Notice of Meeting and Agenda

Midlothian Integration Joint Board - Audit and Risk Committee

Venue: **Virtual Meeting,**

Date: **Thursday, 07 March 2024**

Time: **14:00**

Morag Barrow
Chief Officer

Contact:

Clerk Name:	Democratic Services
Clerk Telephone:	
Clerk Email:	democratic.services@midlothian.gov.uk

Further Information:

This is a meeting which is open to members of the public.

1 Welcome, Introductions and Apologies

2 Order of Business

Including notice of new business submitted as urgent for consideration at the end of the meeting.

3 Declaration of Interest

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

4 Minute of Previous Meeting

5 Public Reports

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on

Midlothian Integration Joint Board

Midlothian Integration Joint Board – Audit and Risk Committee
Thursday, 7 March 2024
Item 4.1

Meeting	Date	Time	Venue
Audit and Risk Committee	Thursday 7 December 2023	2.00pm	Virtual Meeting held using MS Teams

Present (voting members):		
Val de Souza (Chair)	Cllr Connor McManus	Cllr Kelly Parry
Nadin Akta	Andrew Fleming	

Present (non-voting members):		
Morag Barrow	Gill Main	Claire Gardiner
Duncan Stainbank	Rebecca Green	Claire Ross
David King		

In attendance:		
Roxanne King	Lisa Cumming	Lucy Roddie
Hannah Forbes		

Apologies:		
Patricia Fraser	Kay Jenks	

1. Welcome and Introductions

The Chair welcomed everyone to the meeting.

2. Order of Business

The Order of Business was as detailed in the agenda.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Meeting

4.1 The Minute of Meeting of the Audit and Risk Committee held on 23 November 2023 was submitted. Gill Main, Integration Manager, reported that she had been listed as in attendance at the meeting, but had not been present. Democratic Services agreed to amend the minute.

The Minute was approved as a correct record, subject to the correction noted above.

4.2 Matters Arising: None.

5. Public Reports

5.1 Q3 2023/24 Risk Register, report by Chief Financial Officer – David King

David King, Chief Financial Officer, presented the report. David King highlighted that the risk around financial resources had been increased to the highest level, 'critical'. David King reported that the risk register is currently held as a document file but it was suggested that it should be integrated into one of the risk management systems used by the partners.

The Committee is asked to:

1. Note the Q3 risk register;
2. Consider the amendments made from the Q1 risk register;
3. Consider if any further additions or changes should be made to the risk register;
4. Require the management of the IJB to put the risk register into a more formal management system.

The Chair, Val de Souza, thanked David King for the report and opened it up to questions.

Andrew Fleming commented that population growth in Midlothian would have a significant impact over the coming years and asked if this risk had been accounted for. Morag Barrow, Chief Officer to Midlothian IJB, voiced her support to register population growth as a separate risk and noted the unique challenges facing Midlothian in relation to demographics. It was agreed that it was important that the IJB were seen to be aware of, and mitigating, this risk. Gill Main gave assurances to the Committee that the HSCP was fully engaged with the Midlothian Local Development Plan 2 (MLDP2) and had provided input to the review of the draft evidence statement.

Councillor Parry noted that a report had been presented to the meeting of Midlothian Council on 10 October 2023 regarding the impact of population growth in Midlothian. Councillor Parry had written to the UK government, Scottish Government and COSLA in relation to this, and offered to share these communications with the IJB. It was agreed that Councillor Parry would share the relevant information with Morag Barrow for review. The IJB would then consider any necessary action at a future meeting.

Some discussion took place around the risk related to recruitment. It was noted that plans had recently been proposed to reduce net migration, and this may have an impact on the workforce. Gill Main reported that while health and social care workers would be exempt from the proposed restrictions, limitations may be imposed by employer partners. Gill Main reported that she was working with NHS and Council partners and would provide updates as relevant. The Chair commented on the importance of monitoring the implementation of the changes and assessing any associated risk. It was agreed to retain a risk rating of 4 for the time being.

The Committee:

1. Noted the Q3 risk register
2. Considered the amendments made from the Q1 risk register
3. Considered that no further additions or changes were required to risk register
4. Agreed to instruct the management of the IJB to put the risk register into a more formal management system.

The Chair thanked members for their feedback.

Action:

Councillor Parry to share relevant communications regarding population growth with Morag Barrow for review. IJB to consider any necessary action at a future meeting.

David King to instruct the management of the IJB to put the risk register into a more formal management system.

5.2 Midlothian IJB Publication Scheme 2023, report by Integration Manager - Gill Main

Gill Main, Integration Manager, introduced the report. Gill Main reported that the IJB is required to provide the public with a Publication Scheme under The Freedom of Information (Scotland) Act 2002. This update brings the publication scheme in line with the Scottish Information Commissioner Model Publication Scheme (2021). Lisa Cumming, Business Support Manager, had worked with the Information Commissioner's Office (ICO) to ensure the information is accessible and the scheme is adopted appropriately. Gill Main highlighted the Equality and Children's Rights Impact Assessment in Appendices 2 and 3 of the report.

The Committee is asked to:

1. Review the updated information within the Scheme of Publication
2. Review the accompanying Equality and Children's Right Impact Assessment
3. Consider updates and agree to recommendation to the IJB for approval.

The Chair thanked Gill Main and Lisa Cumming for the report and opened it up to questions.

Some discussion took place around the Scheme's reference to translation. Gill Main confirmed that there is no legislative requirement to provide translations, noting that it would be impractical to produce copies of documents in every language. Translations would be provided on a request basis. It was noted that the impact assessment refers to the legislative requirements to promote BSL as a language, and a BSL version would be produced if a request was received.

The Committee:

1. Reviewed the updated information within the Scheme of Publication
2. Reviewed the accompanying Equality and Children's Right Impact Assessment
3. Agreed to recommend the Midlothian IJB Publication Scheme 2023 to the IJB for approval.

The Chair thanked Gill Main and Lisa Cumming for their work on the revised Scheme of Publication.

Action:

Gill Main to recommend the Midlothian IJB Publication Scheme 2023 to the IJB for approval.

5.3 Internal Audit Report, report by Chief Internal Auditor – Duncan Stainbank

Duncan Stainbank, Chief Internal Auditor, introduced the report. The report details the MIJB's reported performance in addressing and closing the issues and recommendations raised by Internal Audit. Duncan Stainbank noted that good progress had been made by Management during the year with the completion of 7 recommendations as summarised in Appendix 1. There are currently 2 remaining in-progress Internal Audit Recommendations for the MIJB which are summarised in Appendix 2.

The Committee is asked to:

1. Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;
2. Consider whether it is satisfied with the progress made by Management and any other actions required; and
3. Note that Internal Audit will continue to monitor the completion of the outstanding recommendations and will provide update reports to the MIJB Audit and Risk Committee.

The Chair thanked Duncan Stainbank for the report and opened it up to questions.

Andrew Fleming noted that action reference IA.MIJB-MTFP.01 in relation to the development of the Medium-Term Financial Plan for the IJB was due to be completed by 31 December 2023 and asked if this was achievable. In response, David King reported that a paper regarding the development of a Medium-Term Financial Plan would be presented to the meeting of IJB on 21 December 2023. David King would provide an update to the IJB on the process and associated timetable at this meeting and suggested this would satisfy the 31 December deadline.

The Committee:

1. Acknowledged the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;
2. Considered that it was satisfied with the progress made by Management and no other actions were required; and
3. Noted that Internal Audit will continue to monitor the completion of the outstanding recommendations and will provide update reports to the MIJB Audit and Risk Committee.

The Chair thanked Duncan Stainbank for the report.

5.4 NHS Lothian Internal Audit Report Complaints Handling, report by Chief Internal Auditor - Duncan Stainbank (to follow)

It was noted that the reports which had been marked as 'to follow' had not been circulated in advance of the meeting.

It was agreed that Duncan Stainbank would submit the reports to Democratic Services for circulation directly after the meeting. The Committee would consider the reports and a fuller discussion would be tabled at the next meeting of 7 March 2024. It was agreed that provisional comments could be submitted directly to either Duncan Stainbank or the Chair.

Action:

Committee members are invited to submit provisional comments regarding the Complaints Handling report to either Duncan Stainbank or the Chair.

6. Private Reports

No private business to be discussed at this meeting.

7. Date of next meeting

The next meeting will be held on Thursday 7 March 2024 at 2.00pm.

(**Action: All Members to Note**)

The meeting terminated at 2.47pm.

Midlothian Integration Joint Board

Annual Audit Plan 2023/24

AUDIT SCOTLAND

Prepared for Midlothian Integration Joint Board
February 2024

Contents

Introduction

Summary of planned audit work

1. I, Claire Gardiner, have been appointed by the Accounts Commission as external auditor of Midlothian Integration Joint Board for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at Appendix 1.

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Respective responsibilities of the auditor and Midlothian Integration Joint Board

3. The Code of Audit Practice sets out in detail the respective responsibilities of the auditor and Midlothian Integration Joint Board. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at Midlothian Integration Joint Board. In doing this, we aim to support improvement and accountability.

Midlothian Integration Joint Board's responsibilities

6. Midlothian Integration Joint Board is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. Midlothian Integration Joint Board is also required to produce other reports in the Annual Accounts in accordance with statutory requirements.

7. Midlothian Integration Joint Board has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. My team and I aim to add value by:

- tailoring audit work to the circumstances of Midlothian Integration Joint Board and the audit risks identified
- being constructive and forward looking
- providing independent conclusions
- attending meetings of the Audit and Risk Committee, and
- recommending and encouraging good practice.

9. In so doing, we will help Midlothian Integration Joint Board promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating Midlothian Integration Joint Board's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in Exhibit 1. The materiality values for Midlothian Integration Joint Board are set out below.

Exhibit 1
2023/24 Materiality levels for Midlothian IJB

Materiality	Amount
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Midlothian Integration Joint Board's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£3.6 million

Materiality	Amount
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£2.5 million
Reporting threshold (i.e. clearly trivial): We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.2 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Midlothian Integration Joint Board, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. Significant risks are those which have the greatest impact on our planned audit procedures. Exhibit 2 summarises the nature of the risk identified, management's sources of assurance over this risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2
2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud	Owing to the nature of this risk, assurances from management are not applicable in this instance.	• Agreement of balances and transactions to Midlothian Council and NHS Lothian financial reports/ledger and correspondence.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		• Constituent body auditor assurances will be obtained over the completeness, accuracy and allocation of income and expenditure to Midlothian Integration Joint Board activities included in the annual accounts. • Review of year-end transactions and journals.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240*: The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We assess that the risk of material misstatement arising from fraud over income is limited as the IJB does not raise any revenue directly. Midlothian Integration Joint Board is wholly funded by Midlothian Council and NHS Lothian and this limits the opportunity for manipulation.

20. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk on the basis that all transactions are processed by the partner bodies rather than Midlothian Integration Joint Board directly and that all expenditure is undertaken by the partners who are public sector bodies.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have not identified any other areas where we consider there are also risks of material misstatement to the financial statements.

Wider Scope and Best Value

Introduction

24. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management:** means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.

- **Financial sustainability:** We will look ahead to consider whether Midlothian Integration Joint Board have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). We will also comment on financial sustainability in the longer term.

- **Vision, leadership, and governance:** Integration Joint Board's must have a clear vision and strategy and work together with partners and communities to improve outcomes. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by Midlothian Integration Joint Board and the effectiveness of the governance arrangements to support delivery. The Integration Joint Board is currently operating with an interim Chief Finance Officer. We will monitor progress with appointing a permanent officer to the role.

- **Use of resources to improve outcomes:** Integration Joint Board's must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how the Midlothian Integration Joint Board demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

26. We have identified significant risks in the wider scope areas set out in Exhibit 3. This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3
2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
1.Financial sustainability Midlothian Integration Joint Board has developed a rolling five year financial plan for the period 2024/25 to 2028/29. The latest plan is forecasting a cumulative funding gap of £27 million to 2028/29. The latest partner funding levels, cost pressures and inflation figures have been applied in the financial plan but these pressures will continue to present significant challenges to financial planning and the ability of the Integration Joint Board to deliver quality services.	Integration Joint Board financial monitoring reports and other financial reports to the Integration Joint Board included budget reports and longer-term financial plans. The Integration Joint Board risk register presented to the Integration Joint Board Audit & Risk Committee.	• We will perform a review of the five year financial plan, providing comment in our Annual Audit Report.

Source: Audit Scotland

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as cyber security threats.

Best Value

28. Integration Joint Boards have a statutory duty to make arrangements to secure Best Value. We will consider how Midlothian Integration Joint Board demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

30. We will provide:

- an Independent Auditor's Report to Midlothian Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts
- Midlothian Integration Joint Board and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

31. Exhibit 4 outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

32. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4
2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	7 March 2024
Independent Auditor's Report	30 September 2024	19 September 2024
Annual Audit Report	30 September 2024	19 September 2024

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in Exhibit 4, and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

34. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at Exhibit 5 that has been discussed with management.

35. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5
Proposed annual accounts timetable

Key stage	Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	30 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Chief Finance Officer	22 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	29 August 2024
Agreement of audited and unsigned annual accounts	19 September 2024
Issue of Annual Audit Report to those charged with governance	19 September 2024
Signed Independent Auditor's Report	19 September 2024

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of Midlothian Integration Joint Board and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The planned audit fee for 2023/24 is £33,360.

37. In setting the fee for 2023/24, we have assumed that Midlothian Integration Joint Board has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of the Midlothian Integration Joint Board to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

39. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

40. I am independent of Midlothian Integration Joint Board in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

42. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Midlothian Integration Joint Board.

Audit Quality

43. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

44. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

45. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

46. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

47. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The audit team involved in the audit of the Midlothian Integration Joint Board have significant experience in public sector audit.

Claire Gardiner Audit Director cgardiner@audit-scotland.gov.uk	Claire has over 19 years of public sector auditing experience. Claire has worked across the breadth of the public sector on financial audits.
Patricia Fraser Senior Audit Manager pfraser@audit-scotland.gov.uk	Patricia has considerable public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.
Kay Jenks Senior Auditor kjenks@audit-scotland.gov.uk	Kay has considerable experience in planning and delivering audits. Kay will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

48. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Midlothian Integration Joint Board
Annual Audit Plan 2023/24

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www.audit-scotland.gov.uk/accessibility

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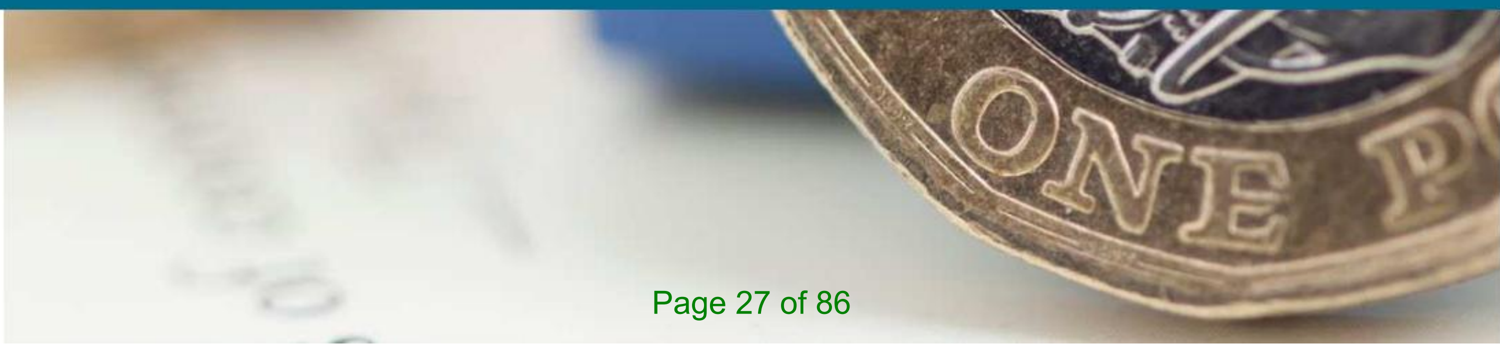
AS.4.0

Local government in Scotland

Financial bulletin 2022/23

ACCOUNTS COMMISSION

Prepared by Audit Scotland
January 2024



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For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility.

Key messages

Funding and outturn in 2022/23

1 Despite councils receiving more funding and income in cash terms, due to high inflation in 2022/23 total revenue funding from all sources fell by £619 million (2.8 per cent) in real terms to £21.3 billion compared to 2021/22.

2 Councils received more core revenue funding from the Scottish Government than in 2021/22, rising from £12.1 billion to £12.2 billion (0.7 per cent) in real terms. However, an increasing proportion is ring-fenced or provided with the expectation it will be spent on specific services. This means that the amount of funding available for councils to spend freely on local priorities is reducing. There are commitments in the Verity House Agreement to move to a default position of removing ring-fencing or direction of funding wherever possible.

3 There is pressure on all public-sector capital budgets, and this presents risks to the viability of local government capital programmes, many of which impact on key services (eg, the construction and maintenance of schools, libraries, roads). Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade. Driven by increased borrowing councils' capital expenditure increased in 2022/23 by 16 per cent in cash terms to £3.6 billion. Borrowing costs have reduced in recent years as many councils have used permitted financial flexibilities to reprofile debt payments. While helping with immediate budget pressures, these decisions defer costs to later years and do not tackle the underlying challenges to financial sustainability. Additional borrowing also places further pressure on revenue budgets over the longer term.

4 At the time of setting their 2022/23 budgets, councils anticipated budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Achievement of savings targets was good in 2022/23 and improved on 2021/22. Greater transparency is required in the reporting of financial outturn in council accounts, including savings performance. This transparency and timely public engagement are essential as councils make increasingly difficult decisions to reduce or stop services to help balance budgets.

Councils' financial position and outlook from 2023/24

5 Despite the financial pressures of recent years, half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion. This is driven by growth in committed reserves. Some of this is remaining Covid-19 funding, some is attributable to the permitted use of financial flexibilities for the repayment of longer-term debt but there are also indications councils are building up reserves to manage the known financial challenges in future years. However, the lack of transparency in some councils' annual accounts makes it difficult to draw firm conclusions on councils planned use of reserves.

6 Local appointed auditors did not identify any councils in Scotland as being financially unsustainable in the short term. However, the financial outlook is extremely challenging with Scottish councils facing unprecedented financial and service demand pressures which present real risks for the future. Although Scottish Government core funding increased in cash and real terms in 2023/24, councils reported a significant increase in the total budget gap to £725 million.

7 Councils' medium- and longer-term financial plans demonstrate a clear recognition of the difficult financial context and the need to continue to innovate at pace and make difficult decisions to become more financially sustainable. But some councils are already experiencing significant resistance when seeking to make service reductions to balance budgets. This reinforces the need for effective consultation and engagement with communities on planned local service changes.

8 The Verity House Agreement includes a commitment to offer councils longer-term funding and greater local financial flexibility. These proposed changes will be important, in providing greater financial certainty to support better long-term planning and more flexible direction of resources to meet local need. However, the recent announcement of a proposed council tax freeze significantly reduces discretion and flexibility at individual council level. The impact this will have on financial sustainability is not yet known, but councils have placed an increased reliance on raising council tax to help deliver a balanced budget over the past two years.

Recommendations

Councils should:

- Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability (paragraph 29).
- Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets (paragraph 46).
- Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability (paragraph 55).
- Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget (paragraph 73).
- Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability (paragraph 83).
- Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years (paragraph 89).

About this report

1. This bulletin provides a high-level independent analysis of the financial performance of councils during 2022/23. The bulletin considers:

- councils' funding and expenditure in 2022/23
- councils' financial position at the end of 2022/23 and the financial outlook
- some of the potential impacts of the Verity House Agreement (New Deal with Local Government) made between COSLA and the Scottish Government in June 2023.

2. This bulletin is part of a series of outputs produced by the Accounts Commission which together provide an independent overview of the local government sector. In Spring 2024 we will publish a budget briefing examining the 2024/25 budgets set by councils, including analysis of anticipated budget gaps and actions to set a balanced budget.

Methodology

3. Our primary sources of information for this bulletin are councils' 2022/23 accounts, a data request issued to auditors in October 2023 and Scottish Government budget documents.

4. The analysis of accounts is based on audited accounts where available. As at our 6 November 2023 deadline, 18 councils' accounts were still to be certified; therefore, the analysis in this bulletin is based on 14 sets of audited accounts and 18 sets of unaudited accounts.

5. We received 30 data requests back from auditors. In places our analysis is therefore based on a sample rather than the full population. Returns were not received for two councils.

6. Scottish Government funding analysis uses the spring revision funding position unless otherwise stated.

7. When looking at trends, we convert some financial data to real terms using GDP deflators. This adjusts financial information from past and future years to prices for the year under review, ie 2022/23. This is to take account of inflation so that the trend information is comparable. Any financial trend data (both capital and revenue) relating to funding, income or expenditure will be shown in real terms. The exception to this is that any financial information from the councils' accounts' balance sheet remains in cash terms, even when looking at a trend. This includes reserves, debt and borrowing. These are not adjusted to real terms as they are already subject to revaluation to reflect current prices.

1. Funding and outturn

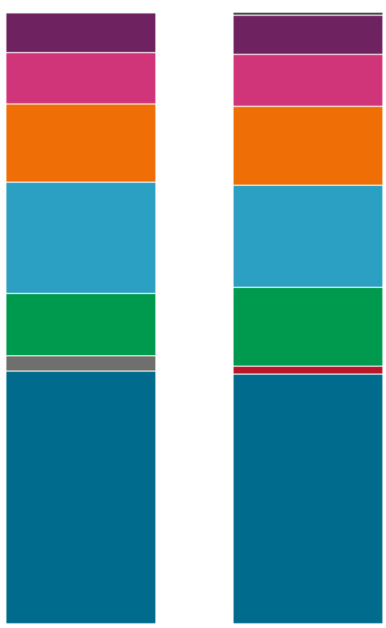
Revenue funding and income

Total funding and income fell by 2.8 per cent in real terms in 2022/23 compared to the previous year

8. In 2022/23, Scotland's 32 councils received a total of £21.3 billion in revenue funding and income (funding for day-to-day spending). In cash terms this is £757 million more than the year before but in real terms (that is adjusting for inflation) it represents a real-terms decrease of 2.8 per cent (£619 million).

9. Revenue funding and income comes from a variety of sources. Almost 60 per cent of total revenue funding comes from the Scottish Government (Exhibit 1).

Exhibit 1.
Sources of funding and income 2022/23 compared to 2021/22, real terms (£ billion)



	2021/22	2022/23
Interest receivable	0.03	**0.11**
Housing Revenue Account rents	1.42	**1.36**
Customer and client receipts	1.85	**1.82**
Council tax	2.82	**2.75**
Grants including Scottish Government and other sources	4.01	**3.56**
Non-domestic rates	2.23	**2.77**
Cost of living award grant	0.00	**0.28**
General revenue grant Covid-19 funding	0.55	**0.00**
General revenue grant	9.09	**8.72**
Total funding and income (£ billion)	22.00	**21.38**

Source: Councils' annual accounts 2022/23 (audited and unaudited) and 2021/22 (audited)

10. The source of the largest increase in funding was non-domestic rates, although levels are still below pre-pandemic levels (Exhibit 16, page 28).

11. The largest decreases were to grants, which fell by 11 per cent in real terms compared to 2021/22, and housing rents which, despite a cash increase of 2.3 per cent, fell by 4.1 per cent in real terms.

12. Council tax is an important source of income for councils, accounting for 13 per cent (£2.7 billion) of total funding in 2022/23. Councils received more income from council tax, due to an overall increase of 4.5 per cent in the amount of council tax billed and an increase in in-year collection rates of 0.5 per cent (from 95.7 per cent to 96.2 per cent). However, the amount received has not kept pace with inflation and in real terms this represents a fall in income of 2.5 per cent compared to 2021/22.

Core revenue funding from the Scottish Government to councils increased in cash and real terms from 2021/22 to 2022/23

13. Scottish Government core revenue funding to councils amounted to £12.2 billion in 2022/23. This is an increase to core funding in both cash and real terms from the previous year (Exhibit 2).

Exhibit 2.
Scottish Government core revenue 2021/22 and 2022/23

	Cash terms			Real terms		
Scottish Government revenue funding	**2021/22 £ million**	**2022/23 £ million**	**change %**	**2021/22 £ million**	**2022/23 £ million**	**change %**
Core revenue	**11,384**	**12,231**	**7.4%**	**12,144**	**12,231**	**0.7%**
General revenue grant	8,489	8,679	2.2%	9,056	8,679	-4.2%
Non-domestic rates	2,090	2,766	32.3%	2,230	2,766	24.1%
Specific revenue grants	805	786	-2.4%	859	786	-8.5%

Source: Scottish Government budget documents (spring revision)

14. The increase in core revenue funding was driven by a significant increase in income from non-domestic rates. The general revenue grant and specific revenue grants both fell in real terms.

15. In 2021/22, councils received an additional £0.5 billion in non-recurring revenue funding from the Scottish Government to support their Covid-19 response. When this is included, councils experienced a real terms reduction of 3.6 per cent in revenue funding from the Scottish Government in 2022/23 compared to 2021/22. In 2022/23, a one-off grant of £278 million was received by councils, to distribute the £150 Cost of Living Award to eligible households.

An increasing proportion of Scottish Government funding is formally ring-fenced or provided with the expectation it will be spent on specific services

16. Specific revenue grants funding totalled £786 million in 2022/23 and must be used to fund specific policies or initiatives such as for early learning and childcare expansion and the pupil equity fund.

17. In addition to specific revenue grants, other funding received by councils is directed for national policy initiatives. Though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.

18. Examples of directed funding in 2022/23 include: £140 million for Local Government pay deals, £145 million for additional teachers and support staff and £234 million for the annual pay uplift to social care staff in commissioned services.

19. We calculate that ring-fenced and directed funding increased to 25.7 per cent in 2022/23 (Exhibit 3).

Exhibit 3.

Proportion of Scottish Government funding to local government that is ring-fenced or directed

Source	2021/22 £ million	2022/23 £ million
From initial allocation		
Specific revenue grant	805	786
Directed funding within general revenue grant	347	475
Directed funding from transfers from other portfolios	488	648
From in year allocations		
Directed funding from budget revisions and recalculations	1,061	1,236
Total ring-fenced or directed funding	**2,701**	**3,145**
Total revenue funding	**11,384**	**12,231**
Percentage ring-fenced or directed	**23.7%**	**25.7%**

Note: We have updated our methodology from last year. This changes the total ring-fenced amount for 2021/22 from 23.1% to 23.7%.

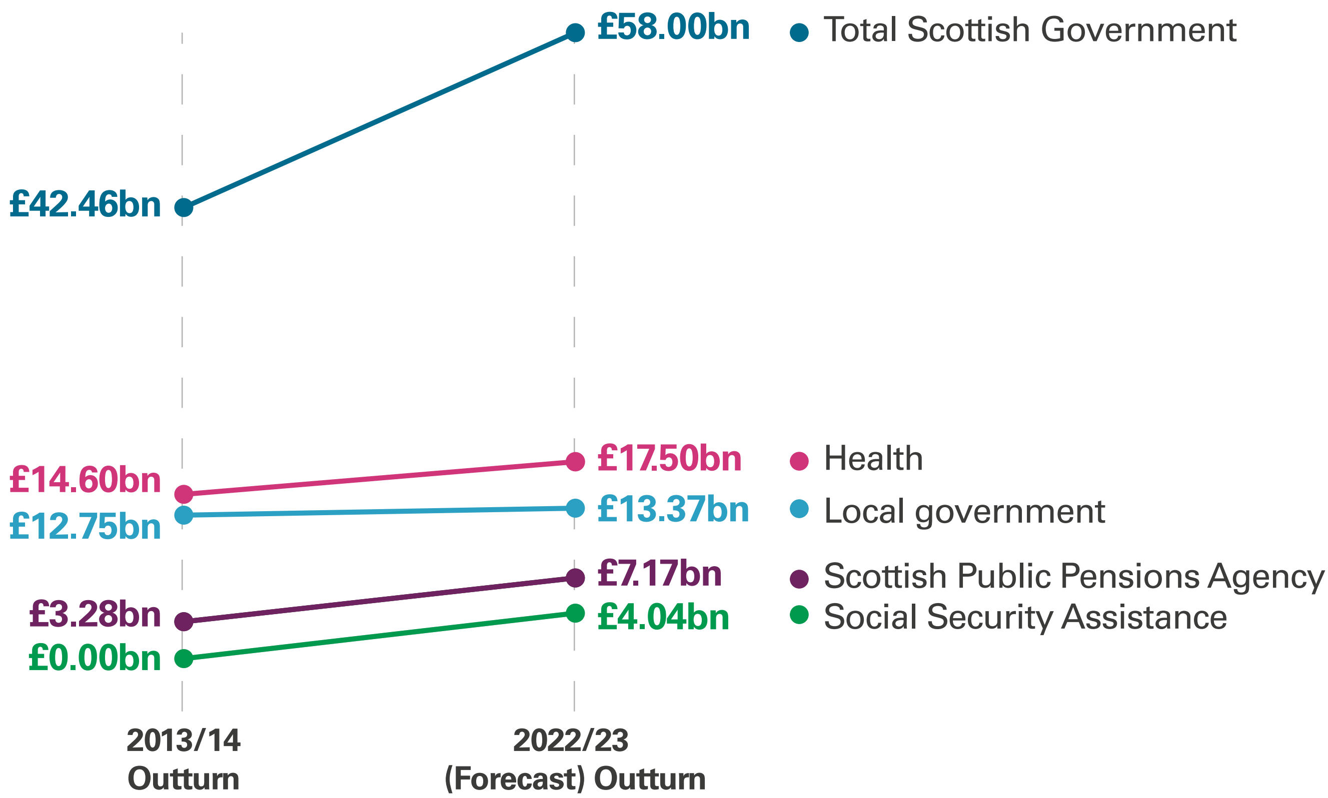
Source: Scottish Government budget documents and financial circulars

20. While directed funding is important to help deliver national priorities, it restricts councils from making decisions about how funds can be used at a local level to meet local need. The Verity House Agreement, signed in June 2023, includes a commitment to a default position of ending ring-fencing or directed funding unless there is a clear joint understanding of the rationale for such arrangements. We discuss this further in Part 2 of the report.

Over the last decade, the proportion of the Scottish Budget allocated to local government has been reduced

21. Local government is the second largest area of Scottish Government spending; however, this proportion has reduced over the last decade. In 2013/14 local government (capital and revenue) accounted for 30 per cent of the total spend. In 2022/23, it had fallen to 23 per cent. Over this period, local government spend has been relatively static in real terms while total Scottish Government spend increased by 37 percent. Areas of growth include health and social security (Exhibit 4).

Exhibit 4.
Local government spend (outturn) compared to other areas of the Scottish Budget, 2013/14 to 2022/23, real terms



Source: Scottish Budget 2023/24, Annex D: Outturn Comparison 2013/14 to 2021/22 and Scottish Budget 2024/25, Annex H: Outturn Comparison 2014/15 to 2022/23

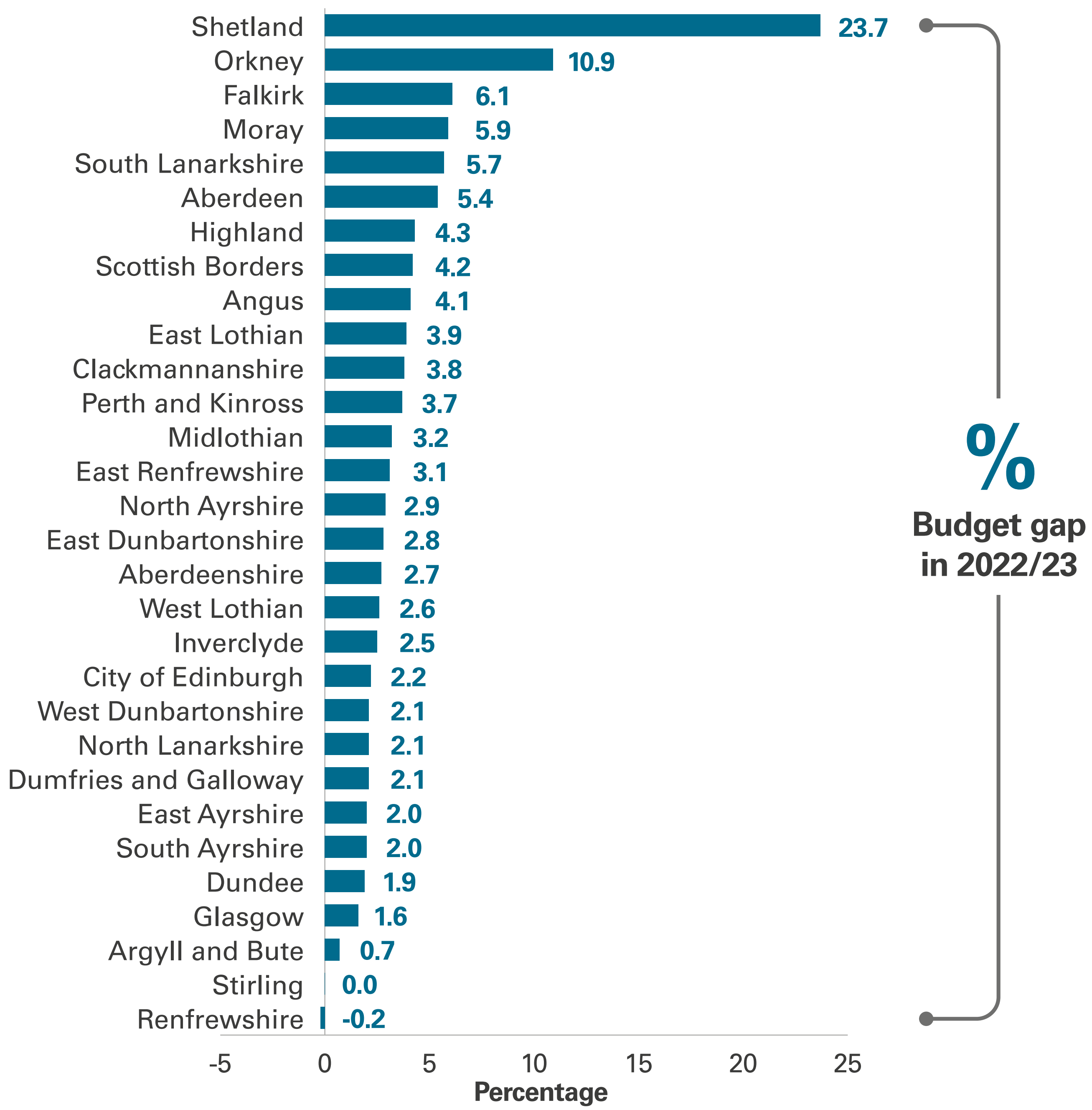
Council budget-setting

At the time of setting their 2022/23 budgets, councils in our sample identified budget gaps of over £476 million for the year

22. At the time of budgeting, the 30 councils in our sample identified **budget gaps** totalling £476 million for 2022/23, compared to £350 million for the same sample of councils for 2021/22. This represents a budget gap of 2.9 per cent of the net cost of services (Exhibit 5).

Budget gaps reflect a point in time when councils begin to set their budgets and is the difference between anticipated expenditure and funding and income.

Exhibit 5.
Budget gap as a percentage of net cost of services, 2022/23



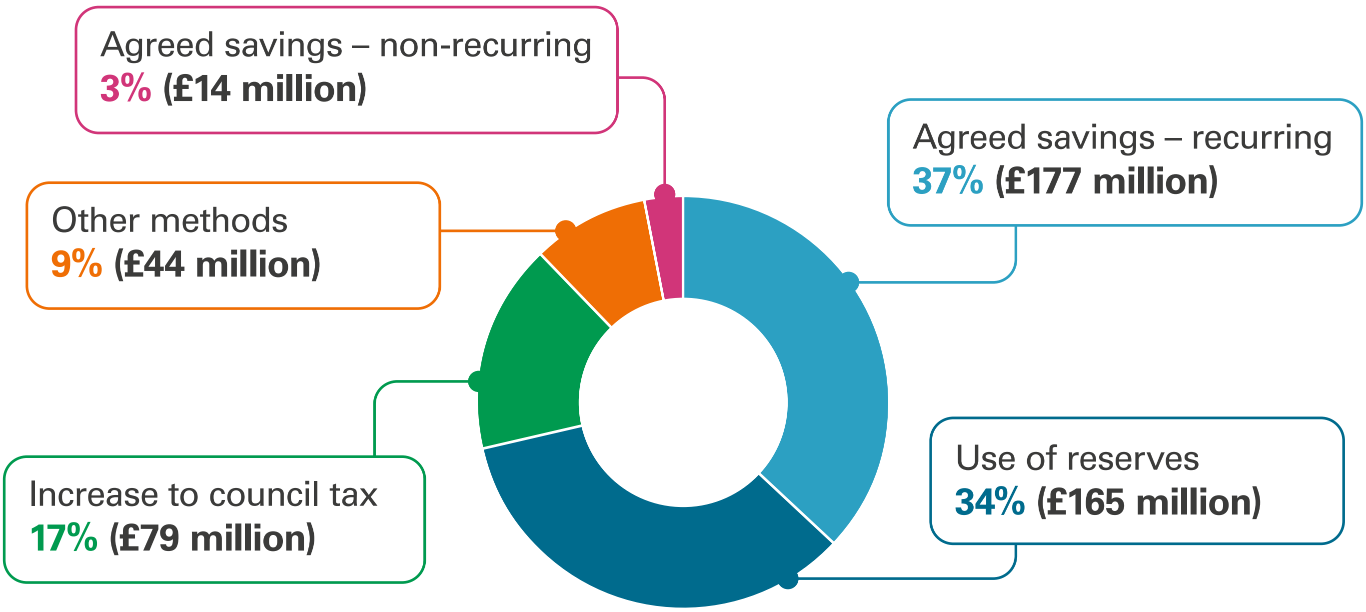
Source: Auditor data returns (30 councils in the sample)

23. Within our sample, the budget gap for 2022/23 ranged from a surplus of £1.1 million (0.2 per cent of net cost of services) in Renfrewshire to a gap of £53 million (5.7 per cent net cost of services) in South Lanarkshire. Shetland had the largest budget gap as a proportion of net cost of services, at 23.7 per cent (with a value of £34 million). One council, Stirling, reported no budget gap.

Councils largely relied on reserves and making recurring savings to deliver a balanced budget

24. From our sample of 30 councils, a range of bridging actions were used to set balanced budgets for 2022/23 (Exhibit 6).

Exhibit 6.
Councils' bridging actions to set their 2022/23 budget



Note: The chart elements add up to £479 million which is higher than the total anticipated budget gap. This is because Dundee identified bridging actions of greater value than their budget gap to allow for additional expenditure in priority areas.

Source: Auditor data returns (30 councils in the sample)

25. Use of reserves and making **recurring savings** were expected to bridge 71 per cent (£342 million) of the budget gap. The relative use of reserves to bridge the budget gap has doubled from 17 per cent in 2021/22 to 34 per cent in 2022/23.

Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

26. Examples of other bridging actions include the use of:

- fiscal flexibilities for service concessions and capital receipts
- additional Scottish Government funding
- increased service charges
- non-recurring Covid-19 funding
- a reduction in IJB funding.

These actions are largely non-recurring and therefore not sustainable.

Outturn

Achievement of savings targets was high, but improvements are required in the transparency of reporting

27. From our sample of 30 councils, the aggregate savings target for 2022/23 was £216 million.[1] Three councils did not have a savings target.

28. Twenty-five councils provided information about savings performance in 2022/23. Fourteen councils (56 per cent) achieved their savings target in full or more and a further eight councils (32 per cent) achieved over 80 per cent. Overall, 98 per cent of the aggregate savings target was met. This compares to 92 per cent across all councils in 2021/22 (Exhibit 7, page 14).

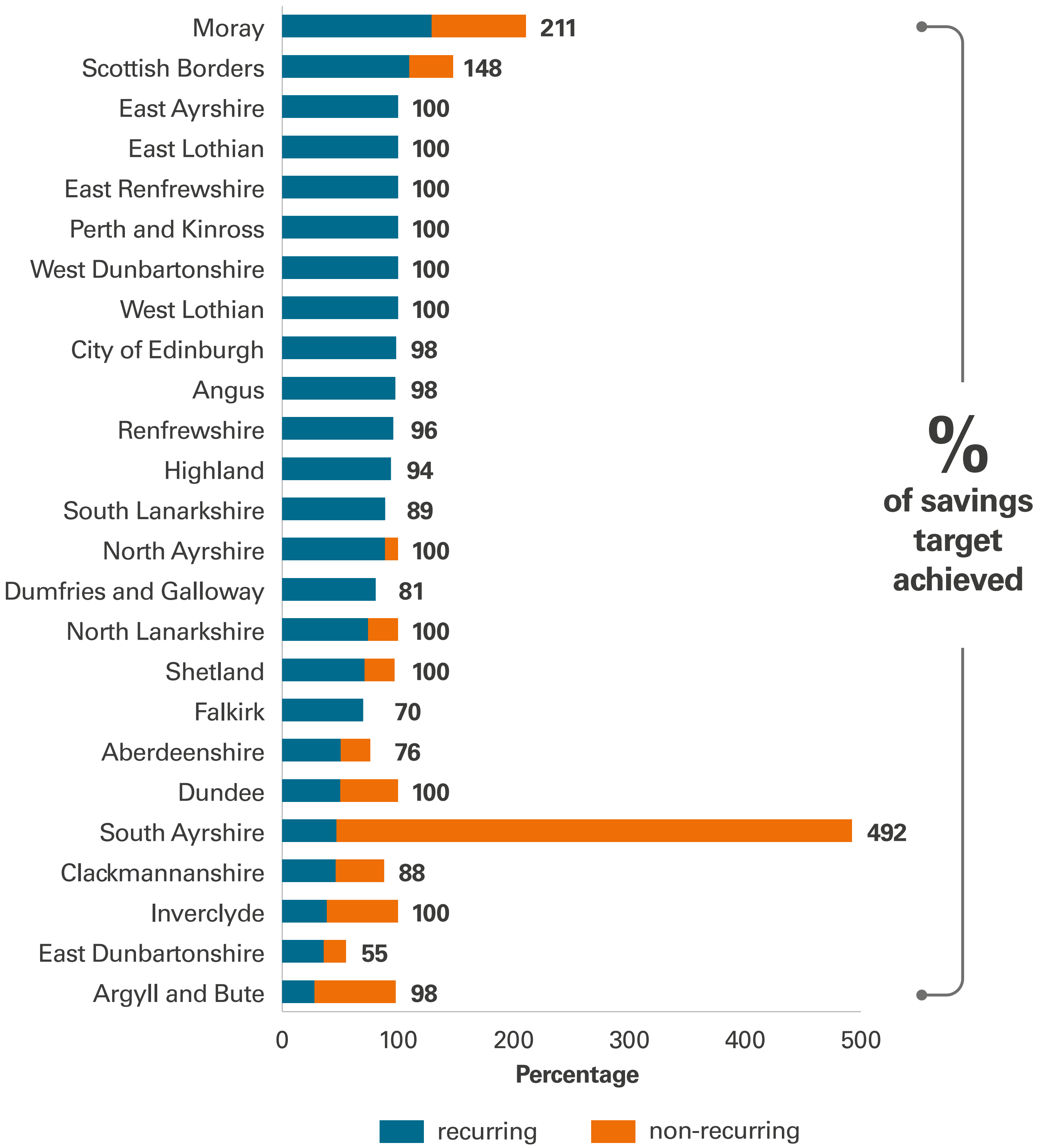
29. Where we have a breakdown of how savings were achieved, 82 per cent (£126 million), were achieved on a recurring basis, which is higher than the 76 per cent achieved across all councils in 2021/22.

Recommendation

Councils should prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.

[1] This savings target does not match the planned savings (recurring and non-recurring combined) identified as bridging actions in Exhibit 6. Savings identified during budget setting may be further revised before a savings target is agreed.

Exhibit 7.
Percentage of savings target achieved, split by recurring and non-recurring, 2022/23



Note: Information on the split of savings achieved was not available for Dundee. South Ayrshire's savings performance was 492% due to a large (non-recurring) underspend. Five councils within the sample are not included in the chart: Midlothian, Orkney and Stirling did not have a savings target in place for 2022/23. Information on savings performance was not available for Glasgow and Aberdeen.

Source: Auditor data returns (30 councils in the sample

30. A review of councils' management commentaries identified that 66 per cent of council accounts provided no or insufficient commentary on performance against savings targets. Further detail on the transparency of management commentaries is included at paragraphs 44–46).

Over half of councils used financial flexibilities in 2022/23

31. In recent years, the Scottish Government has introduced a number of financial flexibilities to help alleviate ongoing financial and funding pressures.

32. The three main flexibilities available are:

- The use of capital receipts for revenue costs.
- The ability to apply for revised loans repayments.
- Changes to service concession arrangements which allow councils to write off the debt costs associated with these schemes over the expected lives of the respective assets rather than over the contract period of each arrangement.

33. Of our sample of 30 councils, 18 (60 per cent) reported that they used some of the financial flexibilities allowed by the Scottish Government in 2022/23.

34. Using flexibilities to meet immediate spending pressures may help councils to balance their budgets, but it defers costs to later years and does not tackle the underlying challenges to financial sustainability.

Capital funding and expenditure

Increases in capital expenditure were driven by increased borrowing

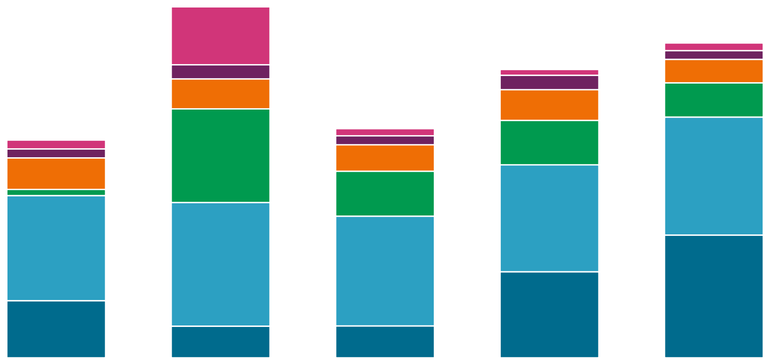
35. Councils' **capital expenditure** in 2022/23 was £3.6 billion. This is a 16 per cent (£0.5 billion) increase in cash terms compared to 2021/22.

Capital expenditure is the money spent by councils to maintain or improve their assets, for example school buildings and roads. It cannot be used on day-to-day running costs.

36. The increase in capital expenditure in 2022/23 was driven by a 52 per cent increase in borrowing. At £1.41 billion, this was the largest source of capital financing, surpassing government grants which accounted for £1.35 billion of capital expenditure. The higher costs associated with borrowing place further pressure on revenue budgets over the longer term (Exhibit 8, page 16).

37. Twenty-two councils reported higher capital expenditure than in 2021/22. At a council level, year-on-year movement ranged from a £207 million increase (Glasgow) to a £54 million decrease (Angus).

Exhibit 8.
Capital expenditure split by sources of finance in cash terms, 2018/19 to 2022/23 (£ billion)



2018/19	2019/20	2020/21	2021/22	2022/23	
0.09	0.60	0.07	0.06	0.09	Capital receipts
0.09	0.15	0.09	0.15	0.10	Other contributions and Public Private Partnership (PPP)
0.32	0.31	0.28	0.33	0.27	Capital Funded from Current Revenue (CFCR)
0.06	0.96	0.47	0.48	0.39	Internal loans fund repayments available to reinvest
1.06	1.27	1.15	1.15	1.35	Government grants
0.57	0.32	0.33	0.92	1.41	An increase in borrowing
2.18	**3.61**	**2.41**	**3.10**	**3.61**	**Total expenditure (£ billion)**

Source: Councils' annual accounts 2018/19 to 2022/23 (audited and unaudited)

38. Slippage against capital projects was noted by auditors in some Annual Audit Reports for 2022/23. Factors included higher costs for goods and services including utilities, fuel and labour; and wider economic circumstances including inflation, war, Covid-19, interest rates and pay awards.

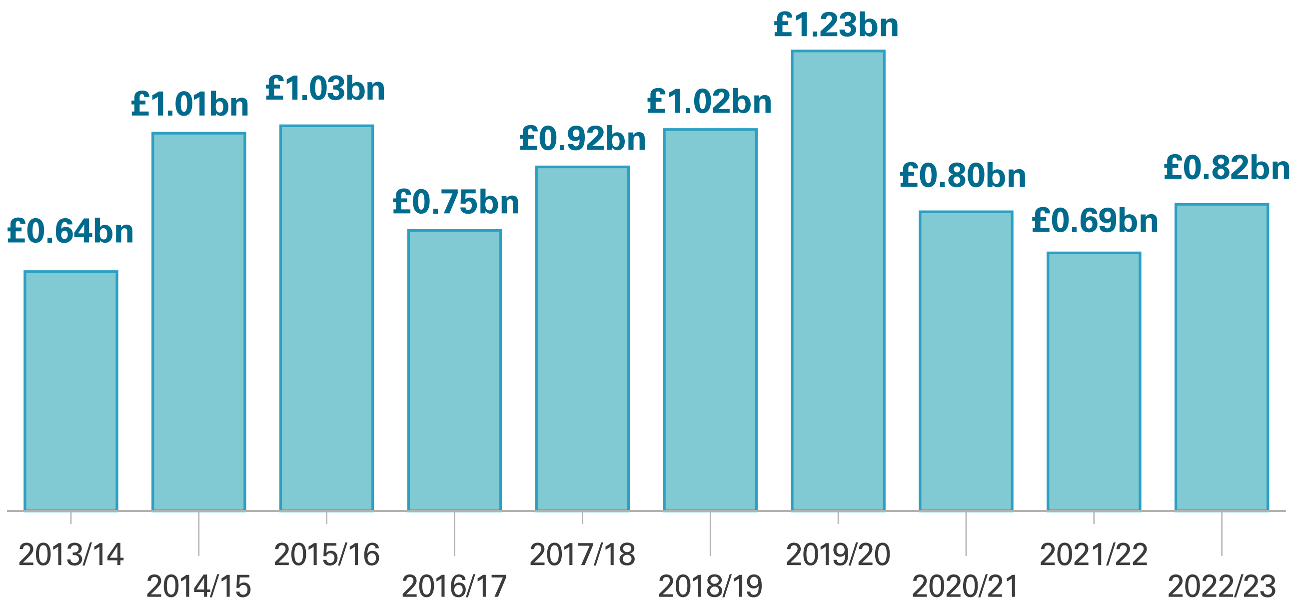
Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic

39. Councils receive capital funding from the Scottish Government in the form of the capital grant, distributed by means of a funding formula based largely on population and road-length.

40. In 2022/23 capital funding from the Scottish Government rose by 19 per cent in real terms to £0.82 billion compared to 2021/22. However, it remains lower than many of the years leading up to the Covid-19 pandemic (Exhibit 9).

Exhibit 9.

Scottish Government capital funding to local government 2013/14 to 2022/23, real terms



Source: Scottish Government budget documents (spring revision)

41. Some capital funding is directed towards specific policies. For example, in 2022/23 around £120 million was allocated to support the local government pay deal in 2022/23 and £30 million to fund expansion of free school meals.

42. Scottish Government capital funding is volatile. Some of the more significant movements can also be attributed partly to reallocation of capital funding payments from one financial year to another, as agreed between the Scottish Government and COSLA. For example, the 2016/17 figure excludes £150 million that was reallocated and included in the 2019/20 capital settlement.

Reporting on financial outturn in management commentaries

Councils could improve the transparency of their reporting on financial outturn and progress against savings plans

43. A management commentary is a report by the council, set out within its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council over the year.

We undertook a review of councils' management commentaries to assess the transparency of their reporting against three elements that the Accounts Commission has previously recommended should be included:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

44. Twenty councils included commentary related to outturn against budget including the main reasons for the variances. Of the remaining, nine provided insufficient detail or no commentary on variances and three lacked clarity on the outturn against budget.

45. Half of councils provided a table within the management commentary which showed the reconciliation of outturn to the movement on the general fund. Of the remaining, 12 did not provide sufficient detail within the management commentary to demonstrate a reconciliation of the general fund against reserves and four did not provide any information.

46. Eleven councils outlined progress against savings targets to some extent, with some providing a table of savings performance trends and/or links to other documents. Of the remaining, 12 provided generic statements or insufficient detail, seven provided no information and two referred only to previous or future savings plans.

Recommendation

Councils should ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets.

2. Councils' financial position and outlook

2022/23 financial position

In 2022/23, councils increased their total usable reserves by £0.31 billion to £4.46 billion

47. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource, so councils need to plan carefully for their use. In doing so, they should consider the strategic, operational, and financial risks facing the council.

48. In 2022/23, councils increase their total usable reserves by £0.31 billion, from £4.15 billion to £4.46 billion (Exhibit 10, page 20).

49. Revenue reserves increased by 2.2 per cent (£80 million) and capital reserves increased by 40 per cent (£232 million). The increase in capital reserves may be linked to slippage against capital projects (paragraph 38).

50. Half of councils increased their usable reserves in 2022/23. A review of management commentaries for those councils with the greatest increases found these were largely attributable to accounting adjustments related to the permitted use of financial flexibilities for the repayment of longer-term debt. Some councils are also committing reserves to contingency or financial sustainability funds to cushion the impact of known financial challenges in the years ahead or to help fund transformation, potential workforce reconfiguration or pay settlements.

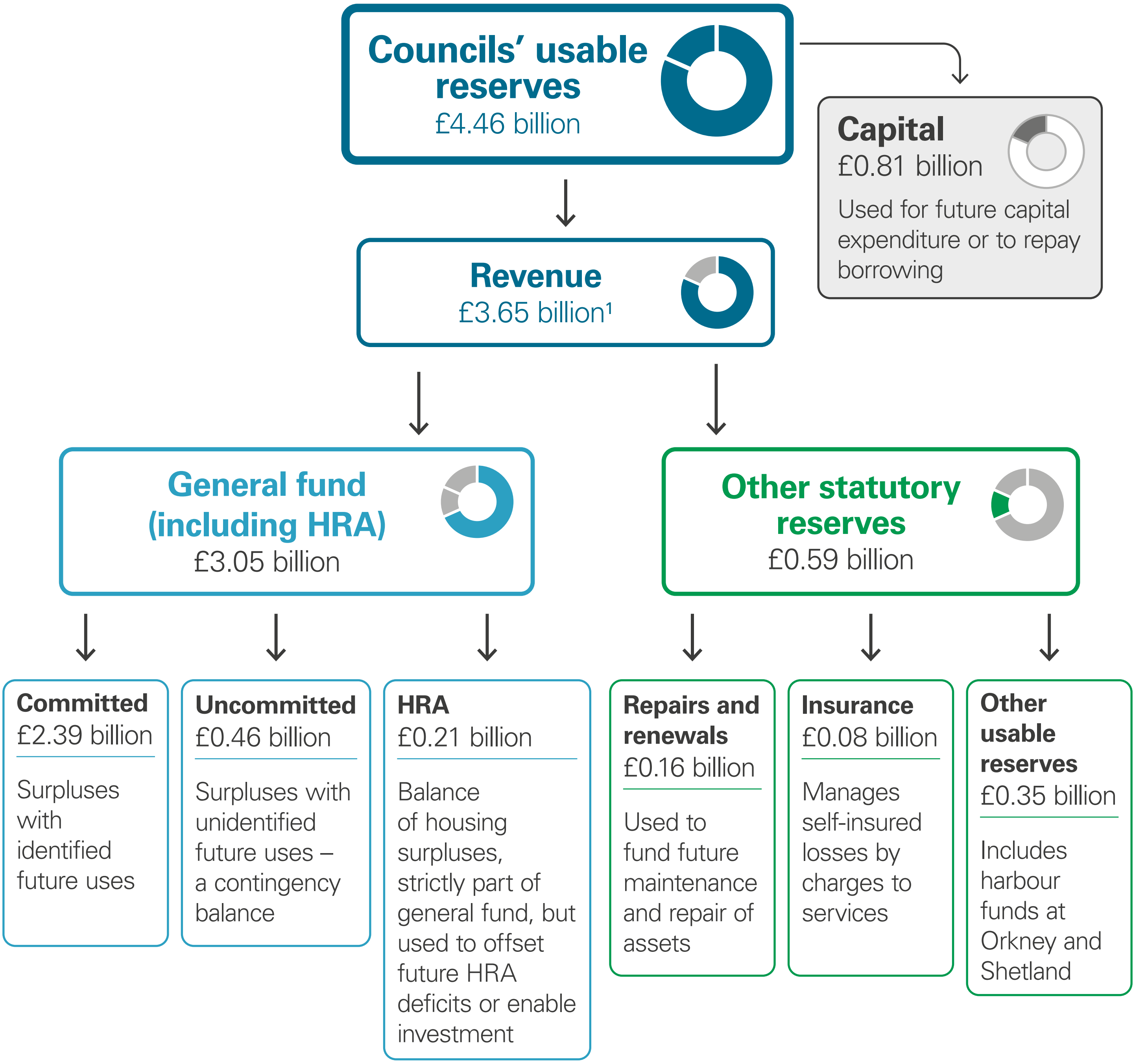
The level of reserves as a proportion of total net revenue expenditure is higher in 2022/23 than before the pandemic

51. In 2022/23, the total usable reserves across all councils as a proportion of total net revenue expenditure was 27.3 per cent compared to 20.4 per cent in 2019/20 before the pandemic (Exhibit 11, page 21).

52. In 2022/23, no council had usable reserves that were less than ten per cent of net revenue expenditure compared to four councils in 2019/20. Twenty councils had reserves that were over 20 per cent of net revenue expenditure, compared to nine in 2019/20.

Looking at the level of **reserves as a proportion of total net revenue expenditure** is one way of assessing financial sustainability. A low figure may suggest that a council will struggle financially if it experiences a financial shock or is unable to deliver a budget where income matches expenditure.

Exhibit 10.
The nature and value of councils combined usable reserves, 2022/23

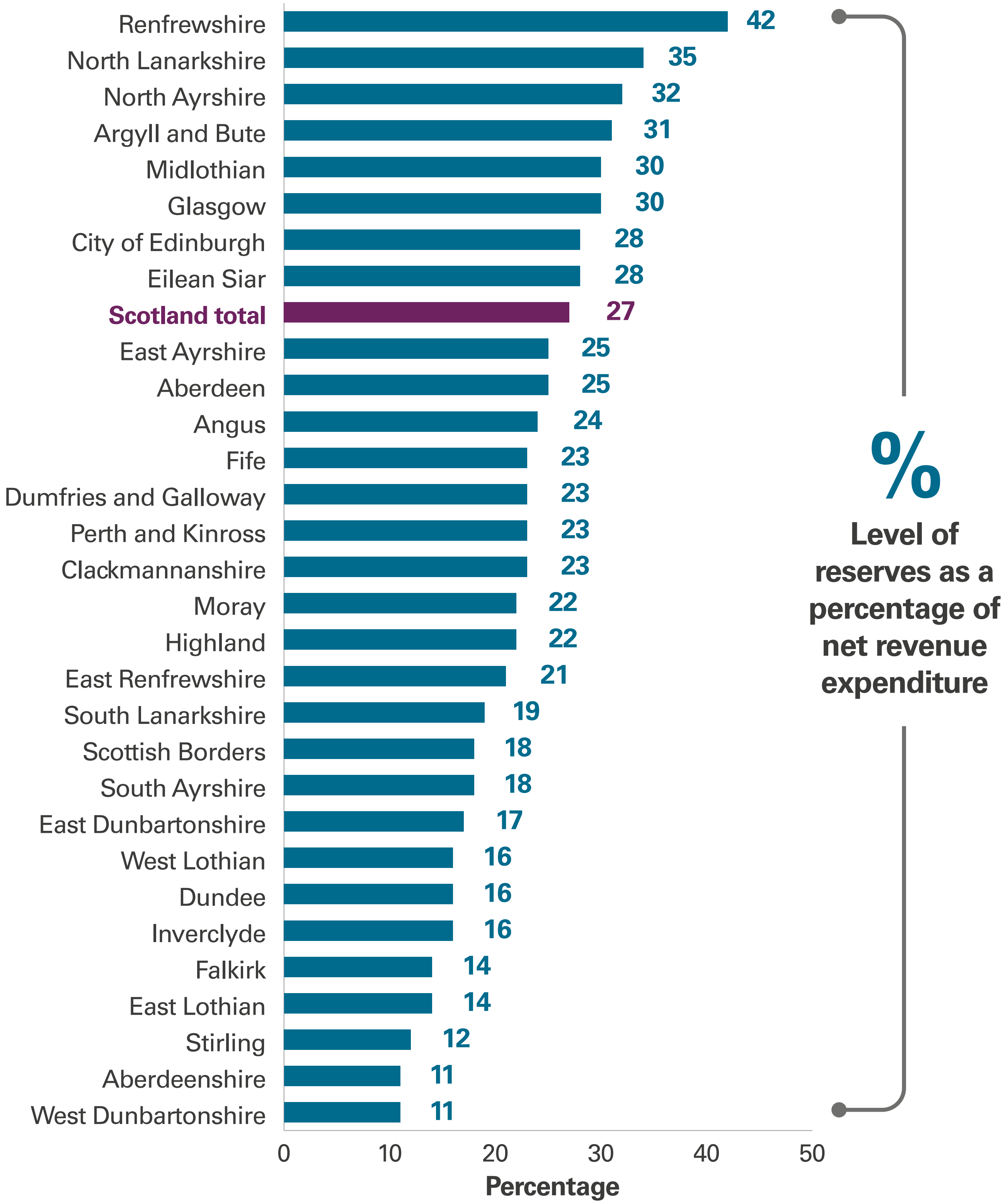


Note 1. Total figure doesn't match subtotals due to rounding.

Source: Councils' annual accounts 2022/23 (audited and unaudited)

Exhibit 11.

Level of usable reserves as a proportion of net revenue expenditure, split by council, 2022/23



Note: Orkney and Shetland are excluded from this chart as both hold large reserves (over 200 per cent of net cost of services) related to oil, gas and harbour related activities.

Source: Councils' annual accounts 2022/23 (audited and unaudited)

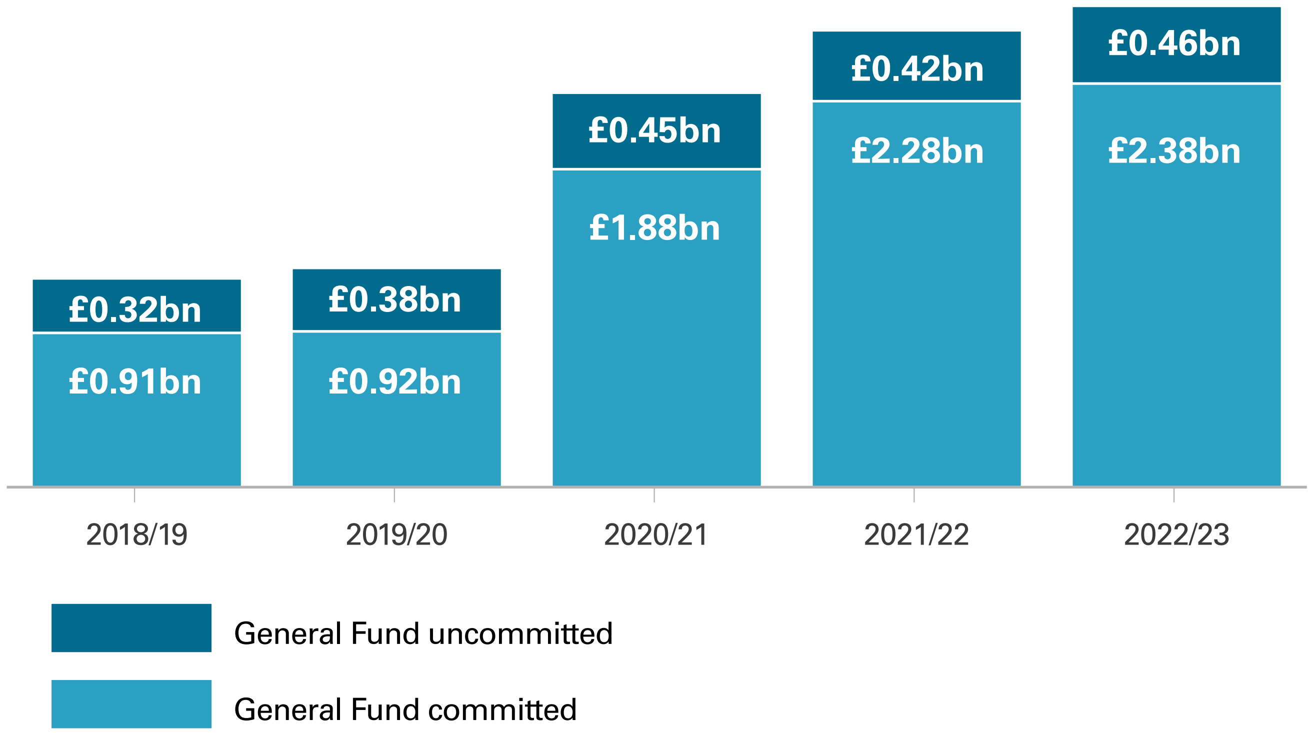
Councils increased their general fund reserves, but this is driven by growth in committed funds

53. In 2022/23, councils increased their total General Fund reserves (excluding any HRA element which not all councils have) by £0.1 billion (4.8 per cent) to £2.84 billion compared to 2021/22.

54. Committed funds have increased by £0.1 billion (4.6 per cent) since 2021/22 and by £1.47 billion (159 per cent) since 2019/20 (Exhibit 12).

Exhibit 12.

National General Fund balance, 2018/19 to 2022/23, cash terms



Note: This chart excludes HRA.

Source: Councils' annual accounts (audited and unaudited)

55. Paragraph 50 outlines some of the reasons for growth in committed funds in the past year. Based on data extracted from 2022/23 accounts, we calculate that remaining Covid-19 funding makes up around nine per cent of the total committed General Fund balance, but it is difficult to provide an exact figure for this and it may actually be higher. The continued lack of consistent transparency and detail in annual accounts around what and when reserves are committed for, and their associated spending plans, makes conclusions in this area difficult to draw.

Recommendation

Councils should provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability.

Some councils hold very low levels of uncommitted reserves but have specific reserves earmarked for contingency instead

56. Councils have reserves policies in place that set out the rationale for the minimum reserves levels set by the council. Most councils plan to maintain uncommitted reserves at around 2 to 4 per cent of net budgeted expenditure as a contingency to respond to unforeseen events and associated cost pressures.

57. In 2022/23, five councils had an uncommitted reserve balance below two per cent of net budgeted expenditure. Low levels of uncommitted reserves present a risk as it limits a council's ability to cushion the impact of uneven cash flows, unexpected events or emergencies. However, a review of 2022/23 annual accounts for those with the lowest uncommitted balances found that these were planned decisions with specific reserve funds earmarked for contingency.

Councils' total net debt increased by £1 billion (six per cent) between 2021/22 and 2022/23

58. Total net debt (total debt less cash and investments) increased by £1 billion from £16.4 billion in 2021/22 to £17.4 billion in 2022/23 (Exhibit 13, page 24).

59. At a council level, net debt increased in 24 councils between 2021/22 and 2022/23. This compares to an increase in net debt in 15 councils in 2021/22, and eight in 2020/21.

Exhibit 13.
Councils' total net debt, 2018/19 to 2022/23

	2018/19	2019/20	2020/21	2021/22	2022/23
Net debt (£ billion)	15.7	17.1	16.2	16.4	17.4
Year-on-year % change		9.1%	-5.3%	1.4%	5.8%

Note: Orkney is excluded from the total net debt analysis as it has net investments.

Source: Councils' annual accounts (audited and unaudited)

60. There is significant variation between councils. Some councils have experienced very large increases in their net debt, with the highest increases being in South Ayrshire (29 per cent) and East Dunbartonshire (21 per cent). Both these councils were also among those with the highest increases in the previous year. West Dunbartonshire saw the largest decrease between these years, at seven per cent.

61. Glasgow City Council had the highest net debt at £2.1 billion, which represents a 10 per cent increase on the previous year. Shetland had the lowest net debt, but this had increased by 14 per cent compared to the previous year.

Councils' borrowing costs have reduced over the past nine years. However, decisions to reschedule debt repayment in recent years may create financial pressure in the longer-term

62. LGBF financial sustainability data for 2022/23 shows that the proportion of councils' general fund revenue budget being used to service debt has fallen from 8.4 per cent in 2013/14 to 5.4 per cent in 2022/23.

63. A key contributory factor to this has been the decision by councils to re-profile principal repayments over a longer period, in line with 2016 Loans Fund regulations. Some councils also used the financial flexibility afforded by the Scottish Government that permitted a reduction in the statutory repayment of debt in 2020/21, 2021/22 and 2022/23.

64. Although borrowing costs have reduced, the long-term affordability of these payments is an important element of councils' financial sustainability. There is a risk that decisions to reschedule debt repayments may add pressure on future budgets as it defers costs to later years and does not tackle the underlying challenges to financial sustainability.

Financial sustainability indicators included within the Local Government Benchmarking Framework (LGBF) consider the affordability of councils' borrowing costs. The ratio of borrowing costs to net revenue budget highlights the revenue implications of existing and proposed capital expenditure. The indicator included in the LGBF identifies the proportion of the general fund revenue budget that is required to meet the cost of borrowing.

Scottish Government funding for 2023/24

Revenue funding to local government from the Scottish Government in 2023/24 saw a cash and real-terms increase on 2022/23

65. The initial core revenue funding settlement for local government in 2023/24 was £10.9 billion. At the 2023/24 autumn revision, an additional £1.5 billion in general revenue grant funding increased total funding to £12.5 billion. This is a 13.5 per cent increase in cash terms and a 7.0 per cent increase in real terms (in 2022/23 prices) on the 2022/23 position. Almost £1 billion was transferred from health to support social care and integration, over £0.25 billion was additional funding for school staff pay and £0.2 billion was transferred from education. (Exhibit 14).

Exhibit 14.
Scottish Government revenue funding (autumn budget revision), 2023/24 compared to 2022/23, in real terms

	Cash terms			Real terms		
Scottish Government revenue funding	**2022/23 £ million**	**2023/24 £ million**	**change %**	**2022/23 £ million**	**2023/24 £ million**	**change %**
Core revenue	**10,999**	**12,482**	**13.5%**	**10,999**	**11,765**	**7.0%**
General revenue grant	7,458	8,683	16.4%	7,458	8,184	9.7%
Non-domestic rates	2,766	3,047	10.2%	2,766	2,872	3.8%
Specific revenue grants	775	752	-3.0%	775	709	-8.5%

Note: Real terms calculation uses 2022/23 as base year.

Source: Scottish Government budget documents (autumn revision)

66. Over the past decade, the total value of specific revenue grants has steadily increased – see Exhibit 16 (page 28) for further details. However, at the latest 2023/24 budget revision (autumn) it decreased in both cash terms and real terms.

Councils' capital funding allocation for 2023/24 represents a real-terms decrease on 2022/23

67. The initial capital funding settlement for local government in 2023/24 was £747 million. At the autumn revision, capital funding was increased to £767 million. This represents a 2.6 per cent fall in cash terms and an 8.2 per cent fall in real terms compared to the same position in 2022/23.

68. Some capital funding is directed for specific policies. For example, £50 million capital to help with the expansion of the Free School Meals policy.

69. The capital funding outlook for the whole Scottish public sector is challenging and the Scottish Government is currently undertaking a programme of reprioritisation of capital projects. The continued pressure on capital budgets presents risks to local government capital programmes, many of which impact on key services (eg, schools, libraries, roads, etc). However, councils did increase their capital reserves by 40 per cent in 2022/23.

Councils' budget-setting for 2023/24

Councils' budget gaps increased significantly in 2023/24 compared to 2022/23

70. At the time of budgeting, from our sample of 30 councils, a total budget gap of £725 million was identified for councils' 2023/24 budgets, a significant increase on the £476 million identified in 2022/23. This represents 4.2 per cent of the net cost of services (in real terms) compared to 2.9 per cent in 2022/23.

71. All but three councils (East Lothian, Dundee and Highland) in the sample reported a higher budget gap in 2023/24 than 2022/23. The budget gaps for 2023/24 ranged from £5 million in Highland (0.6 per cent of net cost of services) to £77 million in South Lanarkshire (7.8 per cent of net cost of services). The wide range may be in part due to different approaches to budgeting rather than significant differences in cost and service pressures.

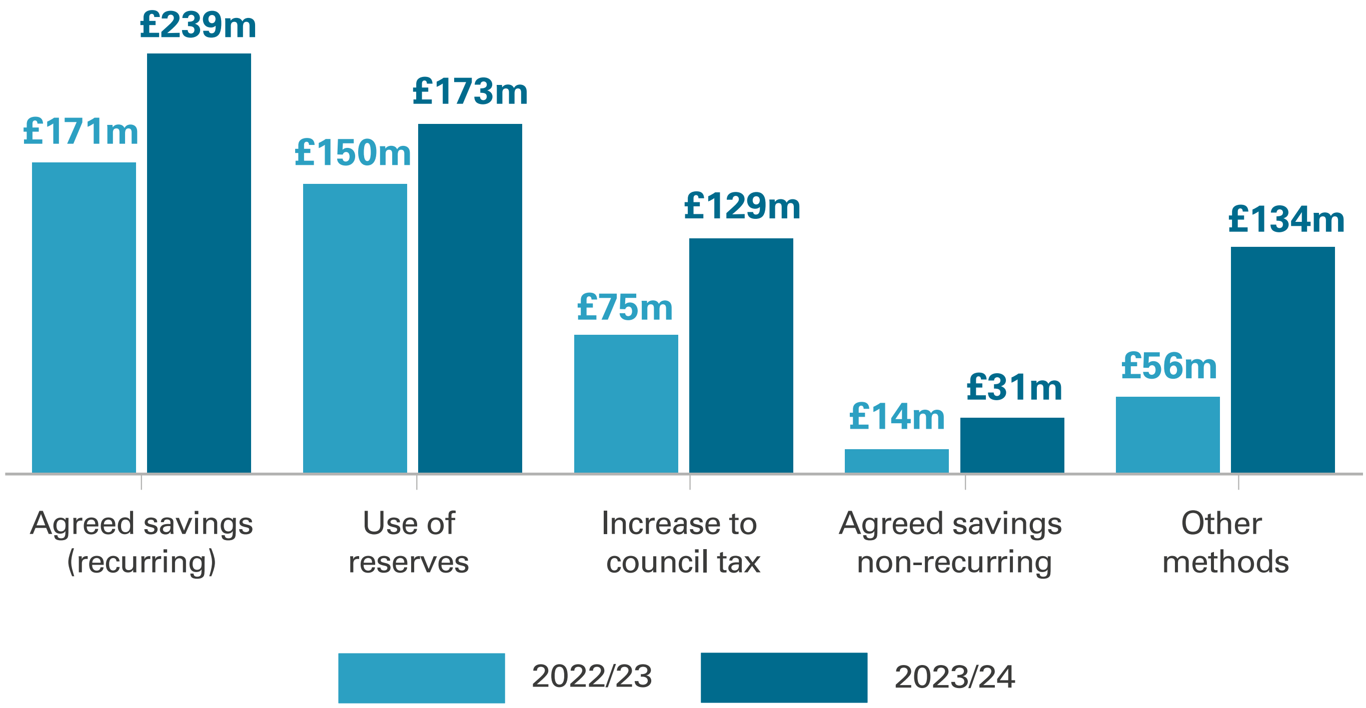
72. The most common bridging actions taken to set balanced budgets in 2023/24 were recurring savings (33 per cent), the use of reserves (27 per cent) and increases to council tax (18 per cent) (Exhibit 15, page 27).

73. Some councils have already taken difficult decisions to address budget gaps through implementation of recurring savings options. However, in the face of public opposition, some councils have reversed decisions that related to the reduction or cessation of services as part of savings put forward for 2024/25. This illustrates the increasing challenges that councils are facing in delivering balanced budgets and highlights the need for proper and timely consultation over budget proposals.

Recommendation

Councils should ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.

Exhibit 15.
Councils' bridging actions to set their 2023/24 budget compared to 2022/23



Note: The chart elements for 2023/24 add up to £733 million which is higher than the total anticipated budget gap for 2023/24. This is because Dundee and North Lanarkshire reported bridging actions of greater value than their budget gap.

Source: Auditor data returns (30 councils in the sample)

Financial sustainability

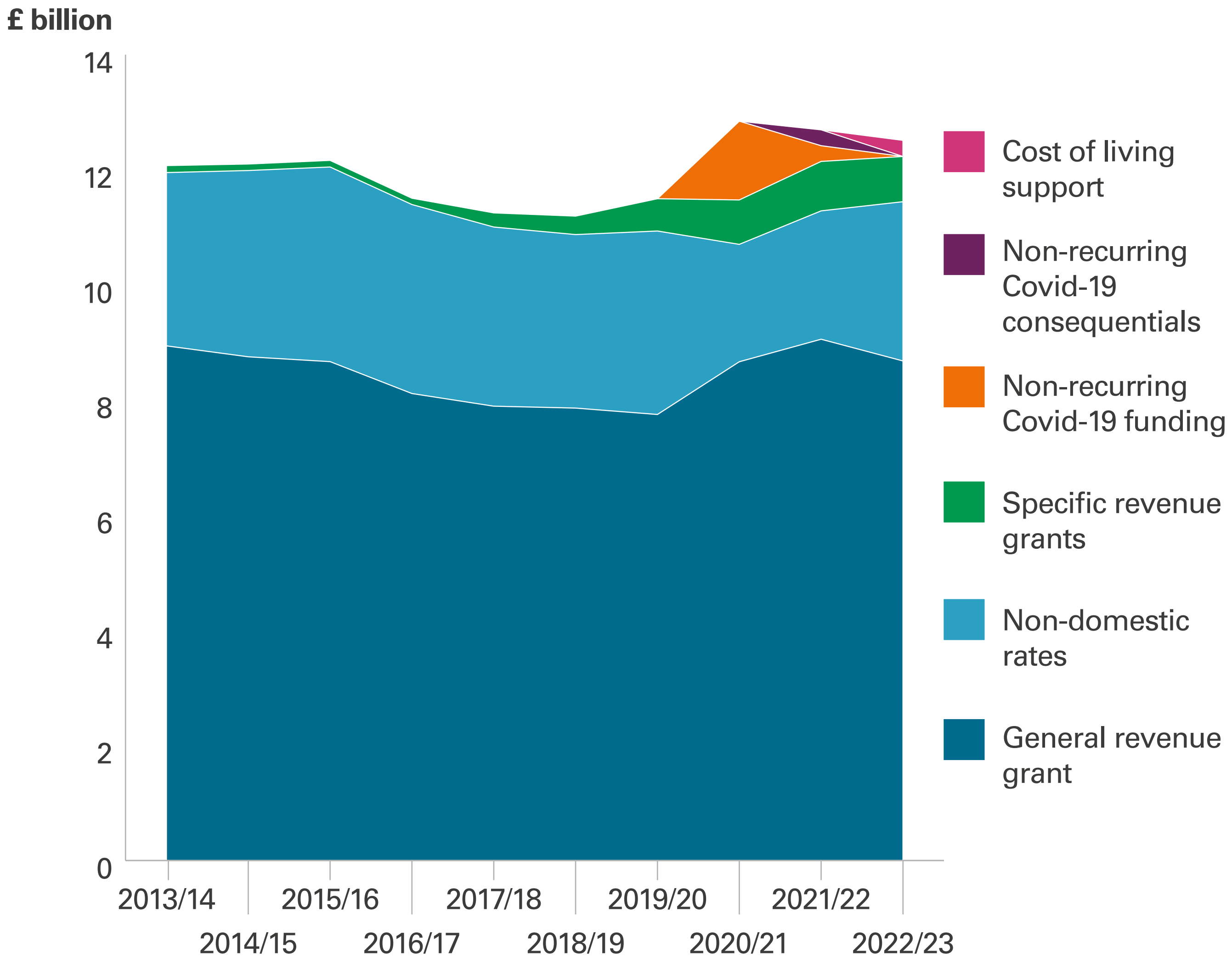
In real terms, councils' core revenue funding is similar to levels a decade ago. However, over that time, councils' have experienced periods of reduced budgets and increasingly ring-fenced funding

74. The £12.2 billion core allocation received by councils in 2022/23 compares to a real-terms value of £12.1 billion in 2013/14, a 1.3 per cent increase (Exhibit 16, page 28).

75. Over this period, in real terms the general revenue grant decreased year-on-year until 2020/21 and non-domestic rates also fell over the same period. During the pandemic, councils received additional core and specific non-recurring Covid-19 funding.

76. In real terms, the general revenue grant in 2022/23 is 2.9 per cent (£262 million) lower than in 2013/14 and income from non-domestic rates is 8.1 per cent (£244 million) lower.

Exhibit 16.
Scottish Government revenue funding to local government, real terms, 2013/14 to 2022/23



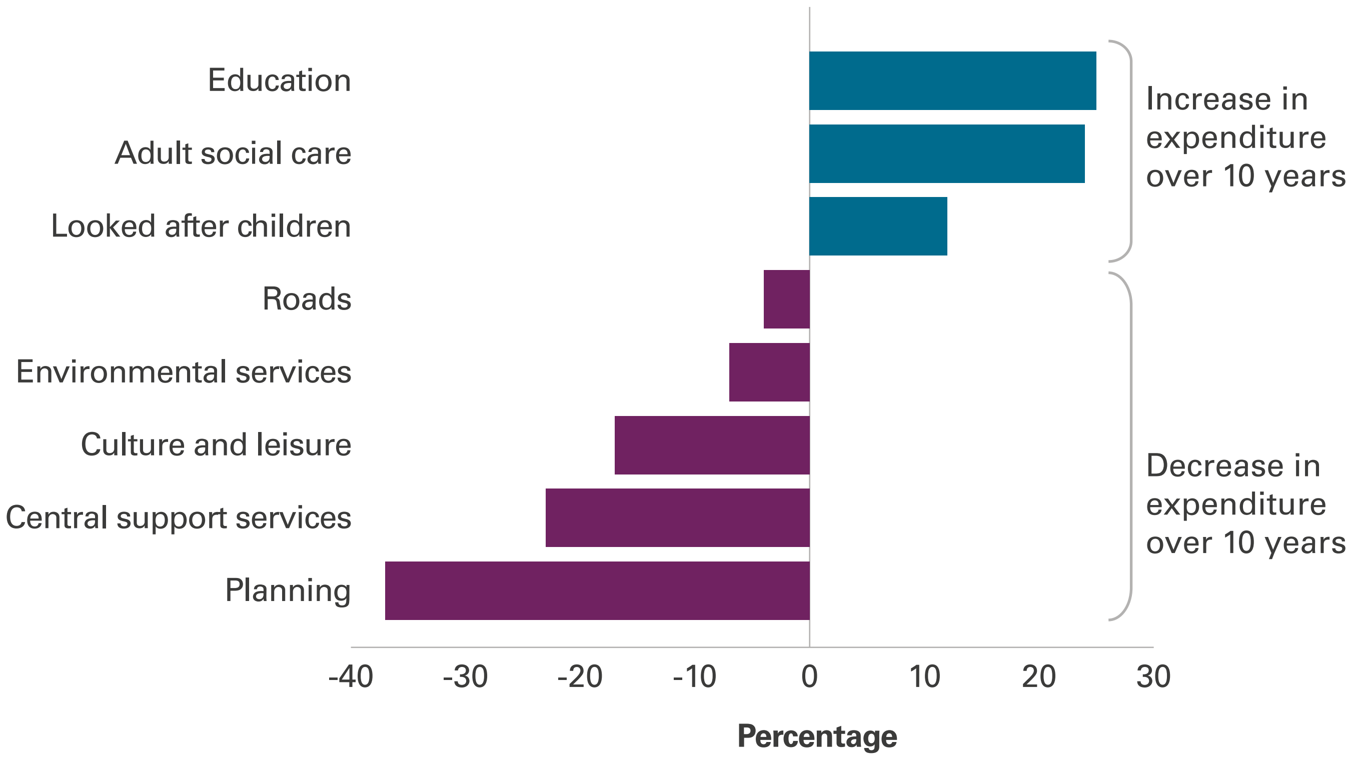
Source: Scottish Government budget documents (spring revision) for 2014/15 to 2022/23 and actual figures for 2013/14 (from 02/2014 circular) as budget documents were not available

77. Specific revenue grants have increased by over 500 per cent (£663 million) across the same period in real terms (although there was a reduction in 2022/23). This significant increase has been a key contributory factor in keeping the overall local government budget at a similar level. These grants are to support the delivery of specific national policies, for example the expansion of early learning and childcare, rather than provision of flexible funding for councils to use at their discretion.

As demand for council services continues to rise, councils have reduced spending on 'unprotected' services to balance budgets

78. As we reported in our Local government in Scotland: Overview 2023 report in May 2023, over the last decade, there is a clear divergent pattern of spending on council services. Spending on children's services (education and looked after children) and adult social care has been protected and increased because of increased demand and national policy directives. This means that the remaining 'unprotected' services have borne a disproportionate level of spending reductions (Exhibit 17).

Exhibit 17.
Percentage change in expenditure (in real terms) over ten years, 2012/13 to 2021/22



Source: Improvement Service

Councils' medium- and longer-term financial plans demonstrate a clear recognition of the significant financial challenges that lie ahead

79. Councils' medium- and longer-term financial plans provide a clear picture of the challenging and volatile financial landscape that they face. Significant pressures resulting from increased demand for services, inflation, and legislative reform, as well as the continuing financial impacts of the Covid-19 pandemic and cost of living crisis, feature strongly.

80. Generally, these plans also set out projected budget gaps over the medium and longer term, highlighting the scale of the challenge and the level of savings required to continue to deliver balanced budgets in the years ahead.

81. As the whole public sector faces the most difficult financial outlook seen for many years, councils are having to make increasingly difficult choices about their spending priorities and need to balance short-term pressures with robust planning for long-term financial sustainability.

Some councils use indicators to assess their financial resilience but the extent to which they are used and their effectiveness varies

82. From a sample of 30 councils, an assessment of financial resilience arrangements found all but five use the **financial sustainability indicators** from the local government benchmarking framework (LGBF) in local reporting. Of the same sample, only six use the CIPFA Resilience Index. The extent of this reporting also varies. Some councils provide regular reports to elected members, while others include detail on a less frequent basis in other documents, such as service plans or strategies.

83. Auditor returns indicated that in some cases, financial resilience indicators are not used to any great extent by councils on a regular basis. Financial resilience is instead built into day-to-day financial processes and strategies. In other cases, auditors highlighted the use of key financial ratios recommended by CIPFA Directors of Finance within the management commentary of the accounts or reporting upon financial resilience monitoring in their medium-term financial plans.

Financial sustainability indicators are a helpful tool for councils to measure performance and resilience on an ongoing basis. Councils have adopted different approaches to how they use indicators to monitor financial resilience.

Recommendation

Given the scale of the challenges, councils should strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium- and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.

The pensions' triennial funding valuation as at 31 March 2023 is not yet complete, but preliminary results suggest a potential positive impact on finances at some councils in the short term

84. The most recent triennial funding valuation took place across Local Government Pension Scheme pension funds at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

85. Preliminary results across some pension funds show an improved funding position. An improved funding position may allow the fund to retain a surplus, change the investment strategy, take less funding risks, or reduce employer contributions.

86. Reducing employer contributions has the potential to create a 'windfall' effect for some councils, thus potentially reducing some of the cost pressures likely to be faced in 2023/24. This may allow councils some additional flexibility to manage immediate financial pressures while taking steps to enhance financial sustainability over the longer term. This will however require careful consideration at a local level. It is likely that auditors will monitor this closely as part of 2023/24 audits.

The Verity House Agreement and looking to the future

87. In June 2023, a new partnership agreement, the Verity House Agreement, was agreed between the Scottish Government and COSLA.

88. The partnership committed to:

- **From June 2023, a default position of no ring-fencing or direction of funding unless there is a mutual understanding of the reasons for a ring-fenced funding arrangement.** A reduction in the level of ring-fencing is likely to have a positive impact on the efficient and effective use of resources at a local level. Councils will experience increased local flexibility, providing greater scope to respond well to local needs in a targeted manner. However, good accountability for the use of public funds remains crucial. It is important therefore that the Scottish Government and COSLA work together to establish the right balance between direction and flexibility.
- **By the end of October 2023, undertake a joint review of specific grants and in-year transfers to local government.** The purpose of the review is to identify what funding can be baselined into the General Revenue Grant or General Capital Grant from the 2024/25 financial year to create more flexibility for councils in terms of their spending.
- **By the end of September 2023, agree a new fiscal framework which will govern the allocation of funding for local authorities and provide councils with increased control over their budget-setting processes. This includes multi-year settlements wherever possible to support strategic planning and investment.** The Accounts Commission has previously highlighted the importance of longer-term certainty in funding for councils, and the ongoing need for effective and robust financial management. This commitment in the Verity House Agreement is a welcome development.

89. Work in these areas remains ongoing, although at mid-December 2023 these milestones had not been met.

Recommendation

Councils should work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.

90. In October 2023, the First Minister unexpectedly announced a council tax freeze for 2024/25 and the postponement of Scottish Government proposals to increase the council tax multipliers for properties in bands E to H, by 7.5 per cent, 12.5 per cent, 17.5 per cent and 22.5 per cent. This was done without consultation with COSLA. Following greater reliance on increasing council tax to help deliver a balanced budget over the past two years, indications were that many councils were planning to increase council tax again for 2024/25.

91. The Fraser of Allander Institute modelled that 'if councils were planning increases that mirrored last year's (5.4 per cent), fully funding the freeze and cancellation of the multipliers would cost £329 million – £148 million for the former and £182 million for the latter'.

92. In the Scottish Budget on 19 December 2023, £144 million was allocated to 'fully fund' the council tax freeze, with the Scottish Government stating this is equivalent to a five per cent increase. Details on what this means for individual councils were not available at this time.

93. The impact of the freeze on councils' financial sustainability is not yet known and we will monitor this in our future audit work. However, even when 'fully funded' a council tax freeze suppresses the growth of the council tax base over that period and the income generated when the freeze is lifted is potentially lower than if councils were able to make tax raising decisions at a local level. The latest council tax freeze follows decisions by the Scottish Government to freeze council tax between 2008/09 and 2016/17 and in 2021/22, as well as cap increases at three per cent in 2017/18 and 2018/19.

94. The Scottish Government published their single year 2024/25 budget on 19 December 2023. The 2024/25 initial core revenue and capital settlement for local government is £12.3 billion which is a 1.7 per cent cash increase on the 2023/24 initial settlement. An additional £144 million has been allocated to fund the council tax freeze. A number of elements that were previously specific grants have been baselined into the general revenue grant including early learning and childcare expansion and the Living Wage funding. We will examine the implications of the Scottish Budget for councils' own budget setting in a budget briefing in spring 2024.

Local government in Scotland

Financial bulletin 2022/23

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Midlothian Integration Joint Board
Audit and Risk Committee

Midlothian
Health & Social Care
Partnership

Midlothian IJB Risk Register – Q4 2023/24

7th March 2024

Item number: 5.3

Executive summary

This report presents the IJB's Risk Register for Q4 2023/24. The risk register has been reviewed and amendments made, these are detailed below. At its meeting on 7th December 2024 the committee agreed to move its risk register onto the Datix system which is managed by NHS Lothian. The extract attached to this paper is from Datix along with appendices laying out Datix Impact and Consequences and the Datix Risk Matrix, the latter two being for the committee's information. Three risks are now categorised as 'very high' all being a function of the severe financial challenges that the IJB and its partners are facing in 2024/25.

Committee members are asked to:

1. *Note the Q4 Risk Register.*
2. *Consider if any further additions or changes should be made to the risk register.*

Report

1. Purpose

1.1 This report presents the IJB's Q4 risk register for discussion by the committee.

2. Recommendations

2.1 Committee members are asked to

- Note the Q4 risk register.
- Consider if any further additions or changes should be made to the risk register.

3. Background and main report

3.1 The IJB maintains a risk register in line with best practice. This register lays out the risks to the operation of the IJB – that is risks to the development of the Strategic Plan and the delivery of that plan though directions to its partners.

3.2 The register was last presented to the committee at its December '23 meeting and has now been reviewed and updated to reflect the current position.

3.3 At its last meeting the committee agreed to move the management of the IJB's risk register onto the Datix system which is the risk management system used by NHS Lothian. This has now been done.

3.4 The updated risk register is attached as appendix 1. It should be noted that this is an extract from Datix and that there is a range of further information embedded in the Datix system which does not form part of this extract. It may be that members could consider having a further briefing around the use and workings of Datix.

3.5 Appendices 2 and 3 lay out the impact and consequences and risk rating descriptions used by Datix and are for Information.

3.6 Risks 5771 'Strategic Commissioning Plan', 5772 'Issuing of Directions' and 5774 'Financial Sustainability' are noted as 'very high. This risk level is driven by the current financial settlements that the IJB's funding partners are experiencing and the concomitant impact on both the partner's delivery of the IJB's Strategic Plan and financial challenges to the goals of the Strategic Plan arising for financial challenges within the IJB's own budget.

3.7 It should be noted that the review dates are all the same (April 2024). The IJB is discussing with its partners how it monitors the delivery of the financial recovery programmes in 2024/25. This will impact on these very high risks and these dates will be reviewed and presented to the next meeting of the A&R.

4. Policy Implications

4.1 There are no further policy implications arising from this report.

5. Equalities Implications

5.1 There are no equalities implications arising from this report

6. Resource Implications

6.1 There are no resource implications arising from this report.

7 Risks

7.1 The risks are described in the risk register which is attached

8 Involving People

8.1 There are no direct implications for involving people as a result of this report.

9 Background Papers

9.2 None

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DATE	February 2024

Appendix 1 – Risk Register – Q4 2023/24

Appendix 2 – Datix – Impact and Consequences descriptors

Appendix 3 – Datix – Likelihood and Risk Matrix descriptors.

P3 Risk Register

										Residual Risk				Target Risk						
ID	Risk Register Level	Division	Management Team	Risk Owner	Risk Handler	Title	Description	Controls in place	Adequacy of controls	Consequence (Current)	Likelihood (Current)	Rating (Current)	Risk Level (Current)	Consequence (Target)	Likelihood (Target)	Rating (Target)	Risk Level (Target)	Date opened	Date Risk reviewed	Review date
5771	Midlothian IJB	Midlothian HSCP	Midlothian HSCP Management Team	Chief Officer	Integration Manager	Strategic Commissioning Plan	**Risk Effect:** Partners operational services may experience disruption to service delivery. **Risk Consequence:** The IJB may not see sufficient or adequate progress towards its 6 strategic aims and delivering its strategic plan.	Reassurance is required from partners regarding the following 1. Resilience planning and Business continuity 2. Contract monitoring 3. Governance and Assurance 4. Outcomes for people and communities	Some weaknesses: Improvement can be demonstrated however not at optimal level.	Major	Almost Certain	20	Very High	Minor	Possible	6	Medium	26/02/2024		Apr-24
5772	Midlothian IJB	Midlothian HSCP	Midlothian HSCP Management Team	Chief Officer	Integration Manager	Issuing of Directions	**Risk Effect:** There is a risk that the IJBs partners have insufficient workforce or other resources to execute the requirements and ambitions of the IJB Directions **Risk Consequence:** The IJB cannot deliver on its strategic plan or financial plan.	Directions are monitored and reported on twice a year for performance updates. financial allocations are included within directions on an annual basis after IJB budgets have been set The Planning, Performance and Programme team continue to support with additional capacity to redesign and transform key areas of service delivery A project management approach continues to support key areas aiming to accelerate progress in the delivery of the MIJB Directions.	Some weaknesses: Improvement can be demonstrated however not at optimal level.	Extreme	Almost Certain	25	Very High	Moderate	Possible	9	Medium	26/02/2024		Apr-24
5773	Midlothian IJB	Midlothian HSCP	Midlothian HSCP Management Team	Chief Officer	Executive Business Manager	Category 1 Responder Status	**Risk Effect:** IJBs role as Category 1 responders under the Civil Contingencies Act requires that our partners NHS Lothian and Midlothian Council maintain effective business continuity and resilience plans to ensure an appropriate response in times of emergency. There is a risk that our partners may not be able to provide these assurances. **Risk Consequence:** Failure to maintain up to date and effective resilience plans could result in services unable to maintain essential service delivery	Assurance reporting to IJB routinely by Chief Nurse, Chief Social Worker and Resilience. Annual category 1 assurance report submitted to IJB via A&R comittee Robust operational process within Midlothian Health and Social Care to meet requirements Lessons learnt from COVID pandemic have been incorporated within standard service delivery, ongoing work to develop a quality management approach will provide additional partnership wide assurances to IJB.	Satisfactory: All controls are working and can be demonstrated through measurement	Moderate	Unlikely	6	Medium	Minor	Unlikely	4	Medium	26/02/2024		Apr-24
5774	Midlothian IJB	Midlothian HSCP	Midlothian HSCP Management Team	Chief Officer	Chief Finance Officer	Financial Sustainability	**Risk Effect:** The IJBs partners may not be able to allocate sufficient resource to deliver its Financial Plan and Strategic Plan. **Risk Consequence:** The IJB may not be able to deliver the Strategic Plan in order to function within the available resources. The IJB may have to amend the ambitions of Strategic in such a way that the progress towards the 6 strategic aim of the Strategic Plan and 9 National Health and Wellbeing Outcomes is compromised.	Chief Finance Officer responsible for the governance, appropriate management of finance and financial administration of the IJB. Strong budgetary control systems in place within NHS Lothian and Midlothian Council. IJB Medium term financial plan developed annually. Working in partnership in the financial environment with Midlothian Council and NHS Lothian. Use of IJBs General Reserve.	Some weaknesses: Improvement can be demonstrated however not at optimal level.	Extreme	Almost Certain	25	Very High	Moderate	Possible	9	Medium	26/02/2024		Apr-24
5775	Midlothian HSCP	Midlothian IJB	Midlothian HSCP Management Team	Chief Officer	Chief Finance Officer	Impacts of New Legislation	**Risk Effect:** There is a risk of further legislation, policy, or national improvement drivers which impact on the IJBs ability to deliver on the Strategic Plan, examples include the legislation relating to a National Care Service and the Health and Care (Staffing) (Scotland) Act 2019. **Risk Consequence:** The IJB and it partners may be distracted from the business of delivering the Strategic Plan. Legislation, policy, and national improvement drivers without fiscal supports will result in additional pressure on the IJB.	Respond to Scottish Government information requests on impact of future legislation, policies, and national improvement drivers Horizon scanning for policy developments through partners and SMT network groups Close working relations with Scottish Government through Chief Finance Officer, Chief Officer and COSLA.	Uncertain; impact of controls not known at this time and more work required to identify current situation	Major	Possible	12	High	Moderate	Possible	9	Medium	26/02/2024		Apr-24

Table 1 – Impact/Consequence Definitions

Descriptor	Negligible	Minor	Mo
Patient Experience	**Reduced quality of patient experience/clinical outcome not directly related to delivery of clinical care.**	Unsatisfactory patient experience/ clinical outcome directly related to care provision – readily resolvable.	Unsatisfactory pat clinical outcome; s expect recovery <
Objectives / Project	**Barely noticeable reduction in scope, quality or schedule.**	Minor reduction in scope, quality or schedule.	Reduction in scop project objectives
Injury (physical and psychological) to patient/visitor/ staff.	**Adverse event leading to minor injury not requiring first aid.**	Minor injury or illness, first aid treatment required.	Agency reportable and aggressive ac Significant injury r treatment and/or c
Complaints / Claims	**Locally resolved verbal complaint.**	Justified written complaint peripheral to clinical care.	Below excess clai Justified complain appropriate care.
Service / Business Interruption	**Interruption in a service which does not impact on the delivery of patient care or the ability to continue to provide service.**	Short term disruption to service with minor impact on patient care.	Some disruption i unacceptable impa Temporary loss of service.
Staffing and Competence	**Short term low staffing level temporarily reduces service quality (< 1 day).** **Short term low staffing level (>1 day), where there is no disruption to patient care.**	Ongoing low staffing level reduces service quality. Minor error due to ineffective training/implementation of training.	Late delivery of ke due to lack of staf Moderate error du training/implemen Ongoing problems
Financial (including damage / loss / fraud)	**Negligible organisational/ personal financial loss. (£<1k).** (NB. **Please adjust for context)**	Minor organisational/personal financial loss (£1-10k).	Significant organis financial loss (£10
Inspection / Audit	**Small number of recommendations which focus on minor quality improvement issues.**	Recommendations made which can be addressed by low level of management action.	Challenging recom be addressed with plan.
Adverse Publicity / Reputation	**Rumours, no media coverage. Little effect on staff morale.**	Local media coverage – short term. Some public embarrassment. Minor effect on staff morale/public attitudes.	Local media – lon publicity. Significant effect c public perception

oderate	Major	Extreme
tient experience/ short term effects – 1wk.	Unsatisfactory patient experience/ clinical outcome; long term effects – expect recovery >1wk.	Unsatisfactory patient experience/ clinical outcome; continued ongoing long term effects
e or quality of project; or schedule.	Significant project over-run.	Inability to meet project objectives; reputation of the organisation seriously damaged.
, e.g. Police (violent ts). equiring medical counselling.	RIDDOR Major injuries/long term incapacity or disability (loss of limb) requiring medical treatment and/or counselling.	Incident leading to death or major permanent incapacity.
m. t involving lack of	Claim above excess level. Multiple justified complaints.	Multiple claims or single major claim Complex justified complaint
n service with act on patient care. f ability to provide	Sustained loss of service which has serious impact on delivery of patient care resulting in major contingency plans being invoked.	Permanent loss of core service or facility. Disruption to facility leading to significant "knock on" effect
y objective / service f. e to ineffective tation of training. s with staffing levels.	Uncertain delivery of key objective/ service due to lack of staff. Major error due to ineffective training/ implementation of training.	Non-delivery of key objective/service due to lack of staff. Loss of key staff. Critical error due to ineffective training/ implementation of training.
sational/personal -100k).	Major organisational/personal financial loss (£100k-1m).	Severe organisational/personal financial loss (£>1m).
nmendations that can appropriate action	Enforcement action. Low rating. Critical report.	Prosecution. Zero rating. Severely critical report.
g-term adverse on staff morale and of the organisation.	National media/adverse publicity, less than 3 days. Public confidence in the organisation undermined. Use of services affected.	National/international media/adverse publicity, more than 3 days. MSP/MP concern (Questions in Parliament). Court Enforcement. Public Inquiry/ FAI.

Table 2 – Likelihood Definitions

Descriptor	Rare	Unlikely	Possibl
Probability	Can't believe this event would happen – will only happen in exceptional circumstances.	Not expected to happen, but definite potential exists – unlikely to occur.	May occur occasic happened before c occasions – reaso chance of occurrin

Table 3 – Risk Matrix

Likelihood	Conseq	
	Negligible	Mino
Almost Certain	Medium 5	High 10
Likely	Medium 4	Mediu 8
Possible	Low 3	Mediu 6
Unlikely	Low 2	Mediu 4
Rare	Low 1	Low 2

e	Likely	Almost Certain
onally, has on onable ng.	**Strong possibility that this could occur – likely to occur.**	**This is expected to occur frequently / in most circumstances – more likely to occur than not.**

uences / Impact			
or	**Moderate**	**Major**	**Extreme**
h	High 15	V High 20	V High 25
im	High 12	High 16	V High 20
im	Medium 9	High 12	High 15
im	Medium 6	Medium 8	High 10
/	Low 3	Medium 4	Medium 5

Midlothian Integration Joint Board Audit and Risk Committee

Midlothian
Health & Social Care
Partnership

7 March 2024 at 2pm

Midlothian IJB Audit & Risk Committee Development Sessions

Executive summary

Item number:

The purpose of this report is to gain approval to the proposal to complete a self-analysis of the MIJB Audit & Risk Committee against the CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022. Following this review that topics for Development sessions are identified and Development sessions scheduled for Audit & Risk Committee members following each Audit & Risk Committee meeting.

The MIJB Audit and Risk Committee is therefore asked to approve the Proposal for Audit & Risk Committee self-assessment participation and that development sessions will be held following each Audit & Risk Committee meeting throughout the year.

Report

Midlothian IJB Audit & Risk Committee Development Sessions

1. Purpose

1.1 The purpose of the report is to present the proposal to complete a self-assessment of the audit committee against the CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022. And outline the proposal to schedule Development Sessions following each Audit and Risk Committee based on the self-assessment completed.

2. Recommendations

2.1 To approve the proposal for Audit & Risk Committee self-assessment participation to be completed by June 2024.

2.2 To approve that development sessions will be held following each Audit & Risk Committee meeting throughout the year, based on the analysis of the self-assessment.

3. Background and main report

3.1 The CIPFA Position Statement: Audit Committee in Local Authorities and Police 2022 replaced the 2018 edition of the statement. CIPFA expects that all local government bodies should make their best efforts to adopt the principals, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management and internal audit.

3.2 The statement includes that in order to discharge its responsibilities effectively the committee should, report annually on how the committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. The report should be available to the public.

3.3 CIPFA provides self-assessment tools and guidance, and it is proposed that these self-assessment tools are sent to each Audit committee member in March 2024 and returned in April 2024 for an initial assessment to be made for a development session in June 2024 following the Audit & Risk Committee meeting for members to establish what further improvement or training can be delivered to members as part of a programme of development sessions.

3.4 Following this assessment that development sessions can be scheduled following each Audit & Risk Committee to meet the requirements identified.

4. Directions

4.1 There are no Directions implications arising from this report.

5. Equalities Implications

5.1 There are no equalities implications.

6. Resource Implications

6.1 The Chief Internal Auditor will provide the resources required for the self-assessment process along with the Audit & Risk Committee members. Any further resources required for future development sessions will be considered as part of the self-assessment process.

7. Risks

7.1 No current risks identified.

8. Involving People

8.1 Consultation with all Audit & Governance Committee members will be through the self-assessment toolkit questions and the June development session.

9. Background Papers

9.1 The CIPFA Position Statement: Audit Committee in Local Authorities and Police 2022 (attached).

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CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives.

CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.

- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.

- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.

- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.

- In relation to the authority's internal audit functions:

    - oversee its independence, objectivity, performance and conformance to professional standards

    - support effective arrangements for internal audit

    - promote the effective use of internal audit within the assurance framework.

- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.

- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.

- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.

- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.

- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:

  - promoting apolitical open discussion

  - managing meetings to cover all business and encouraging a candid approach from all participants

  - maintaining the focus of the committee on matters of greatest priority.

- Willingness to operate in an apolitical manner.

- Unbiased attitudes – treating auditors, the executive and management fairly.

- The ability to challenge the executive and senior managers when required.

- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

Midlothian Integration Joint Board Audit and Risk Committee

7 March 2024 at 2pm

Midlothian IJB Internal Audit Annual Plan 2024/25

Executive summary

Item number:

The purpose of this report is to gain approval to the proposed Internal Audit Annual Plan 2024/25 for the Midlothian Health and Social Care Integration Joint Board (MIJB) to enable the MIJB Chief Internal Auditor to prepare the annual opinion on the adequacy of the overall control environment of the Midlothian Health and Social Care Integration Joint Board.

The MIJB Audit and Risk Committee is therefore asked to approve the MIJB Internal Audit Annual Plan 2024/25 (Appendix 1).

Report

Midlothian IJB Internal Audit Annual Plan 2023/24

1. Purpose

1.1 The purpose of the Report is to present the proposed Internal Audit Annual Plan 2024/25 for the Midlothian Health and Social Care Integration Joint Board for discussion and approval by the MIJB Audit and Risk Committee.

2. Recommendations

2.1 To approve the Internal Audit Annual Plan 2024/25 for the Midlothian Health and Social Care Integration Joint Board.

3. Background and main report

3.1 Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance. The Internal Audit programme of work is designed to add value to and improve the Midlothian Health and Social Care Integration Joint Board's operations in order to meet the objectives set out in the Strategic Plan.

3.2 The key standards within the Public Sector Internal Audit Standards (2017) which relate to the preparation of the Internal Audit plan are summarised below:

- Standard 2010 – Planning which states that "the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals"
- Standard 2020 – Communication and Approval which states that "the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations."

3.3 The Internal Audit Annual Plan 2024/25 for the MIJB (Appendix 1) includes sufficient work to enable the MIJB's appointed Chief Internal Auditor to prepare an annual independent and objective audit opinion on the adequacy of the arrangements for risk management, governance and control of the delegated resources within the MIJB.

4. Reporting of Internal Audit Results

4.1 At the end of the year the Internal Audit Annual Assurance Report 2024/25 for the MIJB which will be reported to Management and to the MIJB Audit and Risk Committee, for governance and scrutiny purposes, will include the audit opinion based on the audit work during the year, and will state the results from each audit engagement outlining the risks, controls and conclusions. It will also state any Internal Audit recommendations that have been made to improve internal controls and governance in the form of an improvement action plan that will include the responsible owner and timescale for implementation. The outcomes of any monitoring of implementation of agreed actions or acceptance of risk will also be stated.

4.2 The Internal Audit findings and annual opinion will be used to inform the MIJB's Annual Governance Statement for inclusion in the MIJB's Annual Report and Accounts.

5. Directions

5.1 There are no Directions implications arising from this report.

6. Equalities Implications

6.1 There are no equalities implications.

7. Resource Implications

7.1 There is a commitment by Midlothian Council to provide Internal Audit resource to the MIJB. The Midlothian Council Internal Audit Annual Plan 2024/25, to be presented to its Audit Committee on 7 March 2024 for approval, allocates a total of 40 days to support the MIJB Internal Audit Annual Plan 2023/24, including providing the MIJB Chief Internal Auditor. The Internal Audit Charter and Internal Audit Strategy, presented for approval at the same meeting of Midlothian Council Audit Committee, are applicable for the provision of Internal Audit services to MIJB. Those documents set out respectively the conformance of the Internal Audit team to the PSIAS standards and the approach to the planning, delivery and reporting of Internal Audit activity associated with the MIJB.

7.2 There is a commitment by NHS Lothian to provide Internal Audit resource to the MIJB. The NHS Lothian Internal Audit team will provide 30 days per IJB which will be reflected in the NHS Lothian Internal Audit Annual Plan 2024/25 that is scheduled for presentation to its Audit and Risk Committee for approval in accordance with its Internal Audit governance.

8. Risks

8.1 Key components of the audit planning process include a clear understanding of the MIJB's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted. This exercise is informed by key developments at both a national and local level and other relevant background information, for example the Strategic Plan. Discussions with the MIJB's Chief Officer and Chief Finance Officer will continue on a regular basis to ensure Internal Audit assurance meet the needs of the MIJB and Management and other key stakeholders. The MIJB Internal Audit Annual Plan 2024/25 has been informed by the risks, controls and mitigation actions as set out within the MIJB's Strategic Risk Register to ensure that Internal Audit plans are risk-based and provide relevant assurance.

8.2 The PSIAS require Internal Audit to evaluate the effectiveness of the MIJB's Risk Management arrangements and contribute to improvements in the process. Each Internal Audit assignment will be risk-based and will test the MIJB's management of risk.

8.3 The MIJB Internal Audit Annual Plan 2024/25 should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the MIJB will be brought to the MIJB Audit and Risk Committee for approval.

9. Involving People

9.1 Consultation on this Plan has been undertaken with the MIJB Chief Officer, Chief Finance Officer and Integration Manager prior to submission to the MIJB Audit and Risk Committee.

10. Background Papers

See Appendix 1.

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DATE	01/03/2024

Midlothian Health and Social Care Integration Joint Board Internal Audit Annual Plan 2024/25 **Appendix 1**

Ref	Category	Audit	Days	Commentary
1.	Assurance	Annual Assessment of Internal Control and Governance	12	Prepare an annual assurance report for MIJB Management and MIJB Audit and Risk Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources. Conduct a high level review of risk management arrangements in operation. Test a sample of the key elements in the MIJB Code of Corporate Governance to determine whether these are operating effectively. This will be used to inform the MIJB's Annual Governance Statement.
2.	Assurance	Transformation Budgeting and Control	30	NHS Lothian Internal Audit team will deliver this Audit. Review the processes in place to ensure that the IJB is maintaining a control process in relation to transformation expenditure and budget reductions in year and future financial years.
3.	Assurance	Governance Processes	15	Review of the Governance processes across the IJB and ensuring that they are meeting best practice requirements.

Ref	Category	Audit	Days	Commentary
4.	Other	Recommendations Follow Up Review	8	Undertake two reviews: The first will assess performance against closing Audit Actions by the agreed due date; and the second will include a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
5.	Other	Administration of Audit Scotland Reports	1	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of relevant Audit Scotland Reports to the MIJB Audit and Risk Committee / Board.
6.	Other	Audit Committee Self-Assessment	1	Provide assistance to Chair in undertaking a self-assessment of the MIJB Audit and Risk Committee against the CIPFA best practice guidance.
7.	Other	Attendance at Boards / Committees	2	Prepare for and attend MIJB Board / Audit and Risk Committee meetings.
8.	Other	Audit Planning for 2025/26	1	Renew risk assessment, develop and consult on proposed coverage within the MIJB Internal Audit Annual Plan 2023/24.
	Total		**70**	Midlothian Council's Internal Audit function will provide 40 days and NHS Lothian Internal Audit team will provide 30 days to support the delivery of the Plan.

Midlothian
Health & Social Care
Partnership