Government in Scotland Overview 2023, that the Clerk had asked members of the Committee to confirm to her by 26 June which issues, by exception, they wanted the feedback prepared for the Committee to focus on; and
- (b) otherwise, the report.

CLARIFICATION RECEIVED ON QUERIES RAISED AT PREVIOUS MEETING

496. Under reference to the Minute of the meeting of 11 May 2023 (Page 514, Item 450 refers), when it had been agreed that further clarification be sought on a number of consultancy related matters, in the interests of transparency the Committee considered a report by the Clerk summarising the clarification received and circulated on queries raised at the previous meeting on whether or not any consultancy related costs listed for Eastwood Leisure Centre in the Consultancy Log might need to be repeated arising from the delay to the project; and the timeframe for submitting a report to the Cabinet on the retention of the Council Headquarters building or the Office at Speirsbridge for office accommodation in future.

The Committee:-

- (a) noted that, as agreed previously, clarification had also been sought on whether or not there were any instances in 2022/23 of consultancy costs for the same work being broken down resulting in the costs of each element being under the £10,000 threshold for approval by Directors, feedback on which would be circulated by the Clerk on receipt; and
- (b) otherwise, noted the report.

UNAUDITED ANNUAL ACCOUNTS 2022/23

497. Under reference to the Minute of the meeting of 30 March 2023 (Page 457, Item 390 refers), when the 2022/23 Annual Audit Plan and timetable for publication of related

documents had been noted, the Committee considered a report by the Head of Accountancy (Chief Financial Officer) on the unaudited Annual Accounts for 2022/23 which had been submitted for audit to Ernst & Young, and were attached to the report for consideration in line with the Local Authority Accounts (Scotland) Regulations 2014.

It was reported that the Council's affairs had again been managed within its operational budget, returning departmental budget surpluses totalling £5,622k, many of which were of a one-off nature. The surplus had been arrived at after taking account of the budgeted drawdown of £5,253k from the Non-Earmarked General Reserve and, from the surplus achieved, a total of £5,600k had been allocated to various earmarked reserves to address current pressures faced by the Council. The balance of £22k had been allocated to the Non-Earmarked General Reserve, resulting in a net decrease in this Reserve of £5,231k.

It was confirmed that the balance of the Non-Earmarked General Reserve was £6,541k as at 31 March 2023. This equated to 2.3% of the annual budgeted net revenue expenditure, which was within the Council's Reserves policy to hold a minimum of around 2%.

The report clarified that significant COVID-19 expenditure of £8,631k had been incurred during the year, of which £5,523k had been funded from the reserve set up at the end of 2020/21. Further funding had also been received during the year, the year-end COVID-19 Reserve balance being £8,562k. This would be allocated fully in 2023/24 to support residents and the local economy.

It was confirmed that £46,189k of Capital expenditure had been invested. There had also been an operating deficit of £69k on the Housing Revenue Account (HRA), which had decreased the accumulated surplus balance to carry forward to £1,798k.

Whilst commenting on key aspects of the report, the Chief Accountant confirmed the position regarding the operational budget and various savings, and referred to the proposed transfer of £5,600k to earmarked reserves when the final Accounts were submitted in September on completion of the audit. She also highlighted the position on other reserves, including new reserves and reserve balances. Regarding Capital expenditure, she commented on high level information on this provided within the management commentary using the same categories as those used for budget monitoring. The deficit balance of £69k in the HRA had been mainly attributable to increased costs in materials and sub-contractors.

It was confirmed that the management commentary within the Annual Accounts outlined the key messages on the objectives and strategy of the Council and on financial performance during 2022/23. It also indicated issues and risks which could impact on the Council's finances in future, and included sections on how the Council continued to support the local community from the effects of the COVID-19 pandemic, and also progress on the Council achieving its Get to Zero targets.

Councillor Wallace expressed frustration regarding the £5,622k surplus unexpectedly, in his view, now reported in the context of the difficult discussions that had been required at Budget Strategy Group (BSG) meetings, and asked about potential surpluses in future. The Head of Accountancy (Chief Financial Officer) reported that some level of projected underspend had been highlighted during the year with a cautious approach adopted, citing the main reasons for the final position. These included increased income including from interest earned on temporary investment balances due to high interest rates, higher Council Tax collection arising from new building completions, and savings relating to the teachers' industrial action. Whilst acknowledging the point raised, she added that only some issues had been forecastable earlier, that most involved non-recurring revenue, and that there remained a need for long-term savings. She added that updates on Council Tax were now being provided monthly and monitored more closely to help assess if assumptions made were changing, with a view to alerting the BSG as required.

Also in response to Councillor Wallace who asked why a focus was now being placed on the minimum level of reserves maintained rather than the upper target, Ms Scanlin confirmed that during External Audit work account was taken of Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which reflected that reserves should be maintained at between 2-4% of annual budgeted net revenue expenditure, with it being for each local authority to set its own target against that background. Having heard her confirm that External Audit examined the authority's decision making process on this, the Head of Accountancy (Chief Financial Officer) stated that account had always been taken of the 2% minimum with the aim of achieving as close to 4% as possible. She added that the Reserves Policy was revisited, and determined, by the Council on a three yearly basis. Councillor Wallace, supported by Councillor Edlin, expressed the view that the 2.3% reported in the draft Accounts was too low, with Councillor Edlin advocating moves to increase this to 4% as a minimum quickly. Councillor Buchanan commented on the option the Council had had to set a different budget which could have impacted on reserves.

In response to Councillor Morrison, the Head of Accountancy (Chief Financial Officer) confirmed that 2.3% related to the Non-Earmarked General Reserve of £6,541k, and that this percentage was affected by the level of Earmarked Reserves maintained, including the new ones established to address new pressures. Further clarification was provided on reserves.

Councillor Macdonald considered the management commentary to be inaccurate on access by eligible children to 1140 hours of funded early learning and childcare in a flexible way to suit their circumstances, as it did not explain sufficiently that in East Renfrewshire access to the funding began at the start of the term following a child's 3rd birthday. Consequently the time after such a birthday until funding was accessible varied, and provision had to be self-funded to bridge the gap. Councillor Morrison understood the level of provision locally to exceed the minimum required, but suggested that further clarification on this be sought.

Councillor Morrison referred to concerns held by Elected Members on service cuts and pressures on officers arising from them, querying why a chart in the management commentary suggested that the budgeted workforce had increased over the past 4 years. The Head of Accountancy (Chief Financial Officer) clarified this was due, for example, to the need for extra staff to deliver the 1140 hours of funded early learning and childcare and also an increase in teacher numbers as part of the emergence from COVID-19. She confirmed there was less flexibility to address staffing issues regarding the provision of other services.

The Committee agreed:-

- (a) that further clarification be sought from the Director of Education and circulated by the Clerk on the issue raised regarding the potential delay in funding for the 1140 hours of early learning and childcare until the start of the term following a child's 3rd birthday in the context of the way the information was currently presented in the draft Annual Accounts; and
- (b) otherwise, to note the content of the unaudited Annual Accounts for 2022/23 in respect of which a report on the final Accounts and related documents would be submitted to a future meeting of the Committee in due course.

CODE OF CORPORATE GOVERNANCE

498. Under reference to the Minute of the meeting of 23 June 2022 (Page 60, Item 37 refers), when the Code of Corporate Governance updates and actions for 2022/23 had been approved, the Committee considered a report by the Director of Business Operations and Partnerships on progress against improvement actions since then, and seeking approval of a new Code for 2023/24.

The report reiterated the Council's responsibilities for the conduct of its business, defined what the Code of Corporate Governance was, and explained that the proposed updates took account of guidance from CIPFA and the Society of Local Authority Chief Executives (SOLACE), *Delivering Good Governance in Local Government*. The report referred to key requirements with which the Council had to comply.

Having referred to the outcome of an extensive review undertaken, it was confirmed that the main body of the Code document now comprised high-level evidence associated with each requirement, with a comprehensive list of all evidence provided in a matrix in Annex 1 to the report. In response to one of the Committee's self-evaluation recommendations, it had been investigated whether or not other Audit and Scrutiny Committees elsewhere participated in the Code self-assessment exercise. It had been found that, typically, Elected Members were not involved in the operational review process, but that the role of such Committees in carrying out the scrutiny function of the Code was upheld.

The report summarised progress on the 2022/23 actions, highlighting that one improvement activity listed had been completed and two were scheduled for completion by June 2023, with the remaining ones carried forward into the 2023/24 Plan. The updated Code for 2023/24, setting out arrangements which fulfilled the seven governance principles outlined in national guidance, was appended to the report. Self-assessment against the nationally prescribed criteria had found the Council to be compliant across all principles, however further enhancements had been identified. It was stated that the comprehensive, evidence-based review showcased the Council's commitment to transparency, accountability and continuous improvement regarding corporate governance.

Having commented on the Annual Governance Statement to be published in the 2022/23 Annual Report and Accounts, the report concluded that the Council was governed by sound and effective internal management controls, and continued to demonstrate compliance with the requirements of the CIPFA/SOLACE framework. Progress on planned actions for 2022/23 had been posted on the Council's website, as would the 2023/24 Code, subject to it being approved by the Committee.

The Strategic Services Senior Lead highlighted key issues within the report, during which she confirmed that the CIPFA/SOLACE framework remained unchanged and emphasised the importance of the Council's Corporate Governance arrangements. She explained that, due to an oversight, the key to the scoring used to evaluate compliance with requirements had been omitted from the document which would now be addressed, confirming that a score of one indicated non-compliance, two partial compliance and three full compliance.

In reply to Councillor Macdonald who expressed the view that Elected Members should be involved further in the operational review of compliance with requirements if this was considered best practice, the Strategic Services Senior Lead clarified the family group of similar local authorities under the Local Government Benchmarking Framework in relation to which benchmarking on this had been done.

Referring to the publication of information on the remuneration of senior employees within the Annual Accounts, Councillor Macdonald emphasised the importance of the Audit function within the Council, expressed surprised regarding the remuneration of the Chief Auditor's post relative to other senior officers listed, and asked if the disparity was similar in other authorities. The Head of Accountancy (Chief Financial Officer) reported that transparency regarding the remuneration of the Corporate Management Team (CMT) was good practice, that it had been decided to include remuneration details of other senior officers reporting directly to the Chief Executive in the Annual Accounts, that information on the issue raised might be available in the Annual Accounts of other local authorities where the Chief Auditor reported directly to the Chief Executive, and that the posts of all officers who were not members of the CMT had been job-evaluated. Councillor Morrison acknowledged the public interest in issues such as remuneration, referred to remuneration disparity between the private and public sectors and,

having highlighted the work of hard working officers within the Council, recorded his appreciation for their dedication and public service.

The Committee:-

- (a) noted progress on the 2022/23 Code of Corporate Governance improvement actions; and
- (b) approved the Code of Corporate Governance updates and actions for 2023/24.

COUNCIL TAX COLLECTION

499. The Committee considered a report by the Director of Business Operations and Partnerships regarding a recent issue that had affected Council Tax collection, and providing updates on actions taken both in response to the event immediately and subsequently to ensure there was no further repeat of the matter.

Having referred to the Council's statutory duty to collect Council Tax, the collection rate, payment methods, long-standing associated procedures which had been subject to regular audit and issues impacting on the team involved, the report explained what happened on the public holiday week-end in late May resulting in direct debit payments being taken from residents' accounts earlier than they should have been. Comments were provided on when the issue came to light and key actions taken.

Whilst commenting further, the report referred to the two main parts to the processing of Council Tax direct debit files, and the response to a similar issue that had arisen in 2017. The 2017 issue had been subject to audit and, since then, no audit actions on the direct debit process for Council Tax had been highlighted. The report confirmed that a management investigation was ongoing, that a full end to end review of processes and controls was being done, and that various factors had led to the issue that had arisen, providing further details of lessons learned and action taken. This included an Internal Audit review arising from which recommendations had been made and an action plan would be developed, and organising a 'lessons learned' session. The potential implications for customers were summarised, as were the next steps being taken.

The Council had apologised unreservedly for the error, and a proactive communication response had been put in place immediately and sustained which included implementation of a hardship resource to mitigate against any adverse impact on residents. The investigation had shown that one of the likely causes was human error in what was a very manual process. Having referred to the immediate and robust management response to the issue, the challenges of maintaining a robust control environment whilst delivering additional initiatives for the Scottish and UK Government, and requirements for modernisation/digitisation under a regime of budgetary constraints and cost cutting measures including reduced staffing were referred to. It was suggested that, in order to prevent future reoccurrences, the balance of efficiency and cost savings versus customer service, risk and control required to be recognised during budget-setting discussions.

The Director of Business Operations and Partnerships highlighted key aspects of the report, during which she commented that performance in this area was normally strong, confirmed there was more than one reason for what had occurred, and reported that in addition to the Team involved reviewing their practices, a response had been prepared to the Internal Auditor's recommendations. She apologised for what had occurred and referred to the further strengthening of procedures and processes in response.

In reply to Councillor Morrison, she confirmed that ways of reducing the potential for human error were being explored, such as through further automation, but highlighted the need to consider the impact of making changes to one part of the system on other parts of it.

Having heard some Elected Members refer to a simple human error having occurred and acknowledge the pressures faced by staff which could result in this, Councillor Macdonald, supported by Councillor Wallace, referred to the reputational damage to the Council that could have been caused in this instance, and welcomed that the matter was being taken seriously.

In response to Councillor Macdonald who asked if further cross-checking of work could reduce errors further, the Director of Business Operations and Partnerships emphasised the importance of learning from all mistakes, even those with a limited impact as in this case, to prevent future reoccurrences and potentially creating hardship for residents. She reported that segregation of duties was a key aspect of control, but that there was more than one reason for what had happened.

In response to Councillor Wallace, the Director of Business Operations and Partnerships undertook to send him a link to a report dated 2018 prepared in response to the issue that had arisen in 2017. Regarding interest expressed on the way forward and remedial action to be taken, the Chief Auditor undertook to send the Internal Audit report on what had happened recently to the Clerk for circulation.

The Committee noted:-

- (a) that the Director of Business Operations and Partnerships would send the link to the report prepared in 2018, in response to the issue that had arisen in 2017, to Councillor Wallace;
- (b) that the Chief Auditor would send the Internal Audit report prepared on the recent Council Tax collection issue, and associated management response, to the Clerk for distribution to members of the Committee for their review; and
- (c) otherwise, the update provided on the recent issue with Council Tax collection and the steps taken in response.

NATIONAL EXTERNAL AUDIT REPORT - LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL BULLETIN 2021-22

500. The Committee considered a report by the Clerk on the publication in January 2023 of a report by Audit Scotland entitled *Local Government in Scotland – Financial Bulletin 2021-22* regarding which, under the Committee’s specialisation arrangements, Councillor Morrison was leading the review of this report. The Head of Accountancy (Chief Financial Officer) had been asked to provide comments and a copy of her feedback was appended to the report. Audit Scotland planned to release a further report in May 2023.

The Bulletin provided a high level summary of the main financial issues facing Scottish Councils in 2021/22 and beyond. Whilst East Renfrewshire was not specifically mentioned in the report, it was commented that the issues raised were almost all relevant to the Council and that it would continue to face substantial and increasing financial challenges. A summary was provided regarding the Council’s finances in 2021/22, during which reference was made to revenue funding, increased ring-fencing and related consequences, income, savings and the use of reserves, and capital expenditure. It was also commented that the outcome of the triennial valuation of the Strathclyde Pension Fund was awaited, the expectation being that this would result in the Council’s contributions being, at worst, unchanged for the next three years.

The Council’s financial outlook was also commented on, including that the Council had used a flat cash forecast in its budget planning which indicated the need for future cuts in both staffing and services. A range of further issues were commented on including the use of reserves and capital funding.

Having head Councillor Morrison refer to the substantial body of work required to ensure the Council reached its Get to Net Zero targets, the exact scale of which remained to be determined and for which no additional funds had been identified, Councillor Wallace sought clarification if financial penalties would be imposed if targets were not reached. The Head of Accountancy (Chief Financial Officer) confirmed that a lot of investment would be required and that a little financial provision had been built into the budget to make a start on what was needed. Supported by Ms Scanlin, she confirmed that she was not aware of any financial penalties at this stage, but that this could change. Councillor Morrison highlighted that this could take the form of a reduction in the Council's financial settlement. He encouraged members of the Committee to review the national External Audit report on the Local Government in Scotland Overview 2023 as referred to previously in the meeting published on 17 May.

The Committee noted the report and related comments made.

CHANGE OF DATE OF MEETING IN SEPTEMBER

501. The Committee considered a report seeking approval to change the time and date of the meeting scheduled to take place in September to enable the Annual Accounts to be considered in accordance with the required timescale for doing so, as the original time scheduled now conflicted with the COSLA Annual Conference. A related report was to be submitted to the forthcoming meeting of the full Council formally seeking approval to change the Council meeting in September to 4pm on the same date, or the conclusion of the Committee meeting if later.

It was agreed to approve the change of time and date of the meeting in September to 2pm on Tuesday, 26 September.

CHAIR