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<b>Report To:</b>	<b>Policy &amp; Resources Executive Sub-Committee</b>	<b>Date:</b>	<b>5 May 2020</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/40/20/AP/LA</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>The Council's Financial Position – Update</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to update the Sub-Committee on various matters in relation to the Council's finances.

## 2.0 SUMMARY

- 2.1 With the suspension of the normal Committee cycle, Members have not received the normal Budget Monitoring information. Working remotely, Officers from the accountancy team have prepared a period 11 monitoring report for each Service Committee and this has been collated into the Policy & Resources summary attached at Appendix 1. From this it can be seen that there was a projected surplus of £2.685million as at period 11 which is an increase in surplus of £90,000 from the period 10 position reported in March. The projected Contingency Reserve balance at 31 March is £3.77million which is £30,000 below the 2 % level set out in the Reserves Policy.
- 2.2 The Sub Committee are asked to note that due to many senior officers carrying out critical tasks associated with the COVID-19 pandemic, it has not been possible to have the same interaction with budget holders in the preparation of the period 11 position but Officers are confident that no major adverse financial movements occurred in the final weeks of 2019/20. The final out turn position is intended to be reported to the Policy & Resources Committee in August 2020.
- 2.3 Appendix 2 provides a summary of the 2019/22 Capital Programme position based on recent reviews by officers. From this it can be seen that slippage is estimated to be 17.2% which is an increase of 3.2% from the March Policy & Resources Committee. It should be noted that expenditure has still to be posted to 2019/20 in respect of internal fees/recharges and retentions, thus explaining the gap between actual and projected expenditure.
- 2.4 As is the case each year, a report will be presented to the August Policy & Resources Committee explaining the main reasons for movement between the approved Budget and Out-turn. This report will also include revised phasings and projections for the 2020/23 Capital Programme based on officers assessment of the impact of the COVID-19 shut down.
- 2.5 The 24<sup>th</sup> March Policy & Resources Committee received an initial assessment of the potential financial implications facing the Council arising from COVID-19. This assessment was made in advance of clarification from the UK and Scottish Governments regarding support for Councils to meet the large volume of unbudgeted costs. Following confirmation of approximately £3.5 billion in "consequential" funding from the UK Government, the Scottish Government have announced several funding schemes to either provide direct support to Councils or where Councils are to act as agents to administer support on behalf of the Scottish Government. The details of these supports and the current position of each funding stream are captured in Appendix 3.

- 2.6 The Council is required to provide Cosla with a fortnightly update of its assessment of additional costs/income reductions arising from COVID-19 whilst a weekly update is provided by the IJB Chief Financial Officer of the estimated financial impact on the IJB. Appendix 4 summarises the main items from both returns.
- 2.7 The Sub-Committee has previously approved that any unbudgeted costs in relation to Covid-19 not met by other funding sources will be initially funded from the Council's Contingency Reserve and the net projected costs can currently be contained within this allowance. It should be noted that the impact on the Reserves Strategy and future years' Budgets will require to be reviewed as part of the 2021/23 Budget and incorporated into an updated Financial Strategy which it would be planned to present to Members over the summer.
- 2.8 The Sub-Committee has previously received updates in respect of potential payments to partners and suppliers for areas where the usual level of service is not being delivered. An update is attached as Appendix 5. Officers continue to liaise with early years' providers, school transport operators and a number of local community organisations. There remains a concern that even if the Council continues to fund some organisations at 100% of budgeted levels, this will not be sufficient to ensure that some businesses are sustainable and therefore it is vitally important that all these organisations access all other forms of income available from the UK and Scottish Governments in addition to approaching the Council for support.
- 2.9 The period April to June each year is when the Council prepares the Annual Accounts for audit. Officers in Finance supported by officers in the services have been striving to continue with the timescales and processes of previous years however this will be challenging due to the absence of key staff/information and as such it is anticipated that the timetable could slip. The Scottish Government has proposed that the accounts approval timescale could slip by 2 months to the end of November 2020 and has asked individual Councils to liaise with their external auditors to agree a revised timetable. Updates on progress with the annual accounts and the revised timetable will be advised to the Sub-Committee.
- 2.10 A related matter with the Audit of the Accounts is the consideration by Members of the 2019/20 Management Report. This would usually be considered by the Audit Committee. The report has been received from Audit Scotland and identifies a number of items around financial governance. Officers' responses are incorporated. The document is attached at Appendix 6 for comment and noting.

### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Sub-Committee notes the period 11 Revenue Budget position and latest position of the 2019/22 Capital Programme.
- 3.2 It is recommended that the Sub-Committee notes the updated position in respect of Scottish Government funding set out in Appendix 3 and the latest assessed financial impact on the Council and Social Care as set out in Appendix 4.
- 3.3 It is recommended that the Sub-Committee notes the current position in respect of support for suppliers and partner organisations set out in Appendix 5.
- 3.4 It is recommended that the Sub-Committee notes the Management Report 2019/20 prepared by Audit Scotland.

**Policy & Resources Committee**  
**Revenue Budget Monitoring Report**  
**Position as at 29th Feb 2020**

Committee	Approved Budget 2019/2020	Revised Budget 2019/2020	Projected Out-turn 2019/2020	Projected Over/(Under) Spend	Percentage Variance
	£,000's	£,000's	£,000's	£,000's	
Policy & Resources	18,225	15,654	13,634	(2,020)	(12.90%)
Environment & Regeneration	23,895	23,695	23,434	(261)	(1.10%)
Education & Communities <b>(Note 1)</b>	88,362	86,875	86,919	44	0.05%
Health & Social Care	50,529	50,522	50,368	(154)	(0.30%)
<b>Committee Sub-Total</b>	<b>181,011</b>	<b>176,746</b>	<b>174,355</b>	<b>(2,391)</b>	<b>(1.35%)</b>
Loan Charges (Including SEMP)	12,075	16,807	16,807	0	0.00%
Savings Achieved Early <b>(Note 2)</b>	46	46	0	(46)	(100.00%)
Saving Approved yet to be allocated <b>(Note 3)</b>	(128)	0	0	0	0.00%
Unbudgeted Covid Expenditure <b>(Note 4)</b>	0	0	44	44	#DIV/0!
Contribution to / (from) Statutory Funds	(240)	(240)	(240)	0	0.00%
Earmarked Reserves	0	2,627	2,627	0	0.00%
<b>Total Expenditure</b>	<b>192,764</b>	<b>195,986</b>	<b>193,593</b>	<b>(2,393)</b>	<b>(1.22%)</b>
<b>Financed By:</b>					
General Revenue Grant/Non Domestic Rates	(160,575)	(164,627)	(164,823)	(196)	0.12%
Contribution from General Reserves	(830)	0	0	0	0.00%
Council Tax	(31,359)	(31,359)	(31,609)	(250)	0.80%
Integration Joint Board - Use of Reserves	0	0	154	154	100.00%
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>(2,685)</b>	<b>(2,685)</b>	

**Note 1 - Reduction reflects loans charges and earmarked reserves.**

**Note 2 - Early achievement of savings removed from Education and Committee budget.**

**Note 3 - Approved saving to be removed from Service Committee budgets.**

## Capital Programme - 2019/20 - 2022/23

## Agreed Projects

Committee	A	B	2019/20	C	D	E	2022/23	F	G	H	I	J
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Policy & Resources	522	253	505	423	423	423	423	-	2,126	2,126	-	247
Environment & Regeneration	53,840	11,222	11,753	16,171	16,171	6,850	6,850	230	100,066	100,066	-	9,621
School Estate	5,367	7,393	6,572	4,487	4,487	2,759	2,759	1,001	27,579	27,579	-	6,607
Education & Communities (Exc School Estate)	248	1,411	263	1,018	1,018	926	926	-	3,866	3,866	-	1,411
HSCP	582	885	371	3,923	3,923	3,500	3,500	-	9,261	9,261	-	844
Total	60,559	21,164	19,464	26,022	26,022	14,458	14,458	1,231	142,898	142,898	-	18,730

COVID 19 – SCOTTISH GOVERNMENT FINANCIAL SUPPORT TO COUNCILS

<u>Measure</u>	<u>Current Position- 27.4.20</u>	<u>Council position/impact</u>
<p>1/ a) Non Domestic Rates (Cost £0.972 Billion) 1 Year rates holiday for all retail, hospitality and leisure properties from 1.4.20. b) 1.6% relief on all properties from 1.4.20.</p>	<p>Government have approved a funding change reducing the Council NDR target by £6.8million and replacing this with Revenue Grant. Relief to be applied to 2020/21 NDR Bills. Letters sent to all Ratepayers advising that Annual Billing will be delayed. Software providers making changes to allow relief to be applied to 2020/21 NDR Bills. Target late June/early July 2020 for billing.</p>	<p>Cash flow impact due to delayed billing but GRG re-profiled so minimal net effect. The Council as a Ratepayer will have a one off saving of around £70,000 from the 1.6% relief</p>
<p>2/ a) Grants to Businesses –Ph1 (Cost £1.188 Billion) £10,000 grant for all SBBS qualifying businesses including those which qualify for rural &amp; Early Years relief. b) £25,000 grant for all businesses in retail, leisure and hospitality sector for RVs between £18,000 and £51,000.</p>	<p>Guidance finalised 30.3.20. Councils has a dedicated team removed from other duties of 8 individuals working on processing claims. As at 27.4.20 760 applications received and 438 grants totalling £4.9 million paid. Government paid Council £10.6 million on 1.4.20 to fund the estimated payments. Government officials advise that it is too early to discuss what happens to any underspends.</p>	<p>The Revenues team are processing claims in line with the guidance which continues to be refined weekly. Internal Audit providing support and networks flagging up any potential fraud attempts.</p>

3/	<p>Business Support- Ph2 (£220million)</p> <p>a) £120million to extend the current Business Grant Scheme for multiple property owners/rate payers</p> <p>b) £100million to protect newly self –employed and viable micro/SME Businesses</p>	<p>Aim is to provide 75% funding to all subsequent eligible applications above those covered by Point 2 above. Details awaited and aim is to implement by 5<sup>th</sup> May.</p> <p>Councils to administer the self-employed element at an estimated cost of £34million on the basis of a simple application form. To be implemented from end of April</p> <p>SE to administer SME funding (£66million)</p>	<p>Web Site and Forms will need to be updated once details are received.</p> <p>Being managed by the Business Development Team. Form on the website and first applications received.</p>
4/	<p>Hardship Fund (£50 million)</p> <p>Flexible funding for Councils to meet extra costs not covered in other UK or SG supports.</p>	<p>Letter confirming Council funding received 20/3/20.</p>	<p>Council receiving £749,000 towards costs in Appendix 4 which greatly exceeds to sum allocated.</p>
5/	<p>Scottish Welfare Fund (£45 million)</p> <p>Funding on top of the annual £35 million SWF funding.</p>	<p>Government have advised that £22million is being distributed at this time and £23million to be allocated where need is demonstrated.</p> <p>Council currently increasing awards by 20% and have increased the SWF team to meet demand.</p>	<p>Council share is £447k giving a total SWF grant budget of £1.278million for 20/21.</p> <p>Crisis Grant claims up by around 100% in the first 6 weeks. Team very busy but coping with demand.</p>

<p>6/ SSSA Benefits &amp; Council Tax Reduction (£50 million) Split to be confirmed.</p>	<p>Have moved to phone based application process. Government have advised that the first £10million of CTR costs should be met by Councils as CTR is currently "over funded" in the settlement. No details on SSSA Benefits as this will not be administered by the Council.</p>	<p>Increased workload for Benefits &amp; Customer Services. Backlog in CTR processing and resources being redirected to reduce this. Estimated share of the £10million cost is £200k and included in Appendix 4.</p>
<p>7/ Supporting Communities Fund (£40 million) To address social isolation, distancing and to go to Community Groups.</p>	<p>£10million released in mid-April to Community Anchor organisations. Cosla lobbying for Councils to have a role in distributing the remaining £30million.</p>	<p>Officers liaising with CVS to ensure they have the capacity to deliver.</p>
<p>8/ Food Fund (£70 million) For organisations to address food insecurity, especially older people and families who may not be able to rely on free school meals. To be partly administered by Councils.</p>	<p>Government have advised that £30million is to go to Councils at this time for FSM/Holiday Hunger plus support for the vulnerable. Concerns raised that this is not enough based on a 14 week shut down. £30million for food to Shielded Group being administered by Government and £10million for national organisations eg Fareshare.</p>	<p>Council share of the £30million in £565k. P&amp;R Exec Sub advised of proposals. FSM payment numbers have increased for Early Years/ASN. Approx 3300 direct payments to bank accounts, operating smoothly.</p>
<p>9/ <u>3<sup>rd</sup> Sector Partners Fund (£50 million)</u></p>	<p>These will not be administered by the Council</p>	<p>No role for Council but may reduce requests from 3<sup>rd</sup> sector for support.</p>

<p>10/</p>	<p><u>Scottish Crown Estates (£7.2million)</u></p>	<p>Government announced that 2019/20 funding could be used flexibly to support communities impacted by COVID.  Cosla pushing for early clarification of 2020/21 funding.</p>	<p>Negligible impact in Inverclyde as the Council received under £3.5k in 2019/20.</p>
<p>11/</p>	<p><u>Consequentials -20 April (£155million)</u></p>	<p>Funding derived from £1.6billion support for English Councils announced on the 20 April. Cosla lobbying for all this funding to come to Councils</p>	<p>Awaiting further details but indications are this may already be included in announcements made.</p>



**COVID 19 - Main Areas of Expenditure**

Area of Cost/Income Lost	Estimate £'000
<b>Health &amp; Social Care Partnership - IJB Return (See note 1)</b>	
Fitzgerald Centre - Suspend Day Service. Loss of income	81
Homecare Commissioned Services	300
Homelessness Service - Security Costs	54
23 TFA's	276
Bed & Breakfast Support	128
50 Care Home Beds	1,976
Additional Staffing Costs across Directorate	1,243
3.3% Living Wage uplift on Care at Home Provision	135
Other Expenditure Areas	25
<b>Gross Expenditure - Integrated Joint Board</b>	<b>4,218</b>
<b>Education, Communities &amp; ODHR - Local Authority Return</b>	
Inverclyde Leisure	450
Payment of School Meal Grant - Provide families who are entitled to a free School meal with £25 per fortnight.	530
Belville Community Gardens - Provide food parcels	30
Foodbank 158	20
HSCP Hot Food Provision for the Elderly	60
Loss of School Meal Income	245
Loss of Wraparound income	100
School Trips - Maximum potential loss of £287k depending on liability.	287
Lower Provision of School Meals	(200)
Other Expenditure Areas	17
<b>Environment, Regeneration &amp; Resources - Local Authority Return</b>	
Building Services:	
Reduction in Rev/ Capital income	66
Planning income - reduction in demand	348
Suspension of Parking Charges	
- Parking Charges	70
- Penalty Notices	70
Suspension of normal Waste Collection procedures - all waste to be collected via Residual Waste.	
- Additional Cost of Landfill	208
- Loss of external income	228
- Reduced cost of landfill from reduced external income	(116)
ICT: Additional licences and equipment to support mobile working, staff overtime	56
Statutory Additions Income	118
Prior Years Council Tax Income	140

Assumptions	Comments
<b>Note 1</b>	<b>Costs reflect Government assumptions of length of extra cost period.</b>
6 months	Loss of income due to suspension of all day services
6 months	Paying providers on planned hours rather than actual, anticipated additional cost.
6 months	Additional security at Inverclyde Centre
12 months	Net cost of additional 23 flats.
12 months	Based on an extra 10 B&B rooms each night
12 months	Purchase of 50 extra beds at gross cost of £39,500 per year.
6 months	Based on 10% across all services per Government advice. Officers reviewing
12 months	£135k is additional cost of 1.1% above what was built into budget.
6 months	Loss of income and delivery costs.
	<b>Assumed to be funded by Health Directorate and IJB</b>
3 months	Based on net income loss for Inverclyde Leisure after the furlough scheme.
3 months	Largely funded from additional Scottish Government COVID funding.
3 months	Largely funded from additional Scottish Government COVID funding.
3 months	Largely funded from additional Scottish Government COVID funding.
3 months	Largely funded from additional Scottish Government COVID funding.
3 months	Largely funded from additional Scottish Government COVID funding.
3 months	Schools individually discussing with travel companies.
3 months	Saving in material costs of school meals.
3 months	Loss of Library/Museum Income
One off	2019/20 impact only, 2020/21 being assessed.
6 months	Estimate 6 months with no income
6 months	
6 months	
3 months	Relates to trade waste, tipping permits and bulky uplifts.
3 months	Relates to trade waste, tipping permits and bulky uplifts.
3 months	
One Off	£44k committed to date, up to £12k on additional licences and assumed overtime over the public holidays
40% reduction	
40% reduction	

**COVID 19 - Main Areas of Expenditure**

Area of Cost/Income Lost	Estimate £'000
Scottish Welfare Fund	
- Crisis Grants	372
Other Expenditure Areas	50
<b>Corporate Expenditure - Local Authority Return</b>	
Cashflow: NDR Income	20
Cashflow: Council Tax Income	45
Council Tax, Loss of Income due to reduced collection levels	630
Reduction in Internal Resources Income due to low interest rates	180
Council Tax Reduction	630
<b>Gross Expenditure -</b>	<b>4,654</b>
Government Grant - Food Insecurity	(565)
Government Grant - Scottish Welfare Fund	(447)
Government Grant - Hardship Fund	(749)
<b>Net Expenditure</b>	<b>2,893</b>

Assumptions	Comments
12 months	Funded by increased Scottish Government Grant.
	Loss of income/overtime and other sundry costs.
	Based on delays to annual billing.
	Downturn in Council Tax receipts.
	2% reduction in collection in 2020/21.
	50% reduction due to low interest rates and poorer cashflow.
	10% increase in CTR expenditure.
	Current projected spend is £640,000
	Projected spend is £372,000.
	Share of £50million Grant

COVID 19 – Supplier/Community/Provider Support

Appendix 5

<u>Organisation/Sector</u>	<u>Request from Supplier/Sector</u>	<u>Position – 27,4,20</u>	<u>Cost £000</u>	<u>Contained in budget £000 Y/N</u>
School Transport Providers	Continue payments to the end of the summer term	<p>Councils requested to consider paying providers subject to local review. Payment for period to mid-March made mid April at 100% of contract rate.</p> <p>All providers were written to by SPT asking to supply relevant financial information. Once received 100% of next payment will be released to the provider whilst officers review information and decide on level of payments to the end of the summer term.</p> <p>Report due to Sub-Committee before May payment is made (in mid-June)</p>	April- June quarter £600k	Yes
Early Years Providers	Continue with SLA payments	<p>Scottish Government guidance issued asking Councils to consider paying contracted payments in full to Providers.</p> <p>Officers have paid 100% of April payment and requested financial information. Information received from 4 of the 5 Providers and 100% payments agreed for these 4 for May/June.</p> <p>HMRC advice is that it expects that public funded payments will continue and furlough payments can only be applied for privately funded income.</p>	£70-80k/month if 100% paid	Yes Government Ring Fenced Funding

Beacon	Continue with SLA payments	Beacon closed. BAC also progressing other supports (80% furlough scheme etc)  Creative Scotland have confirmed payment of their contracted £50k in April. Currently unlikely extra funding will be needed unless there is a prolonged shut down.  Awaiting updated cash flow.	£50k/quarter	As things stand Yes
Inverclyde Leisure	Extra support above Management Fee & Free Swimming subsidy	SLA payments continuing.  IL partly mitigating the £400-450k a month income loss and have applied to the furlough scheme. A funding gap of around £150k/month remains.  Discussions on going but at this time it is proposed to defer IL reimbursing Council for payroll costs pending open book review of the impact once hard information is available.	£120k/month in the budget  Up to £150k/month for loss of income	No
Elderly Care Day Centres: Muirshiel and Crown Care	Continue SLA payments whilst service delivery is redirected to support HSCP COVID response	Agreed by CMT 9.3.20	TBC	Yes
Home Care Providers	Continue to honour contracted visits and potentially meet extra agency costs	Agreed to pay based on Planned hours rather than actual. This adds about £50k/month to the cost.  3.3% Living Wage cost increase to Providers will add a further cost to the IJB but will be reclaimed from the Government	Extra cost of £50k/month excluding the Living Wage uplift	No.

Sheriff Officers	Increase Commission per clause in the contract	At the request of the Council the Sheriff Officer has suspended new enforcement action and this has had a material impact on income levels.	Up to £2k/month for 2 3 months	No

E4i PPP Schools	Continue to pay monthly UC	Service comfortable that e4i are continuing to make schools available and will be delivering other parts of their contract whilst the schools are closed and as such payments should continue.	£850k / month	Yes
Ind & Commercial Tenants	Rent Holidays/Deferrals	Based on a comprehensive round robin of Councils the position nationally is to treat each case on its merits and to be sympathetic re time to pay but no rent holidays.  Many businesses will receive support from the SG Business Grants, have no or limited NDR liability in 20/21 and could access the UK 80% wage subsidy fund.	No net extra cost	Yes
Supported Living Service	Treat the same as Home Care Providers ie pay on planned rather than actual hours	Different market from Home Care as involves some very big organisations. CMT agreed to pay average of last few months.	£600k/ month	Yes
Community Transport Organisations	Continue current funding levels	IVCSS and Port Transport have been supporting the transport and delivery of meals/food and are invoicing for mileage incurred charged to the COVID budget. Potential for early release of 20/21 Grants to Voluntary Organisations payment if required.	TBC	No
Self-Managed Community Centres	Confirm 2020/21 Grant funding level	Officers are requesting similar information to that sought from Early Years providers. Recognised that there has been a drop off in income but also that other funding streams may be available.  Plan to conclude during May.	£127k/ quarter	Yes

# Inverclyde Council

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Inverclyde Council

April 2020

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# Audit findings

## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Inverclyde Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2019/20 annual accounts.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We also carried out work on the audit dimensions as required by the [Code of Audit Practice](#). This focussed on financial management and financial sustainability, governance and transparency and value for money

## COVID-19

4. The audit work contained in this report pre-dates the COVID-19 global pandemic and our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

## Conclusion

5. Overall, we found the key controls in place within Inverclyde Council's main financial systems operate satisfactorily. We identified several control weaknesses covering the timely completion of bank reconciliations, authorisation of access privileges for new users of the CHRIS system and preparation of debt write-off reports. These are detailed in [Exhibit 1](#) and we will be carrying out additional work in response to three of these findings as part of our audit of the 2019/20 financial statements.

6. The weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Inverclyde Council.

7. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.



## Internal control systems and action plan

9. In accordance with *ISA 330: the auditor's response to assessed risk*, our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work once we have confirmed that the control environment and operation remain unchanged and no significant weaknesses had been identified.

10. Our 2019/20 testing covered key controls in a number of areas including bank and feeder system reconciliations, payroll controls (including starters, leavers, validation and exception reporting), authorisation of journals, changes to supplier bank details, second officer checks over payments, controls over changes to standing data and IT access. Additionally, our testing covered key areas for preventing and detecting fraud including the issuing of credit notes, the awarding of discretionary discounts and grant payments. We also assessed the financial controls within social work services for care payments which also supports the assurances required for the audit of the Inverclyde Integration Joint Board.

## Additional audit work due to systems weaknesses

11. Interim testing has identified systems weaknesses which require us to reconsider our audit procedures. We have identified a need to undertake additional audit work during our financial statements audit as follows:

- We will review year end bank and feeder system reconciliations and sample test any significant reconciling items (see [Exhibit 1](#) Key controls reconciliations)
- We will review access privileges for new users of the CHRIS system to ensure that appropriate access rights have been granted (see [Exhibit 1](#) Payroll system access)
- Our substantive testing of payroll expenditure during the financial statements audit will include checks on a small sample of payroll reductions between April 2019 and May 2019 as a result of the weakness identified (see [Exhibit 1](#) Payroll exception reports)
- In 2018/19 we were advised that an electronic solution was put in place to address our concerns relating to confirmation of standing data for employees. However, returns for some services have not been made to validate the payroll standing data. We will substantively test a sample of paid employees to ensure they exist as current employees of the council, through confirmation to other records (see [Exhibit 2](#) Payroll validation).

## Exhibit 1 Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<b>Key control reconciliations</b> Testing identified instances where bank reconciliations had not been prepared or authorised until up to two months after the period end. We also identified instances where monthly payroll and trade receivables reconciliations had not been	Management will formally remind all staff involved in preparation and authorisation of bank reconciliations that these should be completed within the appropriate timescales.	Finance Manager, May 2020
	Management will ensure that payroll reconciliations will be authorised by	Payroll & Admin Team Leader, May 2020

Issue identified	Management response	Responsible officer / target date
<p>authorised until up to two months after being prepared.</p> <p><b>A delay in preparing and/or authorising reconciliations increases the risk of error in the ledger.</b></p>	<p>the 19th of the month following period end.</p>	
<p><b>Payroll system access</b></p> <p>We found that authorisation of access privileges for new users of the chris21 system could not be provided.</p> <p>The Council's Information Systems Access Policy requires that system access is not granted to any user without appropriate approval. Authorisation is normally granted following receipt by the Systems Administrator of an email request from the service department. However, following recent staff changes, these were not retained.</p> <p><b>Confirmation should be retained where authorised users have been granted access and that users have been limited to specific defined, documented and approved applications and levels of access rights.</b></p>	<p>Management will review the process for maintaining access for chris21 users.</p> <p>Confirmation will be retained where authorised users have been granted access including limits for access rights.</p>	<p>Organisational Development Team Leader, June 2020</p>
<p><b>Payroll exception reports</b></p> <p>Our testing identified that all system generated reports have been investigated with the exception of pay reductions in the May 2019 pay run. We are advised that this was because the April 2019 pay run included large amounts of back pay and almost 800 employees appeared on the reductions list.</p> <p><b>Transactions on exception reports should be checked on at least a sample basis to ensure that they are fully supported and accurate.</b></p>	<p>Management will continue to undertake exception and sample testing on a regular basis to maximise the detection of errors.</p>	<p>Payroll &amp; Admin Team Leader, May 2020</p>
<p><b>Debt write offs</b></p> <p>Our testing confirmed that regular quarterly write-off reports have not been carried out since July 2019. These reports are run to monitor and confirm debts to be written off in accordance with the Council debt recovery policy.</p> <p><b>There is a risk that debt to be written off in accordance with Council policy is not being identified.</b></p>	<p>This has occurred due to long term staff absence in a small team. Management will ensure a write-off report covering the period from July 2019 is produced, thereafter quarterly reports will be reintroduced.</p>	<p>Revenues &amp; Debt Recovery Supervisor, June 2020.</p>

Source: Audit Scotland

## 2018/19 risks and action plan update

12. Our 2018/19 management report identified three control weakness which were reported to the Audit Committee in April 2019. [Exhibit 2](#) outlines the progress made by management where planned action was agreed in response to the audit recommendations made.

## Exhibit 2

### Key findings and action plan 2018/19

Issue identified	Management response, responsible officer and target date	Progress
<b>Audit findings</b>		
<p><b>Payroll validation</b></p> <p>Payroll validation is no longer performed by payroll or HR staff. Service managers are expected to review payroll standing data and report any errors or changes to payroll on an ad hoc basis.</p> <p>Nil returns are not required therefore there is no evidence that this control is operating.</p> <p><b>Without positive confirmation, there is an increased risk of incorrect payments being made due to inaccurate payroll records.</b></p>	<p>A quarterly temporary workers report is sent out to services detailing anticipated end dates so services can identify and take action where necessary. As part of the Bottom Up Budgeting process, information is collated annually on all employees by service and cross referenced with chris21 information so any discrepancies can be highlighted.</p> <p>A six monthly validation template report will be set up on chris21 (with information on Post, Designation, Grade, Salary, Hours, Term Time) – a six monthly email will be sent out to Service Managers asking them to run the report, check, and advise of amendments, or submit a nil return.</p> <p><b>HR Manager/Payroll and Admin Team Leader,</b></p> <p><b>First Validation Report July 2019</b></p>	<p>An electronic solution, to address our concerns, was put in place last year. This allowed each Service to run their own extracts from chris21 to confirm standing data for their employees. This electronic solution was initially tested within Education Services but there have been some difficulties experienced and it has now proved to be inefficient and problematic. In order to address this matter payroll distributed validation lists to Heads of Service (as previously done) in January 2020 for dissemination to Service Managers. However, returns for some services have not been made to validate the payroll standing data. Management will continue to explore an improved electronic solution for data verification in the longer term.</p> <p><b>Recommendation partly implemented.</b></p>
<p><b>Payroll system access</b></p> <p>Sample testing identified one member of HR staff who had inappropriate read/write access to the CHRIS system. The permissions reflected those a Manager would have.</p>	<p>The service has commenced a full review of menu roles and access privileges to highlight any anomalies and will use this User Privileges</p>	<p>The department undertook an extensive review over user access to the payroll system in June 2019. This highlighted some anomalies and</p>

Issue identified	Management response, responsible officer and target date	Progress
<p><b>There is a risk that users have inappropriate access rights and are able to make unauthorised changes to the payroll system which could result in fraud or financial loss.</b></p>	<p>Report on a six-monthly basis going forward.</p> <p><b>HR Manager/Payroll and Admin Team Leader,</b></p> <p><b>Initial Review complete, first 6 monthly review June 2019</b></p>	<p>inappropriate access rights that were then corrected. Management have since taken the view that an annual review is sufficient and do not plan to undertake a further review until June 2020.</p> <p><b>Recommendation implemented, however see <a href="#">Exhibit 1</a> Payroll system access.</b></p>
<p><b>Key control reconciliations</b></p> <p>Testing identified instances where monthly payroll reconciliations had not been authorised until up to two months after being prepared. A failure to properly document and/or authorise reconciliations increases the risk of error in the system.</p> <p><b>There is an increased risk of error in the system not being identified.</b></p>	<p>The Finance Manager will formally remind all those involved in the preparation and approval of reconciliations that signatures are required in all cases.</p> <p><b>Finance Manager, July 2018</b></p>	<p>Testing of key control reconciliations in 2019/20 did not identify any instances where the preparer or person authorising had not appropriately evidenced this. However, there were instances where monthly payroll and trade receivables reconciliations had not been authorised until up to two months after being prepared.</p> <p><b>Recommendation partly implemented (see <a href="#">Exhibit 1</a> Key control reconciliations).</b></p>

## Wider Dimension Audit Work

### Financial Management

#### ***Budget monitoring projects a year-end surplus for 2019/20***

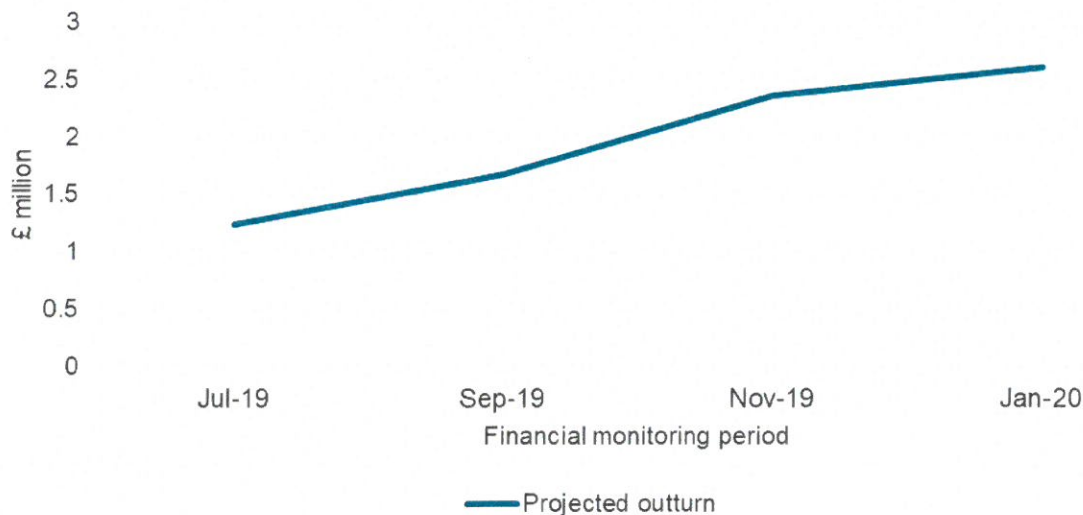
13. The council effectively monitors the budget position through bi-monthly budget monitoring reports to the Corporate Management Team and the Policy and Resources Committee. In addition, performance against budget for each service area is reported to the relevant service committee. Detail of how the year end outturn position has developed throughout 2019/20 is included in [Exhibit 3](#).

14. Financial forecasting is an embedded part of management and reporting within the council. From our review of budget monitoring reports, we have concluded that they provide an accurate overall picture of the budget position at service level and include good narrative explanations for significant variances against budget. This allows both members and officers to carry out effective scrutiny of the council's finances.

### Exhibit 3

#### **Outturn reporting of the projected year-end surplus during 2019/20**

An increasing year-end underspend (including IJB) has been developing throughout the year



Source: Inverclyde Council Revenue Budget Monitoring Reports

#### ***The 2019/20 outturn was forecast to be a surplus of £2.6 million at 31 January 2020. This included unused inflation contingencies of £1.1 million***

15. The most recent revenue budget monitoring report shows that the 2019/20 revenue outturn is forecast to be an underspend of £2.6 million (1.3%). This is mainly due to release of non-pay and pay inflation contingency not required, a projected over recovery of Internal Resources Interest from the loans fund and a one-off projected underspend due to a reduction in NDR payable for schools relating to prior years.

16. Inflation contingencies of £1.1 million were not required. We reported in our 2018/19 Annual Audit Report that the year-end outturn for at least the last three

years has included a saving due to inflation contingencies not being used (£1.2m in 2018/19; £1m in 2017/18 and £0.4m in 2016/17). This would suggest that inflation contingencies were again set too high in 2019/20.

17. The Chief Financial Officer has explained that the reason this level of inflation contingencies were not required in 2019/20 is that the teachers' pay award and pension increase was not finalised when the budget was set and the Scottish Government had not confirmed how much was being funded centrally.

18. We will review the council's budget setting process for 2020/21 and provide an update in our 2019/20 Annual Audit Report. However, we are informed that the 2018/19 action has been completed with contingencies reviewed and significant reductions made.

## Financial sustainability

### ***The 2020/21 budget is based on achieving further savings of £5.8 million***

19. The 2020/21 budget was approved by the council in March 2020. The budget was set at £198 million after closing an initial funding gap of £6.7 million through savings of £5.8 million and a 3% council tax increase (£0.9 million). The approved proposals have also resulted in a further general increase of 3% in fees and charges, as well as the loss of 18.5 FTE posts.

20. The council's Members' Budget Working Group (MBWG) has continued to work together successfully. Difficult decisions have been made after careful consideration and debate across political parties. This includes increases in fees and charges and loss of posts, as noted above.

### ***The council has a long-term financial strategy and a medium-term financial plan***

21. We reported in our 2019/20 Annual Audit Report that the council has a good process in place for financial planning. The council's financial strategy covers the period 2019/20 to 2028/29. It is updated on a six-monthly basis and ensures that strategic initiatives that require long-term revenue and capital commitments are properly incorporated into the financial planning process. Such longer-term initiatives include the asset management strategy, school estates management plan and roads asset management plan.

22. The strategy provides detailed financial forecasts over the medium-term period 2020/21 to 2022/23 and identifies issues that will impact in the longer-term so that the council can plan ahead. Through this process, officers have identified that the council has a budget gap of £5.4 million in 2021/22 and an additional gap of £5.6 million over the period to 2023. This is a mid-range estimate. Optimistic and pessimistic scenarios for the period 2021 to 2023 are £2.8 million and £18.2 million respectively.

## Governance and transparency

### ***The council has made good progress in investigating National Fraud Initiative (NFI) matches and could consider a more proportionate future approach***

23. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different

financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 4](#).

## Exhibit 4 NFI activity



2,788

Matches



2,746 (98%)

Completed/closed  
investigations



10

In progress investigations

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

**24.** The council prioritises reviewing and investigating high risk matches but aims to investigate all matches. Since January 2019, when the matches became available, the council has investigated and closed 2,746 matches (98 per cent). To date the council have achieved outcomes from 146 cases concluded as fraud or error with a cumulative value of £27,719 and are progressing the recovery of a further 18 cases, with a cumulative value of £22,437. Outcomes are predominantly from single persons discount fraud or error.

**25.** The coverage of matches is extensive (98%), compared to our knowledge of other audited bodies and we have proposed that the council might consider introducing a proportionate risk-based approach to future match investigation work. In response, the council have confirmed that they will consider a proportionate, risk-based approach once clarity has been provided on the criteria for each of the categories (high, medium and low) used for the matches.

**26.** Internal Audit continues to regularly report the outcomes of the NFI exercise to the Audit Committee.

## Value for money

### ***Performance management arrangements have been developed with clear links between priorities, indicators and outcomes***

**27.** Following the publication of the Accounts Commission's new [SPI Direction](#) in December 2018, the council carried out a review of its statutory and key performance indicators early in 2019. The aim of the review was to identify a set of measures that would help to demonstrate improved service delivery, linked to the achievement of the council's Corporate Plan organisational priorities and the delivery of outcomes.

**28.** Within the Corporate Plan 2018-22, each priority is detailed with specific performance indicators and has information on what outcomes are being contributed to by fulfilling that priority.

**29.** Performance against these indicators is reported within the Corporate Plan Annual Report each year. Each indicator is given a red, amber or green status depending on the performance and progress made. As per the 18/19 Corporate

Plan Annual Report, of the 48 measures for which there is new data available, 25 (52%) have a green status (improved performance), 10 (21%) have an amber status (small decline in performance) and 13 (27%) indicators have a red status (performance has declined by 5% or more). Four measures did not have information available. Each priority includes information surrounding the contributing factors which have resulted in the improvement or decline of each. It also provides details of the next steps to be taken for the indicators which have a red status.

**30.** The Corporate Plan Annual Report is just one element of the council's strategic planning and performance management framework. Another element is the annual SPI / KPI report. Both performance reports aim to provide a range of information that enables elected members and the public to make an informed judgement on the council's progress in delivering its organisational priorities and in turn, the delivery of improved outcomes for residents.

**31.** The Statutory and Key Performance Indicators Annual Report 18/19 sets out the Corporate Plan Organisational Priorities numbered 1-10. The report is then framed around these priorities where each KPI is linked to an Organisational Priority. The KPIs are then further explained with narrative explaining 'what the data tells us' as well as 'further information' on where it comes from.

**32.** The Corporate Plan established 10 organisational priorities for the council, 8 of which support the delivery of the Inverclyde Local Outcomes Improvement Plan (LOIP), with the remainder being 'enabling' priorities that focus on service delivery and its role as an employer. The LOIP sets out the same wellbeing outcomes that were already in place, and sets out three strategic priorities (Population, Inequalities, and Environment, Culture and Heritage). These were agreed from the conclusions of a strategic needs' assessment undertaken in 2017 by the Inverclyde Alliance. The local priorities are also linked to National Outcomes to ensure the alignment is clear. Indicators are also in place to ensure progress against outcomes can be measured.

**33.** The LOIP Annual Report 2018/19 highlights progress since the introduction of the new Outcomes Improvement Plan in 2017 using key performance data, examples of activities to demonstrate how we are working together to improve the local outcomes. A range of performance indicators have been identified to allow the Inverclyde Alliance to measure progress in achieving their three outcomes. The annual report includes a selection of performance indicators to illustrate how they are doing.

**34.** In relation to outcomes, progress can be seen in moving towards achievement of these and a clear link is in place between the desired outcomes and the performance indicators in place at both a local and national level. The 'what will be different in 10 years' section in each priority reflects the desired outcome and there is clear ambition and action towards getting there in the LOIP Annual Report.

**35.** A new 'council performance' web page has been created, which can be found on the performance page of the council's website. Each of the council's organisational priorities has its own web page with performance information collated in the one place, taken from the SPI / KPI report and the Corporate Plan Annual Report 2018/19.

**36.** A performance summary in the form of infographics has also been developed and is also on each individual page. The aim of this is to provide performance information in a more user-friendly format.

**37.** Overall, it is evident that performance management and reporting arrangements in place are good. There are clear links in place between corporate priorities, performance indicators, and desired outcomes and accessible reporting of these including KPIs.



# Inverclyde Council

## Management report 2019/20

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