

# Shetland Islands Health and Social Care Partnership

 Shetland NHS Board	 Shetland Islands Council
Enquiries to      Leisel Malcolmson, Committee Officer Direct Line:      01595 744599 E-mail:            leisel.malcolmson@shetland.gov.uk	
27 January 2020	

Dear Member

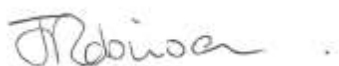
## IJB Audit Committee

**Thursday 6 February 2020 at 2 p.m.**

**Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick**

Apologies for absence should be notified to SIC Committee Services on 01595 744599.

Yours sincerely



Josephine Robinson  
Interim Chief Officer

Chair: E Macdonald  
Vice-Chair: S Manson

## AGENDA

ITEM	
A	Welcome and Apologies
B	Declaration of interests - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
C	Confirm the minutes of the meetings held on i) 13 March 2019, ii) 27 June 2019 and ii) 26 September 2019, enclosed.
1	Accounts Commission – Local Government in Scotland, Financial Overview 2018/19 CC-03
2	Annual Audit Plan 2019/20 F-003
3	Integration Self Evaluation Development Plan – update January 2020 CC-04
4	Internal Audit Review of Directions CRP-05
5	IJB Audit Committee Business Programme 2020/21 and Action Tracker CC-01
6	<p>Date of Next and Future meetings:</p> <p>23 April 2020            10am Bressay Room, Montfield.</p> <p>25 June 2020            2pm Bressay Room, Montfield (Sp. Draft Accounts)</p> <p>27 August 2020        10am Council Chamber</p> <p>24 September           2pm Bressay Room, Montfield (Sp. Final Accounts)</p> <p>26 November 2020    10am Council Chamber</p> <p>18 February 2021      2pm Bressay Room, Montfield (Sp. Budget setting)</p> <p>11 March 2021        10am Bressay Room, Montfield</p>



## MINUTES – PUBLIC

<b>Meeting</b>	Integration Joint Board Audit Committee
<b>Date, Time and Place</b>	Wednesday, 13 March 2019 at 1.30pm Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick
<b>Present [Members]</b>	<p><u>Voting Members</u>  Emma Macdonald  Shona Manson  Robbie McGregor  Natasha Cornick</p> <p><u>Non-Voting Members</u>  Simon Bokor-Ingram, IJB Chief Officer  Karl Williamson, IJB Chief Financial Officer</p>
<b>In attendance [Observers/Advisers]</b>	Christine Ferguson, Director of Corporate Services, SIC Sheila Duncan, Management Accountant, SIC Kristen Johnston, Solicitor Bob Kerr, Communications Officer Leisel Malcolmson, Committee Officer, SIC <i>[note taker]</i>
<b>Apologies</b>	Natasha Cornick (for lateness)
<b>Also in attendance</b>	Karlynn Watt, Deloitte LLP (by telephone)
<b>Chairperson</b>	Emma Macdonald, Chair of the IJB Audit Committee, presided.
<b>Declarations of Interest</b>	None
<b>Minutes of previous meetings</b>	The minutes of the meetings held on 20 June 2018, 5 September 2018 and 21 September 2018 were confirmed.
<b>1/19</b>	<b>Annual Audit Plan 2018/19</b>
<b>F-017-19-F</b>	<p>The IJB Audit Committee considered a report by the Chief Financial Officer, which provided information on the work that external auditors will undertake to review and assess the governance and performance of the Shetland Islands Integration Joint Board (IJB) in 2018/19.</p> <p>The Chief Financial Officer introduced the item and advised that Karlynn Watt of Deloitte LLP was present by telephone link. Ms</p>

	<p>Watt proceeded to introduce the main terms of the report and more specifically on the two significant risks and the wider scope work based on the Code of Audit Practice. She advised that Mr Healy of Deloitte had started work in February and would report in June on the conclusions of the wider scope review.</p> <p>During questions, the Chief Officer referred to the need to test the amount of scrutiny on the IJB around Brexit. Deloitte had noted a number of key suppliers that have the same issues in terms of how they seek assurance. The Chief Officer advised that Brexit is on the IJB risk register and assurance could be sought through him in terms of the Council and Health Board. Ms Watt advised on the similar position as seen elsewhere and that the NHS and Council were looking at the same areas, and advised that the IJB could seek that assurance from the NHS and Council, and provide that to the IJB.</p>
<b>Decision</b>	The IJB Audit Committee NOTED the contents of the Audit Plan 2018/19 for Shetland Islands Integration Joint Board (Appendix 1) from its external auditors, Deloitte LLP.
<b>2/19</b>	<b>Audit Scotland report - "Health and Social Care Integration - Update on progress"</b>
<b>CC-10-19-F</b>	<p>The IJB Audit Committee considered a report by the Director of Community Health &amp; Social Care that provided information on the Audit Scotland report - "Health and Social Care integration - Update on Progress" and which sought agreement on a local response.</p> <p>The Chief Officer introduced the report, referring to the key issues at paragraph 4.1 which highlighted points from the Audit Scotland Report. He commented on each of the areas noted and advised that the IJB Audit Committee's needed to ensure that this continues to be monitored and work continues on each area.</p> <p>Ms Watt said that it was good that this report had been included on the agenda and Deloitte would feed back to Audit Scotland that this had been reported to this IJB Audit Committee.</p> <p><i>(Ms Cornick attended the meeting)</i></p> <p>During questions, reference was made to training for IJB Audit Committee Members as well as IJB Members and whether there was a specific training development plan or was that required. The Chief Financial Officer said that the terms of reference was under review but there could be an annual check list to inform what is required. It was agreed that this could be considered at the next meeting of the IJB Audit Committee.</p> <p>The Chief Officer agreed that updates on the review of the terms of reference and also on the ministerial review of integration would be provided and consideration would be given to a</p>



	<p>collective action plan as there are significant cross overs with the Audit Scotland Report. In considering any risk to delivering on the Scottish Government review it was noted that a lot of work had started and an action tracker would be used to track progress.</p> <p>Ms Manson moved that the IJB Audit Committee approve the recommendations contained in the report, Mrs Macdonald seconded.</p>
<b>Decision</b>	<p>The IJB Audit Committee:</p> <ul style="list-style-type: none"> <li>• NOTED the Audit Scotland Report “Health and Social Care Integration- Update on progress” (November 2018);</li> <li>• COMMENTED on the key issues that are pertinent to Shetland; and</li> <li>• AGREED the local response and in particular the work detail in appendix 1.</li> </ul>
<b>3/19</b>	<b>IJB Audit Business Programme 2019/20</b>
<b>CC-09-19-F</b>	<p>The IJB Audit Committee considered a report by the IJB Chief Officer that informed the Committee of the planned business to be presented over the financial year to 31 March 2020.</p> <p>The IJB Chief Officer introduced the report and advised that Mr Healy of Deloitte had highlighted the need for the IJB Audit Committee to be held on a different day from the IJB meetings to provide time for the IJB Audit committee to report on its scrutiny to the IJB. In that regard, it was suggested that there be three weeks between the IJB Audit Committee and the IJB to ensure sufficient time for reporting through agenda management.</p> <p>In responding to a question on whether the IJB Audit Committee should consider the implications of Brexit later in the year, the Chief Officer said that would be appropriate and it would be important to seek a position statement from the Health Board and Council for that item.</p> <p>Following further discussion it was agreed that the Scottish Government Check List would be presented to the to the next meeting of the IJB, and that a Brexit Update would be considered at the meeting in June 2019.</p> <p>On the motion of Mr McGregor, seconded by Mrs Macdonald, the Committee approved the recommendations contained in the report, as amended.</p>
<b>Decision</b>	<p>The IJB Audit Committee APPROVED its business planned for the financial year to 31 March 2020, as amended.</p>

4/19	Date of Next and Future meetings
	The IJB Audit Committee noted the discussion from the previous item and agreed that the meeting dates be rearranged to take place three weeks before the IJB meetings.
<b>Decision</b>	The IJB Audit Committee agreed that the meeting dates be rescheduled.

The meeting concluded at 2pm.

.....  
CHAIR



## MINUTES – PUBLIC

<b>Meeting</b>	Integration Joint Board Audit Committee
<b>Date, Time and Place</b>	Thursday 27 June 2019 at 2pm Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick
<b>Present [Members]</b>	<p><u>Voting Members</u> Jane Haswell Emma Macdonald Robbie McGregor</p> <p><u>Non-Voting Members</u> Josephine Robinson, Interim IJB Chief Officer Karl Williamson, IJB Chief Financial Officer</p>
<b>In attendance [Observers/Advisers]</b>	Christine Ferguson, Director of Corporate Services, SIC Jamie Manson, Executive Manager – Finance, SIC Jan Riise, Executive Manager – Governance and Law, SIC Sheila Duncan, Management Accountant, SIC Leisel Malcolmson, Committee Officer, SIC <i>[note taker]</i>
<b>Apologies</b>	<p><u>Voting Members</u> Shona Manson</p>
<b>Also in attendance</b>	Allison Duncan, IJB Vice-Chair Karlyn Watt, Deloitte LLP
<b>Chairperson</b>	Emma Macdonald, Chair of the IJB Audit Committee, presided.
<b>Declarations of Interest</b>	None
<b>05/19</b>	<b>Unaudited Accounts 2018/19</b>
<b>CC-26-19-F</b>	<p>The IJB Audit Committee considered a report by the Chief Financial Officer, that presented the Unaudited Accounts 2018/19 and sought approval of the Annual Governance Statement 2018/19.</p> <p>The Chief Financial Officer introduced the report and highlighted the key issues set out in section 4 of the covering report. He provided a copy of an update to the Governance Statement, which had been emailed to Members that morning and attached as Annex A to this minute.</p>

	<p>During questions confirmation was provided that reference to “support for increased demand for self-directed support” on page 9 of the appendix, related specifically to the direct payment aspect of self-directed support.</p> <p>Comment was made that the significant variances identified on page 7 of the appendix had been explained well with enough detail provided. Members also acknowledged the good work of staff as detailed in the Operational Overview on page 4 of the Appendix. The Chief Financial Officer advised that more detail on the financial performance of the IJB during 2018/19 will be included in the Financial Monitoring Report that is to be presented later on the agenda.</p> <p>Mr McGregor moved that the IJB Audit Committee approve the recommendation contained in the report. Ms Haswell seconded.</p>
<b>Decision</b>	<p>The IJB Audit Committee</p> <ul style="list-style-type: none"> <li>• CONSIDERED the 2018/19 Unaudited Annual Accounts for the Shetland Integration Joint Board (Appendix 1);</li> <li>• CONSIDERED the information at section 4.0 that highlights the key issues from the 2018/19 accounts; and</li> <li>• APPROVED the Annual Governance statement 2018/19 that forms part of the accounts (Appendix 1, pages 12-15).</li> </ul>
<b>06/19</b>	<b>Interim External Audit Report</b>
<b>CC-25-19-F</b>	<p>The IJB Audit Committee considered a report by the Chief Financial Officer that presented the Interim External Audit Report provided by Deloitte LLP, for the year ended 31 March 2019.</p> <p>The Chief Financial Officer introduced Karlyn Watt, Deloitte LLP, who would speak to the interim audit report and take questions. Ms Watt explained that the wider scope was presented in this report which is earlier than in previous years, and that updates on actions would be presented in September. She then referred to the Scope of the Audit and the four audit dimensions set out on page 3 of the Deloitte Interim Audit report attached and commented on each in more detail set out on page 4.</p> <p>During discussions, comment was made that an integrated budget for the IJB would be welcomed rather than the current situation whereby the IJB has a working overspend against budget until the last minute when the NHS provides funding to achieve a balanced budget. Comment was made in support of staff dealing with this situation. The Chief Financial Officer advised that until the IJB services are fully funded from both partners, and the budget is aligned to the Strategic Commissioning Plan and Medium Term Financial Plan, it is very difficult for the budget to be fully integrated.</p>

The Director of Corporate Services advised that she is the Chair of the Local Partnership Finance Team for the three bodies who have reciprocal responsibility. She said that she echoed the Chief Financial Officer's comment regarding the need to align the budget with the Strategic Plan and the Medium Term Financial Plan. The Director of Corporate Services said that the difficulty comes when each party, i.e. the Council and the Health Board is legislatively required to allocate funding for different functions and remains accountable for their respective funding allocation. She said that each of the two parties must ensure that the functions, delegated by them to the IJB are undertaken and they must show appropriately how their funding allocation is spent. She said that the barrier to an integrated budget is the initial deficit in one allocation and the need to show a balanced budget. The Director of Corporate Services stated she could not emphasise enough that the difficulty is with the initial under allocation from one party and the IJB cannot do anything that loses the accountability of that party for the deficit in the process.

During further questions, reference was made to the suggestion that there should be a Finance Committee but that the IJB is too small that such a Committee would not work. It was considered that the function of a Finance Committee could be added to the Audit Committee, for example to create one Audit and Finance Committee.

In terms of comments around transformation work and the recommendation that the IJB should have its own transformation programme, it was recognised that there was a lot of overlap from the IJB perspective in the issues regarding the long term financial position. The Chief Officer said that the Strategic Plan contains a lot of this work but it could be more specific about what it is trying to achieve. In addition the Director of Corporate Services said that the IJB is joined up with the Business Transformation Programme, which is being led by the Council through participation from the Head of Planning and Modernisation and the Chief Officer of the IJB. She said that the Business Transformation Board are working on improvements for all agencies and the Shetland Partnership Board. She said that the new Performance Framework for Shetland involves all parties and work is done in collaboration with one performance framework to be used by all three agencies and the Shetland Partnership. The Director of Corporate Services advised that there will be a transition year and assured the IJB that the Head of Planning and Modernisation will be involved.

Attention was drawn to comment that the public require more knowledge regarding the remit of the IJB is and there needs to be more of a platform in that regard. However it was suggested that the public do not care who provides the service and with the integration of services as long as it is provided. During the discussion, Ms Watt suggested that the Health and Social Care provision should be referenced and promoted more clearly. The

	<p>Chief Officer advised that the Council was to deliver its new website soon and this would host a separate website for the IJB.</p> <p>The Chair thanked Ms Watt for presenting the report and said that the IJB Audit Committee are aware of what work needs to be done to make progress and that the Medium Term Financial Plan will be more robust going forward. She said that the need to address change is a priority and it will evolve and be more adaptable. She acknowledged what work had been done by staff to deliver existing services each day and that staff should be proud of what they do.</p>
<b>Decision</b>	The IJB Audit Committee NOTED Deloitte's Interim Audit Report to the IJB Audit Committee on the audit for year ended 31 March 2019 (Appendix 1).
<b>07/19</b>	<b>Date of Next and Future meetings</b>
	<p>The IJB Audit Committee NOTED the meeting dates provided were incorrect. Reference was made to a request of the Committee that dates be changed to separate the IJB Audit Committee meeting from the IJB allowing time for the Interim Chief Officer to report on matters to the IJB. It was noted that the separation of meetings would be implemented, with the exception of June and September, when the Accounts are presented for consideration.</p> <p>The IJB Audit Committee noted the dates for the remainder of the year as follows:</p> <p>8 August 2019 26 September 2019 7 November 2019 6 February 2020</p>
<b>Decision</b>	<p>The IJB Audit Committee noted the new dates for the remainder of the year as follows:</p> <p>8 August 2019 26 September 2019 7 November 2019 6 February 2020</p>

The meeting concluded at 2pm.

.....  
CHAIR



## MINUTES – PUBLIC

<b>Meeting</b>	Integration Joint Board Audit Committee
<b>Date, Time and Place</b>	Thursday 26 September 2019 at 2pm Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick
<b>Present [Members]</b>	<p><u>Voting Members</u> Jane Haswell Emma Macdonald Robbie McGregor</p> <p><u>Non-Voting Members</u> Josephine Robinson, Interim IJB Chief Officer Karl Williamson, IJB Chief Financial Officer</p>
<b>In attendance [Observers/Advisers]</b>	<p>Sheila Duncan, Management Accountant, SIC Caroline Laing, Trainee Solicitor, SIC Carol Anderson, Senior Communications Officer, SIC Leisel Malcolmson, Committee Officer, SIC <i>[note taker]</i></p>
<b>Apologies</b>	None
<b>Also in attendance</b>	<p>Allison Duncan, IJB Vice-Chair Karlyn Watt, Deloitte LLP</p>
<b>Chairperson</b>	Emma Macdonald, Chair of the IJB Audit Committee, presided.
<b>Declarations of Interest</b>	None
<b>08/19</b>	<b>Annual Audit Report 2018/19</b>
<b>CC-38-19-F</b>	<p>The IJB Audit Committee considered a report by the Chief Financial Officer that presented the Annual Audit Report 2018/19.</p> <p>The Chief Financial Officer introduced Karlyn Watt from Deloitte LLP, and advised that she would introduce her report at Appendix 1.</p> <p>In introducing the Annual Audit report Ms Watt covered two main areas, namely, Financial Statements and the four Audit dimensions. She advised that there were no misstatements and that the figures were the same as presented in June 2019. She advised that no issues had been identified, and that the Action</p>

Plan presented in June 2019 would be followed up in the 2019/20 Audit Report.

Reference was made to the financial sustainability and management of the IJB, and in terms of the need to identify changes to service delivery the Chief Financial Officer was asked how realistic the figures in the report were. The Chief Financial Officer said that the IJB are aware of the challenges ahead in meeting the £7.5m savings target over 5 years. He said that Officers were working towards that target but the reality is that redesign was necessary in order to live within the financial envelope. Following comment regarding the ageing demographic, the Interim Chief Officer said that work was being done to identify savings but further time was needed before reporting to the IJB. She said that during the budget setting process it was essential to be clear what savings can be achieved.

The Chief Financial Officer said that ultimately the IJB must be happy to approve its budget and should reach that position through negotiation with the funding partners. Budgets that are more realistic may however increase the savings target.

A suggestion was made that during the budget setting process the true cost of agency staff should be provided. She said that a lot was being done to grow our own staff through the modern apprenticeships scheme and that would help in the long term. In the short term however it was important to evidence the true costs, including locums. The Chief Financial Officer said that to add in the cost of locums would increase the service budgets and the savings target but may provide a more transparent opening budget position.

Ms Watt advised that the changes required would not happen overnight but having a Medium Term Financial Plan would help to show what has to be done moving forward.

The IJB Audit Committee went on to discuss the shortage of health professionals across the UK and it was noted that the ability to recruit staff from Europe was more difficult and the need for locums would unfortunately get worse.

The Chair directed a question to Ms Watt, Deloitte, and asked why reference had remained, at page 17 of the Audit report, in regard to the need for a Finance Committee. Reference was made to the discussion in June 2019 when it had been acknowledged that the IJB was too small and it was not viable to establish a further sub-committee. Ms Watt explained that reference to a Finance Committee had been included within the Action Plan in June 2019 to be considered by the IJB to cover the Finance element and whether that is added to the IJB Audit Committee function was a matter for discussion. The Chair said that it was likely that the financial element would continue to be discussed at the IJB and there was little point in duplicating that



	<p>process. Ms Watt added that the matter should be considered as part of the governance review, and the decision may be taken to retain the current position.</p> <p>Reference was made to the Value for Money section on page 18 of Appendix 1 and it was noted that the difference in percentage figures, for performance across 51% of services, could be affected by the smallest of changes due to the small population. It was suggested that narrative could be added to support that position.</p> <p>The Chair commented that it was important to remember that the IJB performance continues to fair well and the IJB knows that it needs to work hard with its partners on its performance.</p>
<b>Decision</b>	The IJB Audit Committee NOTED Deloitte's Annual Audit Report on the 2018/19 Audit.
<b>09/19</b>	<b>Final Audited Accounts 2018/19</b>
<b>CC-37-19-F</b>	<p>The IJB Audit Committee noted a report by the Chief Financial Officer that presented the audited Annual Accounts for 2018/19 and the Management Representation Letter.</p> <p>The Chief Financial Officer introduced the report and reminded Members of the financial position as set out in the table on page 8 of Appendix 1, and the overspend highlighted in row 6 that required additional one off payments from the SIC and NHS. The Chief Financial Officer referenced the £541k surplus and reiterated the need for redesign. He concluded by stating that the IJB ended the year with a general reserve balance of £905k of which £474k was earmarked for specific purposes. He added that subject to approval by the IJB, the Accounts would be signed and published by the end of October 2019.</p> <p>There being no questions or debate the Chair commented that it was clear that a lot of work had gone into preparing the accounts and thanked those involved.</p>
<b>Decision</b>	<p>The IJB Audit Committee RESOLVED to:</p> <ul style="list-style-type: none"> <li>• CONSIDER the audited Annual Accounts for 2018/19 (Appendix 1); and</li> <li>• NOTED the Management Representation Letter (Appendix 2)</li> </ul>
<b>10/19</b>	<b>Date of Next and Future meetings</b>
	<p>The IJB Audit Committee next and future meeting dates for the remainder of the year are as follows:</p> <p>7 November 2019 6 February 2020</p>

<b>Decision</b>	The IJB Audit Committee NOTED the meeting dates for the remainder of the financial year.

The meeting concluded at 2.20pm.

.....  
CHAIR

# Shetland Islands Health and Social Care Partnership

Agenda Item

**1**



<b>Meeting(s):</b>	IJB Audit Committee	6 February 2020
<b>Report Title:</b>	Accounts Commission – Local Government in Scotland, Financial Overview 2018/19	
<b>Reference Number:</b>	CC-03-20-F	
<b>Author / Job Title:</b>	Karl Williamson, Chief Financial Officer	

## **1.0 Decisions / Action required:**

- 1.1 That the IJB Audit Committee NOTE the content of the report

## **2.0 High Level Summary:**

- 2.1 This report, the Accounts Commission's overview of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces.
- 2.2 This report contains specific reference to Integration Joint Boards (Part 4, Page 34) and how they continue to face very significant challenges regarding financial sustainability, pace of change, and the shift in spending and services from hospitals to community and social care.

## **3.0 Corporate Priorities and Joint Working:**

- 3.1 This report includes questions that IJB members may wish to consider, to help with understanding their IJB's financial position and to scrutinise financial performance. These examples, along with the embedded 'Scrutiny tool for councillors', may support members in their roles and therefore positively impact corporate priorities and joint working.

## **4.0 Key Issues:**

- 4.1 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
- 4.2 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.
- 4.3 Medium-term financial planning is improving but no IJB had a financial plan that

extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.		
4.4	Over a third of IJB senior staff have changed during 2018/19.	
<b>5.0</b>	<b>Exempt and/or confidential information:</b>	
5.1	None	
<b>6.0</b>	<b>Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	None	
<b>6.2 Human Resources and Organisational Development:</b>	None	
<b>6.3 Equality, Diversity and Human Rights:</b>	None	
<b>6.4 Legal:</b>	None	
<b>6.5 Finance:</b>	Throughout the report, there are examples of questions that IJB members may wish to consider to help with understanding their IJB's financial position and to scrutinise financial performance. The Accounts Commission encourages members to use an appropriate level of challenge in scrutiny and ensure they receive sufficient information to answer their questions fully.	
<b>6.6 Assets and Property:</b>	None	
<b>6.7 ICT and new technologies:</b>	None	
<b>6.8 Environmental:</b>	None	
<b>6.9 Risk Management:</b>	None	
<b>6.10 Policy and Delegated Authority:</b>	The IJB Audit Committee's terms of reference states that it is to consider external audit plans and reports as appropriate and any matters arising from these and management actions identified in response.	
<b>6.11 Previously considered by:</b>	None	

#### **Contact Details:**

Karl Williamson, Chief Financial Officer, [karlwilliamson@nhs.net](mailto:karlwilliamson@nhs.net) , 8 January 2020

#### **Appendices:**

Appendix 1 – Accounts Commission – Local Government in Scotland, Financial Overview 2018/19

**Background Documents:** None

Local government in Scotland

# Financial overview 2018/19



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
December 2019


# The Accounts Commission

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

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Contents



Key facts	4
Chair's introduction	5
Summary	7
Part 1. Councils' income in 2018/19	9
Part 2. Councils' financial position in 2018/19	15
Part 3. Councils' financial outlook	28
Part 4. Integration Joint Boards overview 2018/19	34
Endnotes	39

## Links



PDF download



Web link



Information box



## Exhibit data

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



These question mark icons appear throughout this report and represent scrutiny questions for councillors.

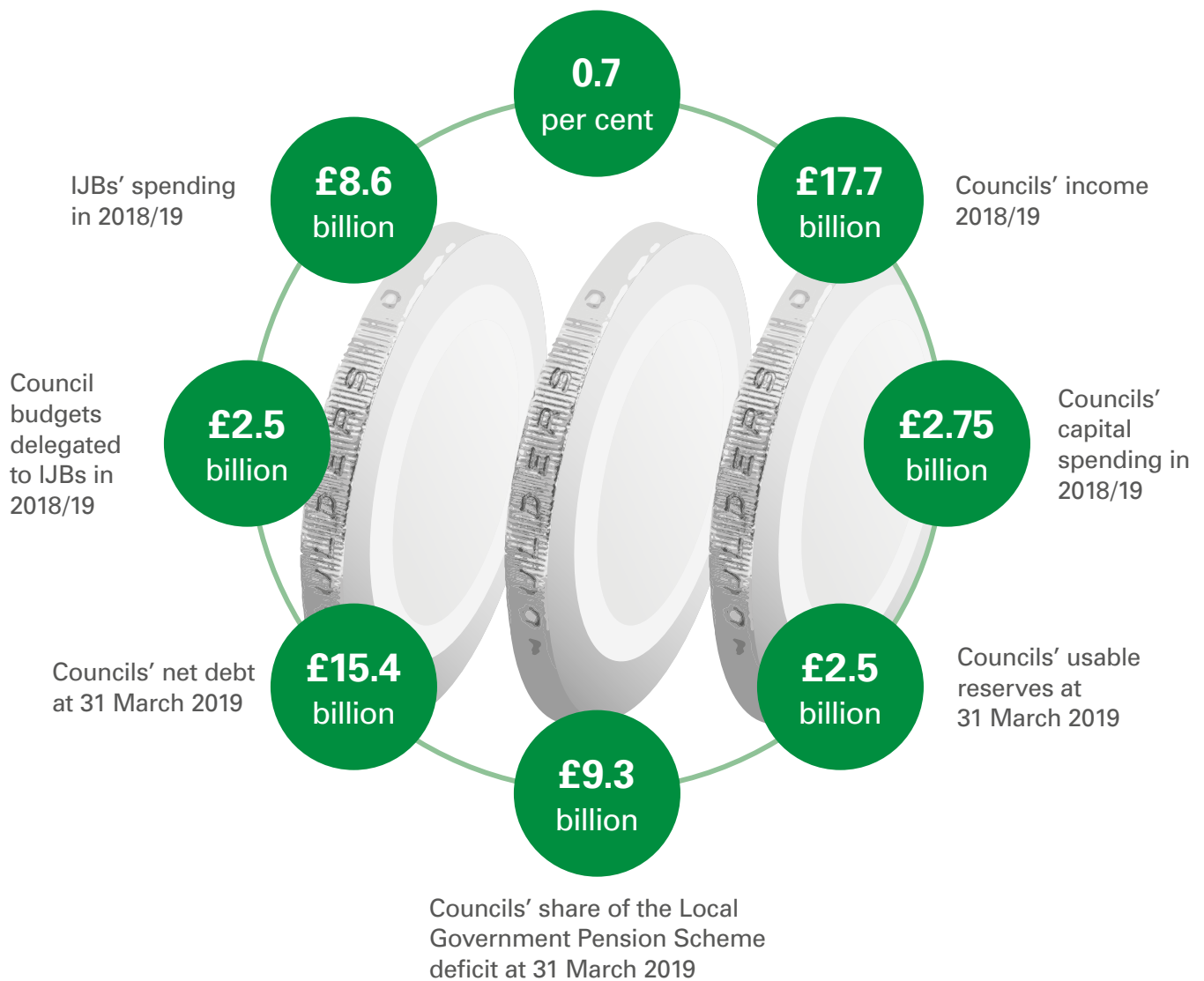
## Audit team

The core audit team consisted of: Kathrine Sibbald, Lisa Duthie, Chris Lewis and Lucy Ross, with support from other colleagues and under the direction of Brian Howarth.

# Key facts



Real terms reduction in  
Scottish Government revenue  
funding 2017/18 to 2018/19





---

# Chair's introduction

---



This report, the Accounts Commission's overview of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. I believe our overview reports are an important tool to highlight to councillors, officers and the public the issues we are most concerned about.

Of particular note for us this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.

Our report also sets out that councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging. I have previously commented that ongoing use of reserves to manage funding gaps is not sustainable.

After several years of tightening budgets, we recognise councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

I also encourage councils and IJBs to continue to do all they can to improve and develop their approaches to medium- and long-term financial planning. This is not easy, but it is a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges ahead. The Scottish Government has committed to providing three-year indicative budgets in the future, which the Commission welcomes, as this will support improved medium-term financial planning in councils and IJBs.

Finally, we note that again there has been some improvement with the quality of reporting on financial matters in councils. I encourage councils and IJBs to continue to improve the transparency and clarity of management commentaries and wider financial information provided to councillors and the public.

I hope you find this overview useful and would welcome any feedback you may have.

**Graham Sharp**

Chair of the Accounts Commission

# Summary



## Key messages

### Councils:

- 1** In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- 2** Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real terms.
- 3** In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.
- 4** Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.
- 5** Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.
- 6** All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.
- 7** Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

### Integration Joint Boards (IJBs):


- 8** A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
- 9** Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.
- 10** Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.
- 11** Over a third of IJB senior staff have changed during 2018/19.


## About this report

**1.** This report provides a high-level independent analysis of the financial performance of councils during 2018/19 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published in April 2020.

**2.** Our primary sources of information for the financial overview are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council. We have supplemented this with data submitted by councils through local audit teams and to the Scottish Government through the Capital Provisional Outturn and Budget Estimates (CPOBE).

**3.** We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2018/19 prices, adjusted for inflation so that they are comparable. Similarly, where 2019/20 comparisons are made we have adjusted for inflation to 2019/20 prices. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

**4.** Throughout the report, we identify examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. The Accounts Commission encourages councillors to use an appropriate level of challenge in scrutiny and ensure they receive sufficient information to answer their questions fully. The example questions are also available on our website in [Supplement 1: Scrutiny tool for councillors](#) .

**5.** Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our [website](#) . We have also produced a separate document [Supplement 2: Local Government Pension Scheme 2018/19](#) . We hope the data and LGPS supplement will be useful for senior council finance officers, their staff and other interested stakeholders.

# Part 1

## Councils' income in 2018/19



### Key messages

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).
- Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.
- A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.

**In 2018/19, Scottish council revenue income totalled £17.7 billion**

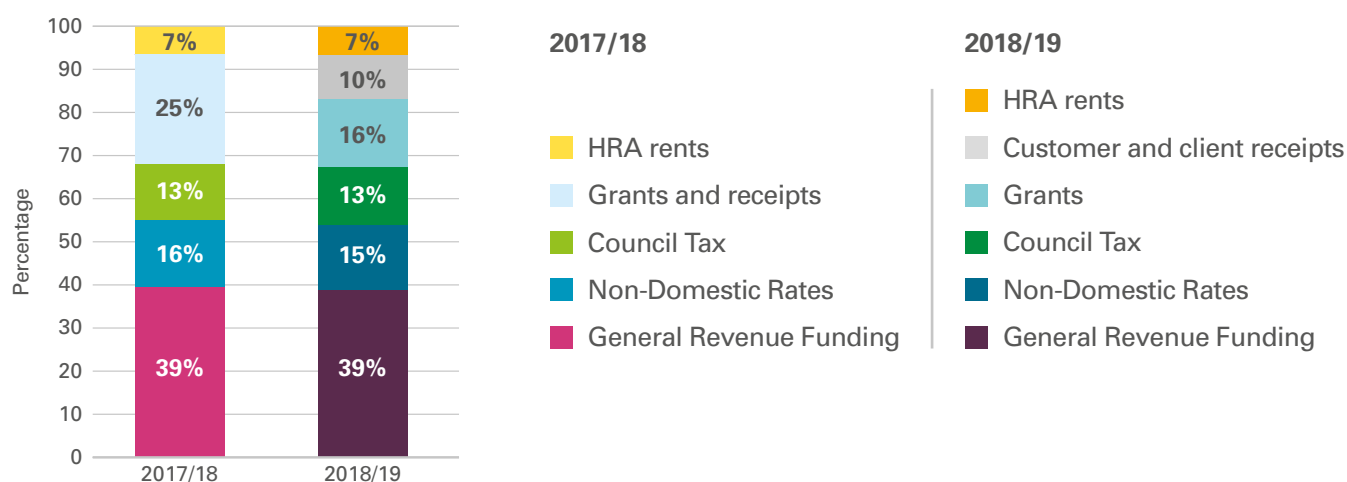
### Councils' annual income increased slightly in 2018/19

**6.** Scottish councils get their annual funding and income from a range of sources ([Exhibit 1](#)). In 2018/19, these totalled £17.7 billion, which is an increase from 2017/18 (£17.3 billion). The main source of funding is the Scottish Government. In 2018/19, the Scottish Government provided £9.8 billion (compared to £9.7 billion in 2017/18).

### Exhibit 1

#### Sources of council revenue income, 2018/19

Funding and income increased from last year to £17.7 billion.




Note: In the 2017/18 data, customer and client receipts are included in grants and receipts.  
Source: Audited financial statements 2018/19 and 2017/18



## Scottish Government funding

### Scottish Government revenue funding fell by 0.7 per cent in real terms in 2018/19

7. In 2018/19, the **total revenue funding**  from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 0.7 per cent in real terms (**Exhibit 2**). The total revenue funding of £9.8 billion consists of the general revenue grant funding of £6.9 billion (70 per cent); Non-Domestic Rates (NDR) £2.6 billion (27 per cent); and specific grants making up the remaining £0.3 billion (3 per cent).

## Exhibit 2

### Changes in Scottish Government revenue funding in 2018/19

Scottish Government revenue funding reduced by 0.7 per cent in real terms in 2018/19.

	2017/18 £m	2018/19 £m	Cash %	Real %
Revenue Grant	7,019	7,159	2.0 ▲	0.2 ▲
NDR	2,666	2,636	-1.1 ▼	-2.9 ▼
<b>Total revenue funding</b>	<b>9,685</b>	<b>9,795</b>	<b>1.1 ▲</b>	<b>-0.7 ▼</b>
Health and Social Care funding via NHS	355	355		
	<b>10,040</b>	<b>10,150</b>	<b>1.1 ▲</b>	<b>-0.7 ▼</b>

Note: On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. This is included in the 2017/18 column above.

Source: Finance Circulars 4/2018 and 2/2019, and Scottish Government budget documents



### Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas

8. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6 per cent over these six years, in real terms (**Exhibit 3, page 11**). Scottish Government revenue funding across other areas decreased by 0.4 per cent over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

9. However, the gap between local government revenue funding and the rest of the Scottish Government revenue budget narrowed in the last year (between 2017/18 and 2018/19) to 7.2 per cent.

### How Scottish Government funding is distributed is to become more transparent

10. Grant-aided Expenditure (GAE) is the main distributing methodology for determining Scottish Government revenue funding provided to councils. The remaining Scottish Government revenue funding is determined by a range of other separate non-GAE methodologies agreed by the Scottish Government and COSLA.<sup>1</sup> Over time, the proportion of the non-GAE element of funding has grown and in 2019/20 represents a third of the total funding.



#### Total revenue funding

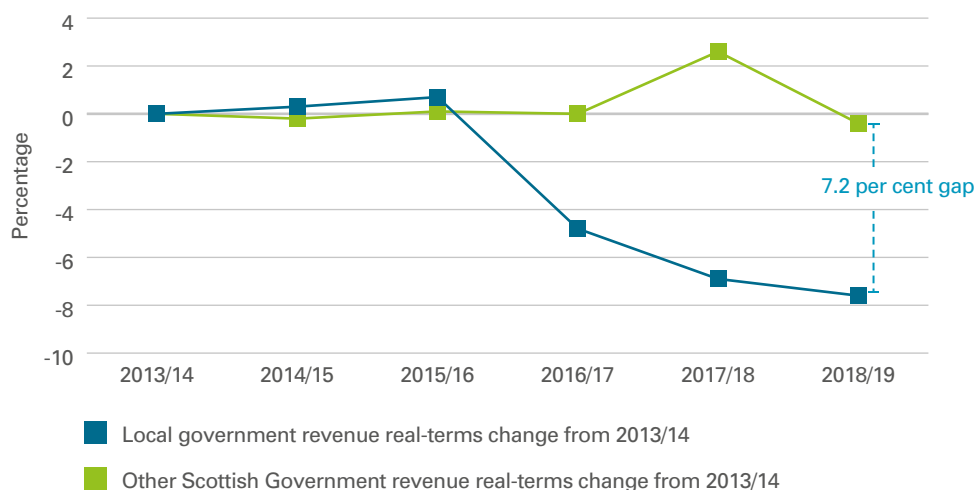
This consists of general resource grants, specific revenue grants (together known as revenue grants) and Non-Domestic Rates income (NDR).

It does not include health and social care funding paid to local government via the NHS.

### Exhibit 3

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

Over the last six years local government revenue funding from the Scottish Government fell by 7.6 per cent, while other Scottish Government revenue funding fell by 0.4 per cent.



Source: Scottish Government budget documents and financial circulars



**11.** In our [financial overview report in 2017/18](#) [\(download\)](#), we reported on the lack of transparency of the calculations for the non-GAE distributions to individual councils. The Scottish Government has now provided this information to the Local Government and Communities Committee of the Parliament, SPICe<sup>2</sup> and COSLA. It is also planning to include the methodologies used for the specific revenue grants and other non-GAE funding within their annual Grant Aided Expenditure [Green Book](#) [\(download\)](#) publication from 2020/21.

#### A growing proportion of funding is committed to national policy initiatives

**12.** The Commission commented in its report [Challenges and performance 2019](#) [\(download\)](#) that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities. There are different approaches to describing the scope of this flexibility by stakeholders; different figures and language complicate this.

**13.** Within the £9.8 billion Scottish Government revenue funding, a relatively small, but growing, element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This money is ring-fenced to fund identified policies, such as the Pupil Equity Fund, Criminal Justice and Early Years Expansion. These grants totalled £0.3 billion in 2018/19 (£0.5 billion in 2019/20). The Scottish Government's view is that other funding is not ring-fenced and it is therefore at the discretion of councils how they deliver commitments and services with these funds.

An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities

**14.** In addition to specific revenue grants, funding for other national policy initiatives is set out in the annual settlement but not formally ring-fenced. These are mainly initiatives linked to education and social care. Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10 per cent of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, 'although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging'.<sup>3</sup>

### **COSLA identifies reducing flexibility based on estimated expenditure**


**15.** COSLA has also described its position on the flexibility of councils' budgets. It has taken a different and wider approach to this. It focuses on estimated expenditure. It identifies expenditure areas that have been ring-fenced or are protected through obligations created by current and past Scottish Government policy initiatives, demand pressures, or fixed obligations such as loan charges. For 2019/20, the most significant areas that COSLA identified included:

- primary and secondary teacher staff costs (£2.5 billion)
- all adult social work costs devolved to IJBs (£2.7 billion)
- loan charges (including PPP costs) (£0.7 billion)
- and other areas such as Council Tax Reduction Scheme (£0.4 billion) and Early Learning (£0.4 billion).

**16.** In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19; 60 per cent in 2019/20.

### **Other income**

#### **Council tax increases of three per cent increased total income slightly**

**17.** As identified in our report *Challenges and performance 2019*  all councils increased council tax rates by the maximum allowable three per cent in 2018/19. With increases in the number of properties, total council tax increased by £97 million (4.2 per cent increase) in 2018/19. As only 10 to 19 per cent of funding and income is raised through council tax, this only produces an increase of around 0.5 per cent.

#### **Councils rely on a significant element of grant and NHS income**

**18.** This year, for the first time, we have used financial statements and information collected from auditors, to provide an insight into the extent of grant income received by councils. In a small number of councils this was hampered by a lack of clarity in the accounts about grant income credited to services. Our analysis shows that £3.0 billion (16 per cent) of income was revenue grant income received by Scottish councils (and credited as income to services) in 2018/19.



**How dependent is your council on the various sources of income compared to other councils, including: Scottish Government funding, grants, council tax and receipts from customers/clients?**



Challenges and performance 2019  
March 2019 



**19.** The major components of this grant income include:

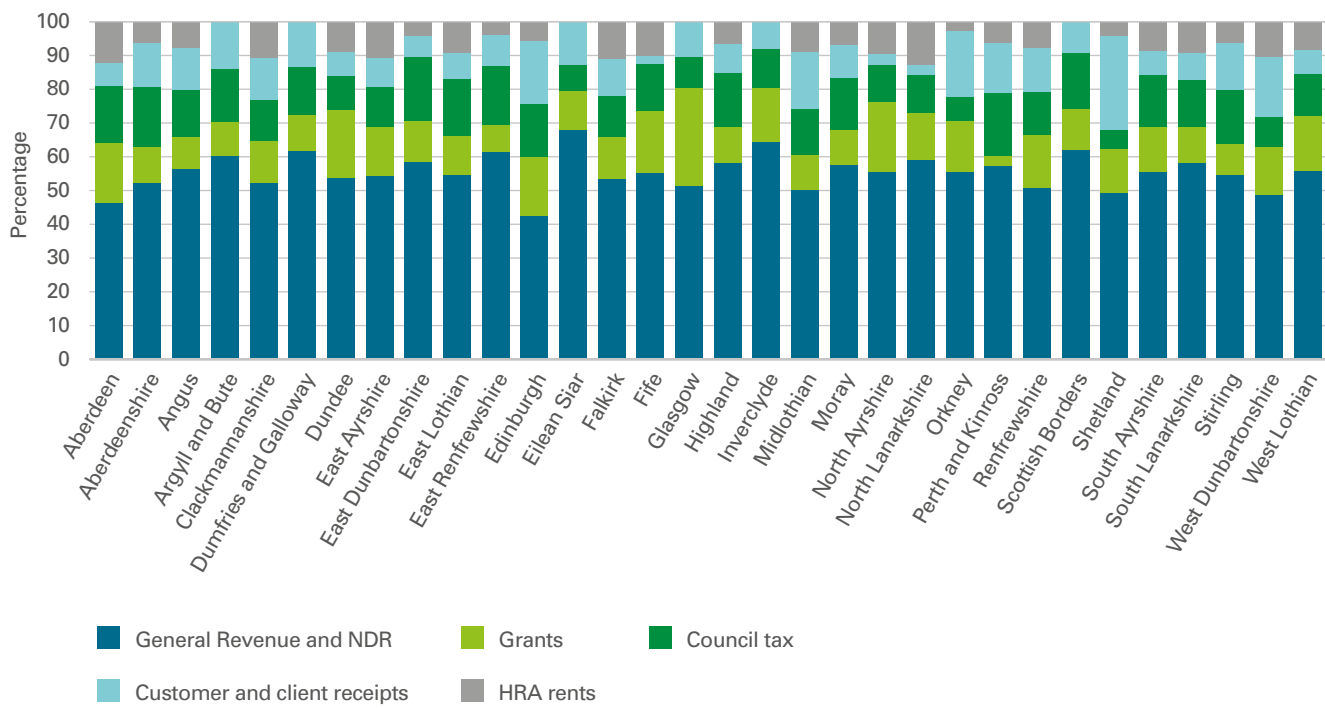
- Housing benefit grants from the Department of Work and Pensions totalling £1.4 billion.
- NHS income, £0.7 billion, including resource transfer and integration fund transfers.
- Scottish Government ring-fenced and other non-government grants of £0.9 billion (including criminal justice, pupil equity and attainment funding and early learning grants).

**The proportion of income from each main source varies significantly across councils**

**20.** There are major differences between councils in the nature and scale of income ([Exhibit 4, page 14](#)). The most obvious of these is house rents, where six councils are not registered social housing providers, and so do not generate income from housing rents. However, there are other major differences between councils when looking at other sources of income:

- Some councils are less reliant on general revenue funding from the Scottish Government and NDR than others. This ranges from City of Edinburgh Council (43 per cent) to Eilean Siar (68 per cent).
- The other two islands authorities, Orkney and Shetland, have significant harbour activities which generate locally significant income streams of £15 million and £30 million, respectively.
- Some councils have relatively low income from fees and charges for services. There may be local policy reasons for this.
- Some councils generate relatively higher levels of income from council tax. East Dunbartonshire and Perth and Kinross councils rely on council tax to provide 19 per cent of their total income and funding (excluding HRA). In comparison, all three island authorities (Shetland, Orkney and Eilean Siar) realise less than 10 per cent of their total income from council tax.
- Some councils receive a greater proportion of income from grants and NHS funding. The most significant of these is Glasgow City Council which has 29 per cent (£680 million) of its total income from this source. This includes £329 million of housing benefit subsidy, £148 million from the NHS and £58 million of ring-fenced grants from the Scottish Government.

**Exhibit 4**  
The proportion of income from each source for each council  
Some sources of income are more important to each council.



Source: Audited financial statement 2018/19



# Part 2

## Councils' financial position in 2018/19



### Key messages

- The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.
- Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.
- Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.
- Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.
- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

### Council budgets and outturn 2018/19

#### The 2018/19 three per cent funding gap was less than the previous year

**21.** Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (three per cent). In 2017/18, the shortfall was £0.5 billion (four per cent).

**22.** Councils planned to manage funding gaps through savings. On average, councils delivered 87 per cent of planned savings. However, there was significant variation in how individual councils performed against their savings targets:



**How big is the funding gap for your council relative to the total budget?**

- Moray Council, which planned to deliver savings of £6.3 million, achieved savings of £7.2 million or 114 per cent of its target. Inverclyde, North Ayrshire and West Lothian councils also performed well against their savings targets.
- Shetland Islands Council, which planned to deliver savings of £1.9 million, achieved savings of £0.4 million or just 21 per cent of its target.

### **A higher proportion of the funding gap was met from reserves than planned**

**23.** Some councils planned to use reserves to present balanced budgets. An analysis of data from a sample of 18 councils shows that planned use of reserves for 2018/19 was £52 million. The combined total funding gap for these councils was £272 million, of which planned use of reserves represented 19 per cent. The actual use of reserves by the sample of 18 councils was higher than planned at £71 million.

### **Usable reserves**

**24.** All councils hold reserves but there is variation in the nature and value of these reserves. 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. [Exhibit 5 \(page 17\)](#) shows the nature and value of usable reserves in 2018/19. Over 77 per cent of the total balance is made up of revenue reserves which include the general fund, housing revenue account, insurance, repairs and renewals funds and other specific funds, eg harbour. The remainder relates to capital reserves which are used to support the costs associated with capital investment projects.

### **In 2018/19, 16 councils ended the year with a lower level of usable reserves**

**25.** Across all councils there was a net decrease in usable reserves of £6 million to £2.5 billion. Sixteen councils ended the year with a lower level of usable reserves in 2018/19, which is relatively consistent with 2017/18 (18 councils).

**26.** Examples of councils with notable reductions in usable reserves in 2018/19 include:

- West Dunbartonshire reduced usable reserves by £6 million (or 28 per cent), which mostly related to the housing revenue account balance being used to fund capital expenditure.
- South Ayrshire used £7 million (or 17 per cent) of its reserves. This relates to a draw on its committed general fund in line with its budget plans.
- Moray drew down £4 million (or 16 per cent) from reserves, using its uncommitted general fund to support the 2018/19 financial position. This was part of the approved budget plan.



**What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services, or transformation, increased charges, use of reserves?**

**Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?**

**How well are you kept informed about progress against savings plans?**

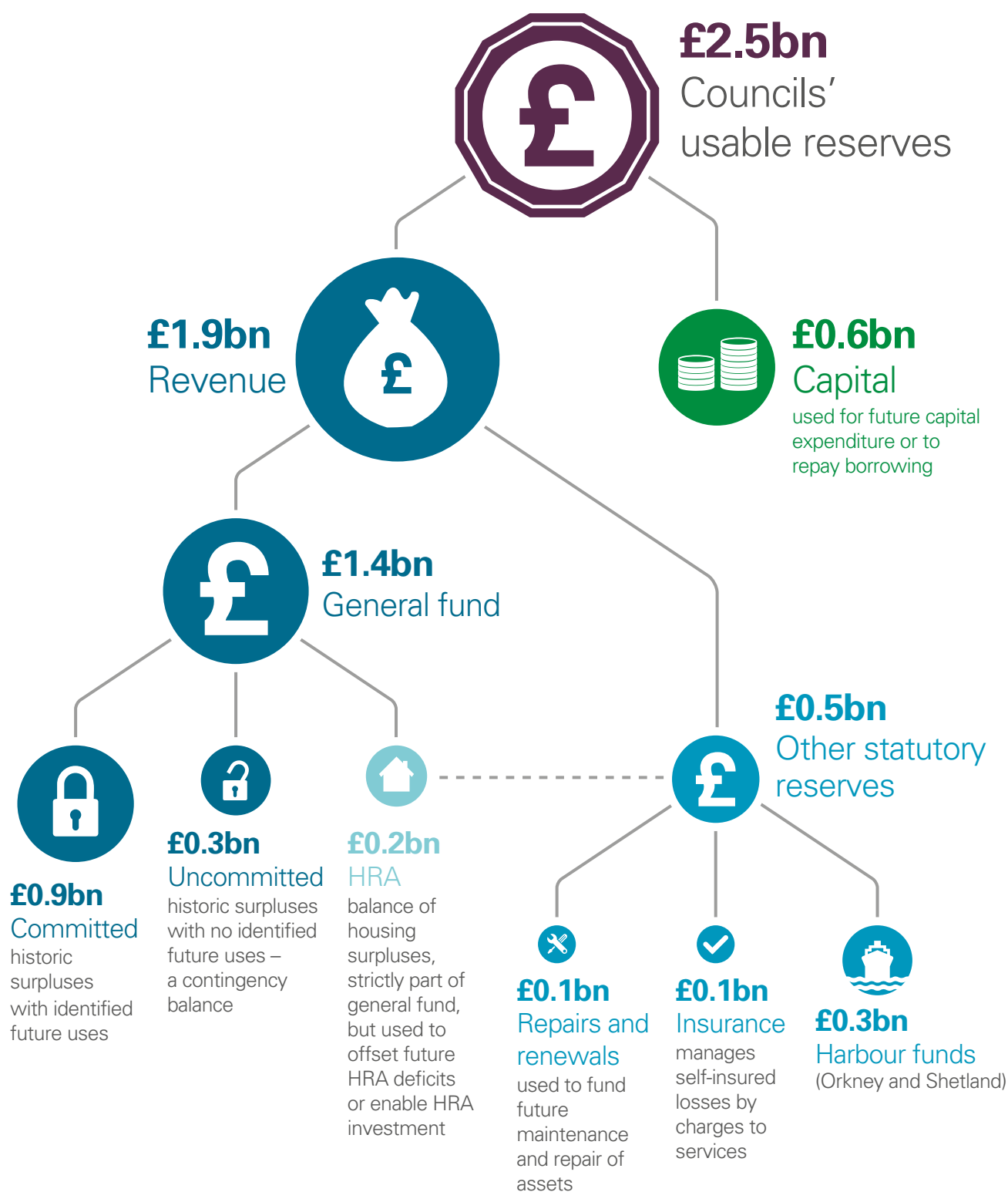
**Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?**

**How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?**

## Exhibit 5

### The relative size and nature of councils' usable reserves

In 2018/19, usable reserves held by councils totalled £2.5 billion.



Source: Audited financial statements 2018/19



## Revenue reserves

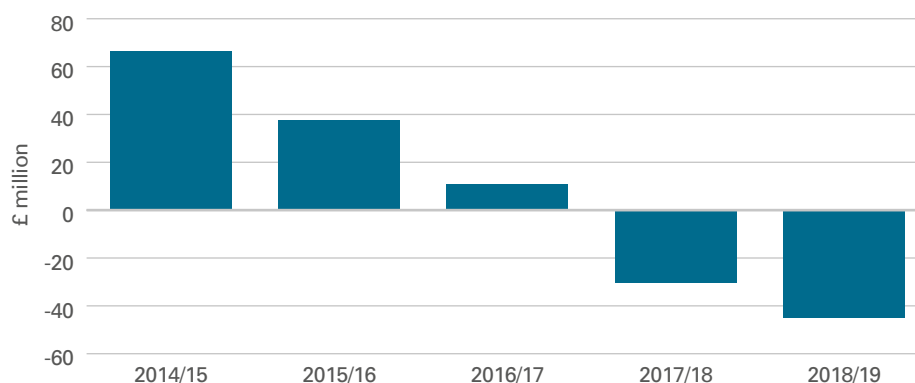
### Across Scotland councils increased their use of revenue reserves

**27.** In recent years, councils have been increasingly turning to reserves to address funding gaps or apply to identified earmarked expenditure. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed from councils adding to revenue reserves to an increasing draw on their revenue reserves ([Exhibit 6](#)).

### Exhibit 6

#### The movement in usable revenue reserves

Councils have been increasing their use of (rather than adding to) revenue reserves over the last two years.



Source: Audited financial statements 2014/15–2018/19

Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million.



## General fund reserves

### Councils have committed varying proportions of their general fund reserves

**28.** The total revenue reserve position includes a general fund reserve and councils can commit to using general fund balances for specific purposes in future years or maintain some as uncommitted. In last year's report, we highlighted the importance of councillors understanding the purpose of committed (or earmarked) reserves. We found that nearly all councils set out the purpose of their earmarked reserves, but the intended timing of this expenditure is not always clear. Knowing when the expenditure is likely to be incurred is an important part of understanding the need for these reserves.

**29.** The uncommitted element is used to provide against unforeseen circumstances and mitigate the financial impact of these. Councils have different strategies for managing the level at which they maintain an uncommitted balance ([Exhibit 7, page 19](#)). Most have a reserves policy that sets out a minimum level of uncommitted general fund to be maintained. This typically varies from one per cent to four per cent of expenditure across councils. Some councils, including North Lanarkshire and West Lothian, take a risk-based approach to identify an appropriate level for the uncommitted general fund each year. For both these councils this approach has led to a relatively low level of uncommitted general fund.



**What is your council's reserves policy?**

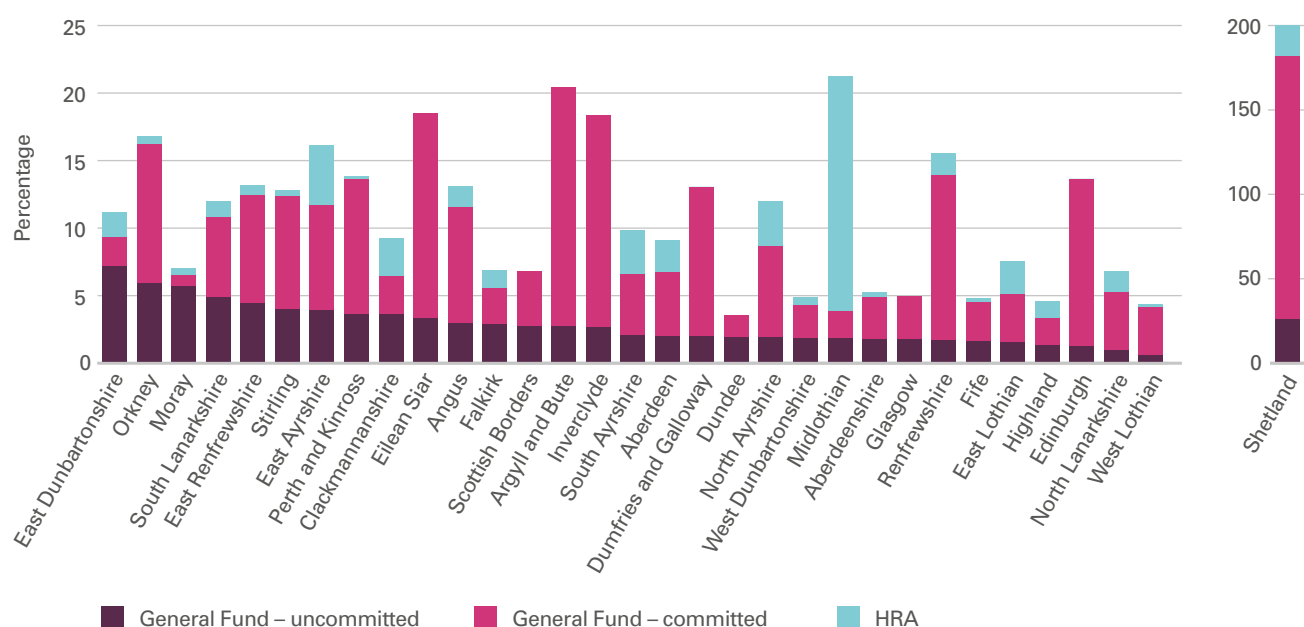
Do committed/ earmarked/specific reserves have clear purpose and projected cashflows or are they part of the general contingency or uncommitted general fund?

30. The Best Value Assurance Reports for [North Lanarkshire](#) and [West Lothian](#) both comment on the low level of uncommitted general fund but recognise that it has been set at a desired level and successfully maintained over several years. However, councils with a low level of uncommitted general fund are more exposed to the risk of an unexpected change in circumstances.

## Exhibit 7

### General fund as a proportion of net annual revenue split between committed, uncommitted and HRA

All councils hold an uncommitted general fund to protect against unforeseen financial pressures.



Note: Orkney and Shetland also have significant harbour funds which are not included above.

Source: Audited financial statements 2018/19



### Twenty-three councils have reduced their general fund reserves over the last three years

31. In recent years, there is significant variation in whether councils have added to, or drawn on, their general fund reserve (including the housing revenue balance).

[Exhibit 8 \(page 20\)](#) shows the average annual movement on the general fund over the last three years (as a percentage of the total remaining balance at 31 March 2019). Shetland has experienced a relative increase in its general fund of 24 per cent while Moray has experienced a similar relative reduction.

32. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray) would deplete its general fund within five years. The total general fund reserve is £14 million and Moray Council has identified that a further £3.7 million draw on reserves will be required to balance the 2019/20 budget (compared to £4.6 million in 2018/19 and an average of £3.6 million over each of the past three years). The council's budget papers clearly recognise that this approach to financial management is not sustainable and that funding gaps over the medium term will need to be funded from savings, which have not yet been identified.

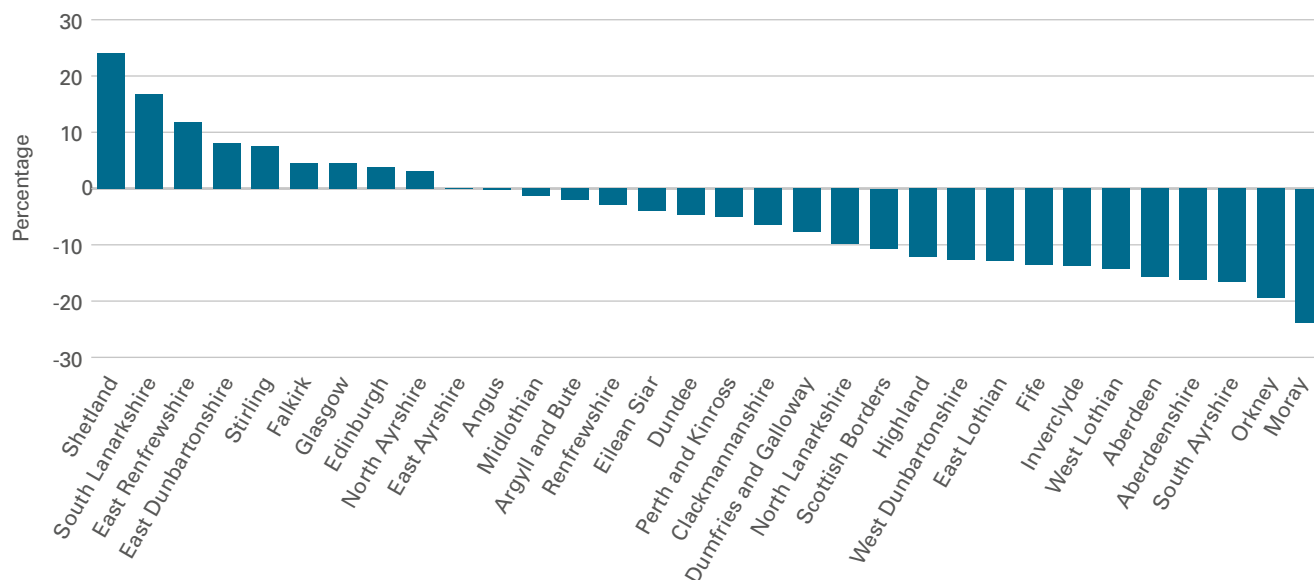


**Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?**

## Exhibit 8

### Average annual movement in general fund over the last three years

Some councils are reducing general fund reserves by significant amounts.



Source: Audited financial statements 2015/16–2018/19



## Capital

### Total capital spending was £2.75 billion with more spent on housing and economic development and less on education

**33.** Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year ([Exhibit 9, page 21](#)). These two areas now account for 44 per cent of total capital expenditure (39 per cent in 2017/18). The proportion of capital expenditure on education has fallen from 27 per cent in 2017/18 to 20 per cent in 2018/19.

**34.** Some of the major new investments include:

- East Ayrshire Council – Barony Campus. This is the biggest capital investment project ever undertaken by East Ayrshire Council with an estimated total cost of £68 million. On the outskirts of Cumnock, the campus consolidates five schools into one campus.
- City of Edinburgh Council – Additional investment in educational properties, roads and social housing through the housing development fund with over 700 new homes under construction and a further 3,000 homes in design and development stages. The council is also providing funding for homes for mid-market rent from private developers through the National Housing Trust and through the Edinburgh Living LLP.



**What are your council's medium-term and long-term plans for capital spending?**

How well are you kept informed about progress against capital plans?

How well do you understand the reasons for any underspend against the annual capital budget?



- Midlothian Council – Newbattle Community Campus. A £38 million hub project opened in May 2018 as the council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

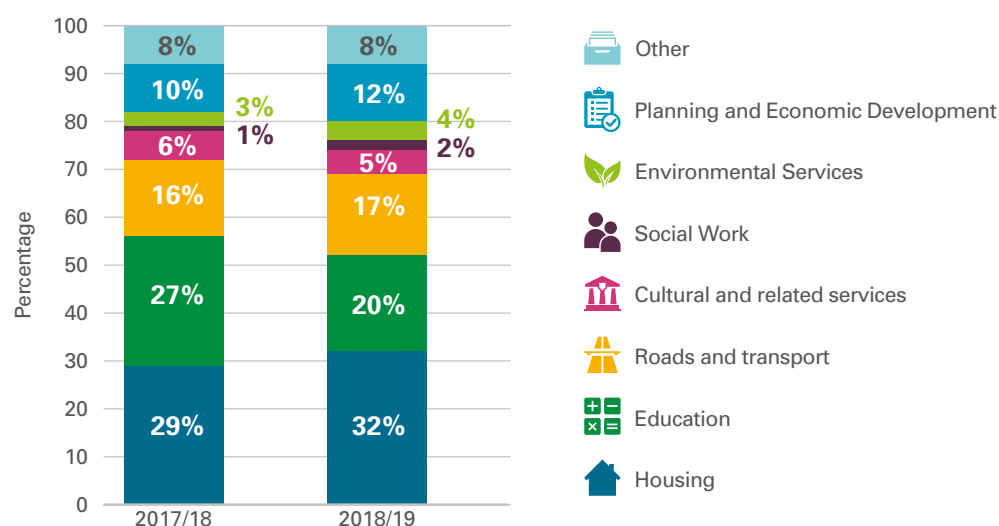
### Investment has led to an increase in the number of council houses

**35.** Across Scotland, social housing is provided by a mix of housing associations and councils. Twenty-six councils in Scotland provide social housing. Fife and North Lanarkshire have the most housing stock (in excess of 30,000 properties each).

## Exhibit 9

### Capital expenditure by service area 2018/19 and 2017/18

A larger proportion was spent on housing and economic development and less on education in 2018/19.



Source: Scottish government CPOBE – capital provisional outturn (and budget expenditure)



**36.** We are now seeing the effect of housing investment and the end of the right-to-buy scheme leading to an increase in social housing stock. The total number of houses at 31 March 2019 has increased by 1,950 to 315,649. Edinburgh increased its housing stock by four per cent (719 properties) and West Lothian increased its housing stock by three per cent (434 properties). Falkirk, Highland, North Lanarkshire, Renfrewshire and South Lanarkshire have also increased their housing stock, each by more than 100 homes. East Ayrshire has experienced the biggest decrease, reducing its house numbers by 264.


### Government grants and money from councils' revenue budget continue to be the main sources of funding for capital expenditure

**37.** The sources of capital expenditure funding in 2018/19 are mostly consistent with 2017/18 and include:

- £1.1 billion of government grants (£60 million or six per cent higher than 2017/18).
- £0.9 billion taken from council revenue (capital financed from current revenue and loans fund charges).
- £0.6 billion increase in the underlying need for councils to borrow.

### Auditors reported underspends in annual capital budgets at a number of councils

**38.** A number of the local auditors in their annual audit reports identified that councils had significant underspends against their annual capital budgets:

- Aberdeen City's 37 per cent underspend is in part due to the reprofiling of four proposed new primary schools, delays with the Union Terrace Gardens Project and in settling land claims for the Aberdeen bypass.
- West Dunbartonshire underspent by 41 per cent. We reported in the [Best Value Assurance Report](#)  (June 2018) that there has been a trend of significant levels of capital slippage at the council over a number of years and recommended that the council review its project management processes and consider performing self-assessments to identify areas for improvement.
- Orkney Islands' 50 per cent underspend is due to weaknesses in forward planning arrangements and the auditor reported a history of capital slippage. Capital projects which experienced slippage in 2018/19 include £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.

**39.** There can be local reasons for underspends against annual capital budgets that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.

## Debt

### There is variation in the relative underlying borrowing position of councils

**40.** The underlying borrowing position of councils varies across Scotland from 58 per cent of net annual revenue in Renfrewshire and Orkney to 237 per cent in Aberdeen City ([Exhibit 10, page 23](#)). Overall gross debt levels have grown by £0.7 billion (or four per cent) in the last year. Councils with higher borrowing levels usually incur higher annual costs of servicing the debt and may have less headroom for further affordable borrowing.

**41.** The underlying borrowing position consists of the net debt of the councils at 31 March 2019 (total debt less investments and cash) adjusted for total usable reserves. This is because a council with significant reserves that are not cash-backed would need to borrow more in the future to realise these reserves.




---

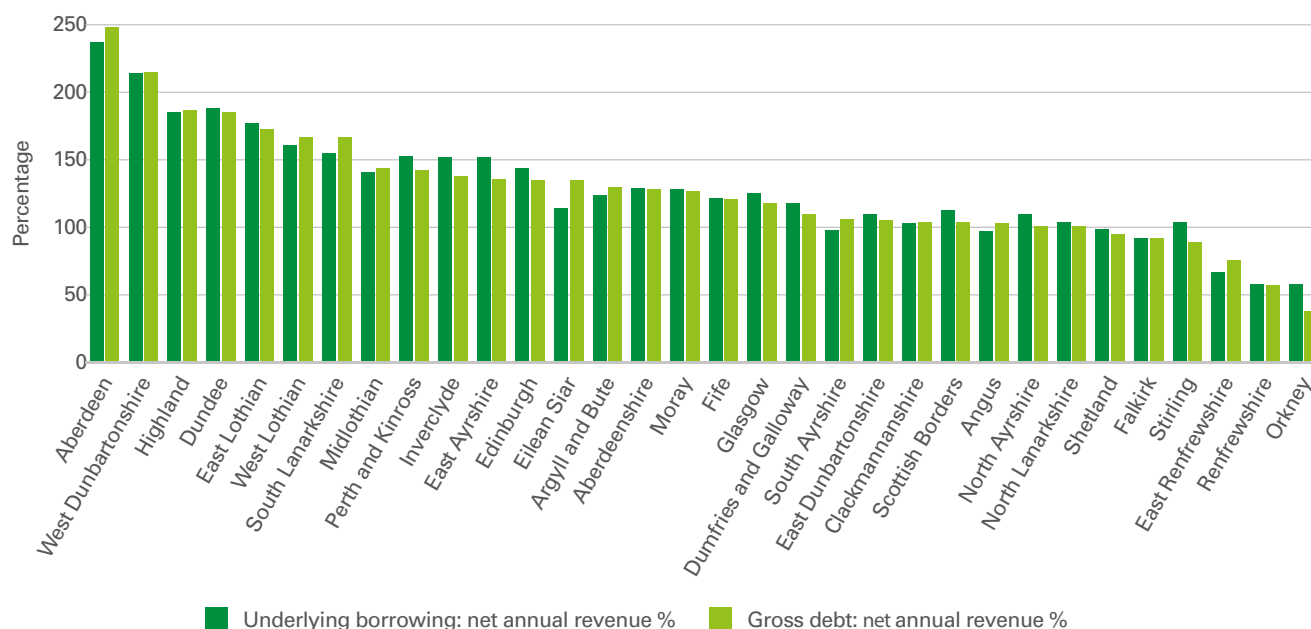
**What is your council's current debt position relative to its annual revenue?**

---

## Exhibit 10

### Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19



### Total net debt across councils has increased by £0.3 billion, mainly due to three councils

**42.** The different sources of debt held by councils comprises:

- The Public Works Loans Board (PWLB), a UK Government agency that issues loans to local authorities and other specified bodies (56 per cent).
- Other market loans (27 per cent).
- Other long-term liabilities from assets acquired through public private partnerships including Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models (17 per cent).

**43.** Total net debt has increased by £0.3 billion (2.3 per cent), from £15.1 billion in 2017/18 to £15.4 billion in 2018/19. Three councils account for most of the movement in net debt this year:

- Aberdeen City Council – an increase of £203 million (21 per cent) due to an increase in PPP liabilities and short term borrowing from other local authorities to fund capital investment.
- East Ayrshire Council – increase of £67 million (20 per cent) due to an increase in finance lease liabilities for an NDP schools project that the council occupied in the year.
- Dundee City Council – increase of £66 million (10 per cent) due to an increase in borrowing to fund the council's capital programme, including £12.4 million for council housing.

### **The overall cost of servicing debt is unchanged but councils incur different levels of spend on their annual revenue**

**44.** Total interest costs remain consistent year-on-year at £0.8 billion. In 2018/19, these payments varied from 10 per cent of net annual revenue in Aberdeen to two per cent in Orkney with 19 councils spending more than six per cent of their net annual revenue on debt interest. Higher interest costs can reflect the extent, type and age of debt held.

### **Most debt is fixed interest, but PFI/PPP/NPD schemes are variable interest**

**45.** Most council borrowing comes from the PWLB and this is usually issued at a fixed interest rate. Our analysis from auditors found that fixed interest payments made up around 65 per cent of total interest payments in 2018/19. In October 2019, the UK Treasury announced that interest rates on new PWLB loans would rise from 1.81 per cent to 2.81 per cent. This will make new PWLB borrowing or refinancing of debt for councils more expensive.

**46.** The remainder relates to interest payments on PFI/PPP/NPD agreements (30 per cent), where unitary charges are typically linked to RPI and variable interest loans (five per cent). Aberdeen City Council issued index-linked bonds in November 2016, raising £415 million to support its capital investment programme. This is also linked to RPI and the income generated by the new Aberdeen Exhibition and Conference Centre is expected to contribute to the cost of servicing the bond each year.

## **Provisions and equal pay**

### **Glasgow City Council agreed to settle equal pay claims at a cost of £0.5 billion**

**47.** In last year's report, we highlighted that the impact of equal pay claims on Glasgow City Council's financial planning could be significant. In May 2019, the council agreed to settle outstanding equal pay claims at a total cost of £0.5 billion. The council has developed a funding strategy that will spread the cost of settlement over several years and this has been built into the council's baseline budget from 2019/20 onwards. The funding strategy includes one of the council's arm's-length external organisations (ALEOs) refinancing an existing loan with Barclays Bank and remitting this to the council as a member contribution. The second element involves a sale and leaseback arrangement of property with the same ALEO. The local auditor assessed the overarching governance arrangements of the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

**48.** The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

## **Pensions and severance**

### **Employer pension liabilities increased as a result of the McCloud case**


**49.** Councils' share of the Local Government Pension Scheme (LGPS) net liability at 31 March 2019 increased by 41 per cent to £9.3 billion, compared to £6.6 billion at 31 March 2018.



**How much of the council's budget is used to pay interest and debt repayments?**



**Are you given clear and sufficient information to understand risks and support decisions about future borrowing?**

**50.** In 2015, the government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled, in the McCloud case, that the transitional protection offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination – [www.judiciary.uk/](http://www.judiciary.uk/) . As all care schemes introduced in 2015 contained transitional protection, all schemes are likely to be unlawful. This includes the local government pension funds. On 27 June 2019, the Supreme Court denied the UK Government leave to appeal and the UK Government conceded that the protections in place were discriminatory on grounds of age. In accordance with accounting standards, this was regarded as an adjusting event after the balance sheet and councils were advised to adjust their unaudited financial statements.

**51.** In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. Local government pension fund actuaries were requested to apply the GAD assumptions which generally resulted in an increase in the net pension liabilities.

**52.** The impact of McCloud on council finances will become clearer at the next triennial revaluation of pension funds at 31 March 2020, when contribution rates are redetermined. There may be a funding pressure, with councils having to make additional future employer contributions to cover the increased liabilities.

#### **Other issues affected revised pension liabilities**

**53.** While the impact of McCloud was the main element in the revised figures, there were other factors involved including Guaranteed Minimum Pension (GMP) equalisation (due to contracting out of the state earnings related pension scheme (SERPS) in April 1978). This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they have built up at different rates, reflecting the earlier payment age for women. An interim method of calculating the cost of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

**54.** In a few other cases, there were specific issues which were updated in the revised actuarial valuations. For example, in Aberdeenshire, the actuary had not reflected the impact of the backdated pay award, and in Aberdeen City, Stirling and Dumfries and Galloway, the initial calculations were based on the estimated investment position for the year end and this was revised to actual data in the audited statements.

**55.** The total impact of the above issues on councils' pension liabilities was £0.5 billion (or 5.5 per cent).

#### **Local auditors reported some issues with severance cases**

**56.** Some auditors reported that business-case calculations of the cost and benefits of severance were not taking into account all costs that they would expect to see. Auditors also found that some councils were using longer than expected payback periods: this is the length of time it would take the council to recoup the cost of the severance through expected savings in salary costs. The Scottish Government recommends this be no longer than two years, but auditors found examples of this being up to five years.

**57.** These severance cases often came as the result of restructuring at senior levels, with the intention of making future cost savings. Councils need to ensure that a robust business case is prepared for severance or early retirement that considers the long-term financial commitment of these decisions.

**All councils have ongoing commitments in respect of unfunded pension liabilities, but the extent of these costs vary**

**58.** Unfunded liabilities are pension amounts that are not met by the pension schemes, but by the individual employer. These can occur when an employer approves an early retirement, without actuarial reduction and with enhanced pension. All councils have ongoing commitments arising from past decisions on early retirements. [Exhibit 11](#) shows that for some councils this ongoing cost represents more than one per cent of their annual net operating expenditure.

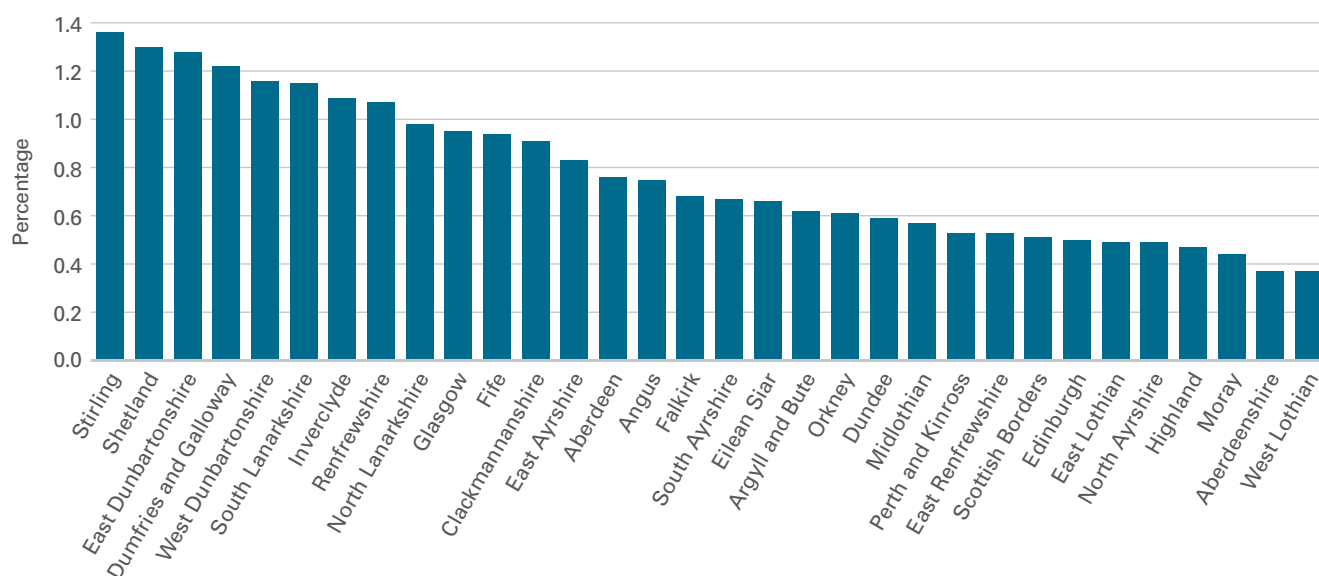


**Does the council prepare business cases for severance proposals and are these reported to councillors?**

## Exhibit 11

### Annual cost of unfunded benefits as a percentage of net operating expenditure

Annual payments for historic early retirements vary significantly.



Source: Audited financial statements 2018/19 and IAS19 valuation reports by actuaries



## Financial management and transparency

### Management commentaries do not always explain the link between budget outturn and the financial performance in the accounts or achievement of planned savings targets

**59.** In last year's report, we highlighted three key aspects to an assessment of whether financial reporting is transparent in the management commentaries:

- 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?

**60.** Our review of 2018/19 management commentaries found that:

- Both Comhairle Nan Eilean Siar and The Highland Council included these key aspects of transparency in their management commentaries.
- Nearly all councils reported their year-end outturn, but five councils did not provide explanations for significant variances from budget.
- Nine councils reported the outturn in the management commentary but this was not reconciled to the financial performance in the accounts. This narrative is critical to the understanding of a council's performance against budget and how this translates into the movement on the general fund reported in the accounts.
- Only ten councils reported progress against agreed savings.



#### Management commentaries

A management commentary is a report by the council, set out with 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 in the year.



**Does the management commentary of the council (and of the IJB accounts) show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?**

# Part 3

## Councils' financial outlook



### Key messages

- Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).
- In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).
- Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.
- Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

### 2019/20 funding settlement

#### Scottish Government revenue funding to local government in 2019/20 increased by 0.9 per cent in real terms

**61.** The Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9 per cent (cash terms) from 2018/19 to £10.1 billion. This was a real-terms increase of 0.9 per cent. Over 80 per cent of the increase is due to growth in specific revenue grant funding.



## Medium- and long-term financial planning

### The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning

**62.** The funding settlement to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term. The Scottish Government planned to publish indicative multi-year revenue budgets in December 2019 covering a three-year period,<sup>4</sup> and to then publish a three-year indicative capital budget in the summer of 2020. However, it is unlikely to produce these this year. The Commission views this commitment to multi-year budgets as a positive step and will monitor and report on progress and the impact on council planning in future overview reports.

**63.** The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK now has a greater influence on public finances than ever before. Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.

**64.** On 30 May 2019, the Scottish Government published its second medium-term financial strategy.<sup>5</sup> Income tax forecasts in the strategy suggest that the Scottish Government may need to budget for a significant revenue shortfall in each of the next three years, because forecasts have fallen since budgets were set. This shortfall could total £1 billion over the three years covered by the strategy.

**65.** The strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge. It does set out principles which will be used in a future spending review, although the timing of this remains uncertain. In September 2019, the Auditor General reported<sup>6</sup> that the strategy 'does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors'.

### All councils have medium-term financial planning, but the content could be improved

**66.** In 2019/20, all councils had financial plans that covered at least three years.

**67.** Medium-term financial plans should be at the core of strategic planning and decision-making. In order to ensure these decisions are made with the most current and accurate information, medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three- to five-year plan.

**68.** Local auditors reported that the content of medium-term financial plans varied:

- 28 (or 90 per cent) included estimates for Scottish Government funding
- 25 (or 81 per cent) included a total projection for net expenditure
- 18 (or 58 per cent) included projections of net expenditure at service level




Audit Scotland published a briefing in October 2019, *Scotland's new financial powers: Operation of the Fiscal Framework 2018/19*

This sets out an overview of how the Scottish budget operated during 2018/19, how the Fiscal Framework operated, provides an update of the main risks that affect the Scottish budget and what these mean for the management of the Scottish public finances.



The 2018/19 audit of the Scottish Government Consolidated Accounts September 2019

- 17 (or 55 per cent) included projections for service income
- 21 (or 68 per cent) included projections for the costs of borrowing.

**69.** There is scope for the content of financial planning to improve to include the elements in [paragraph 68 \(page 29\)](#) and assist members and other stakeholders in determining which services are likely to experience the biggest budget pressures, how service income is expected to contribute to the overall position and the extent to which relatively **fixed costs**  such as borrowing and unfunded pension liabilities affect the budget position.

### **A third of councils have financial plans that cover more than five years**

**70.** Long-term financial planning has not progressed since last year. Financial planning, covering more than five years, was identified in just ten councils. Last year we reported 16 councils, but further work indicates some of these have not been updated and now refer to less than five years or are limited to capital expenditure plans.

**71.** Long-term financial planning is particularly important in the context of increasing financial challenges and wider demands on services, in order to manage financial challenges and to make well-informed decisions, which are aligned to council priorities.

### **Financial pressures in 2019/20 budgets**

**72.** Councils' 2019/20 budget papers set out some common themes in the pressures that councils identified:

- Changes to staff-related costs generated significant pressure on budgets. For example, the local government pay offer made by COSLA and accepted by the Scottish Joint Council (SJC), which led to a pay increase of 9.5 per cent over the three-year period from 2018 to 2021.
- Demand pressures, particularly the expected population growth in some council areas, the increasing proportion of the population that is over 65 and over 75 years and other demographic changes.

### **Councils' identify a total funding gap of three per cent in 2019/20 budgets**

**73.** Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent). This is consistent with the three per cent gap in 2018/19. This continues the increasing pressure on councils to find cost savings, reduce services, increase income and/or use reserves and these decisions are likely to become increasingly difficult for councillors.

**74.** The basis and timing of the reported gap can vary from council to council. For example, two councils stated their funding gap after including a council tax increase, but the majority included council tax as one of their measures to close an identified gap. Councils could be more consistent in their presentation of the funding gap.

**75.** Funding gaps identified in 2019/20 budgets ranged from one to seven per cent across councils. Councils most frequently reported a gap of between two and four per cent. Aberdeen City and Clackmannanshire councils identified the largest funding gaps, relative to the councils' total funding and income (excluding HRA), of between six and seven per cent.



#### **Fixed costs**


Fixed costs remain unchanged in the short term over a wide range of activity. Their presence magnifies the effect of overall budget reductions or demand increases on the remaining budget.



#### **Does your council have medium- and long-term financial plans and do they include a range of potential funding and financial scenarios?**

Does the medium-term plan provide sufficient information on estimated Scottish Government funding, projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?

## Councils managed their funding gaps mainly through identifying planned savings

**76. Exhibit 12** sets out the proposed measures to address the funding gap across councils. Savings plans were the most common action, contributing £352 million (66 per cent) to the identified funding gap. This will include plans for cost reduction and service redesign. Of these **savings** , 96 per cent were 'recurrent', with only 4 per cent 'non-recurrent'.

**77.** Council tax increases provided a further £89 million (17 per cent) of income to bridge the gap. Increase to fees and charges for services made a minor contribution too (three per cent). The planned use of reserves made up the shortfall in the funding gap of £73 million (13 per cent) with 17 councils planning to use reserves to bridge the funding gap.



### Savings

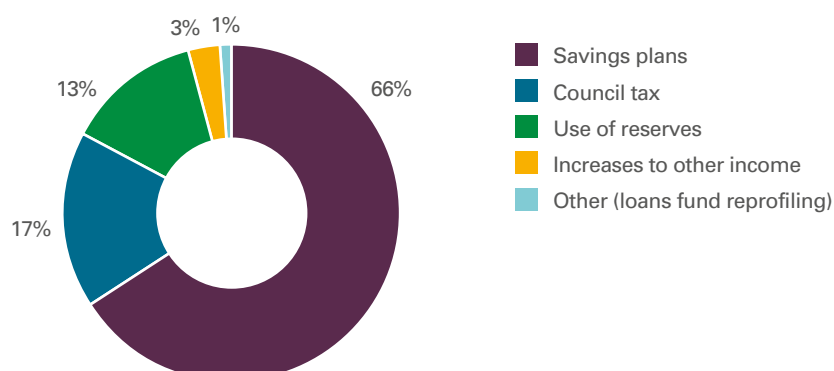
Recurring savings are savings, that once achieved, recur year-on-year from that date.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

## Exhibit 12

### Planned savings were the most common way of addressing funding gaps

66 per cent of the funding gap in 2019/20 is to be met through planned savings measures.



Source: Local auditor returns and council budget papers 2019/20



**78.** The position is unique to each individual council, for example East Renfrewshire Council identified a funding gap of £15.3 million, or five per cent of its funding and income (excluding HRA). The agreed budget identified that the gap was to be met through:

- Planned savings – £9.33 million (61 per cent)
- Use of reserves – £4.31 million (28 per cent)
- Three per cent council tax increase – £1.63 million (11 per cent).

## Fees, charges and local taxation

### Many councils have been increasing fees and some have introduced new charges

**79.** Charges for services vary across councils. For example, some councils do not charge for music instruction but the majority have an annual charge. This varies significantly from £117 in Inverclyde Council to £524 in Clackmannanshire Council.<sup>7</sup>

**80.** Many councils are increasing charges for services. An analysis of 18 types of charges indicates that two of the largest increases from 2018/19 to 2019/20 were applied to:

- Community alarms, 22 councils provided information on this charge and the average increase was 19 per cent.
- Bulky waste uplift, where 27 councils reported an average increase of eight per cent.


**81.** Some councils continue to introduce new fees and charges. These include:

- garden waste uplift
- the expansion of parking charges
- new charges associated with funerals (for example, use of multi-media)
- licensing (for example, new licences for public entertainment)
- planning services (for example, pre-application meeting charges).

### Greater council tax increases were deployed in 2019/20 than in previous years

**82.** In 2019/20, the Scottish Government increased the cap on council tax increases to 4.8 per cent in cash terms (3.0 per cent in real terms). Twelve councils decided to increase council tax by the full amount (4.8 per cent). Thirteen councils increased it by three per cent and the other seven by between 3.9 and 4.5 per cent.

### Councils continue to pursue new local taxes

**83.** As we reported in our report [\*Local government in Scotland: Challenges and Performance 2019\*](#) , local authorities are exploring new ways in which to raise tax locally.

**84.** The City of Edinburgh Council has endorsed a proposal for an Edinburgh transient visitor levy or 'tourist tax'. This would be based on a charge of £2 per room per night applying all year round for all accommodation types within the council boundary, except for campsites, for a maximum of seven consecutive nights. This scheme is expected to raise up to £14.6 million a year. Implementation of this will require legislation to be passed by the Scottish Parliament. The government has included a Transient Visitor Levy Bill in their 2019/20 programme for Scotland (*Protecting Scotland's Future: the Government's Programme for Scotland 2019–2020*). The Bill aims to provide local authorities with discretionary powers to apply the charge with the income being used to fund local authority expenditure on tourism.

**85.** In October 2019, the Transport Act was passed. The Scottish Government supported amendments to the Bill at stage two of the legislative process, which provide local authorities with the discretionary power to apply a workplace parking levy.

## EU withdrawal

**86.** EU withdrawal has the potential to exacerbate the existing financial pressures faced by councils. The risk of increased cost of goods and services from the EU is one of the more immediate concerns. Longer term, councils are concerned about the wider economic implications for public finances and the impact on their local areas. For example, increases in interest rates, reduction in business investment or an increase in unemployment and poverty are all risks to councils' communities and therefore to councils' financial planning.

**87.** The Scottish Government has allocated £1.6 million (£50k per council) to support ongoing work in councils to coordinate preparations for leaving the EU. It has also approved £7 million for a Rapid Poverty Mitigation Fund, to enable councils to respond to anticipated increased demand in the event of a no-deal exit. This includes scaling-up existing measures such as the Scottish Welfare Fund and Discretionary Housing Payments and supporting people in food or fuel poverty.



In December 2019, we plan to publish a briefing on how the public sector in Scotland has responded to EU withdrawal. This will be available on the [Audit Scotland website](#) .

# Part 4

## Integration Joint Boards overview 2018/19



### Key messages


- The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19.
- The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).
- A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.
- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- Over a third of IJB senior staff have changed during 2018/19.

### Funding and expenditure

#### Overall, IJB budgets increased by three per cent in 2018/19

**88.** Overall total IJB funding increased by three per cent in 2018/19 and this was reflected in a three per cent increase in total expenditure of £0.3 billion to £8.6 billion. The total contributions from councils increased from £2.4 to £2.5 billion and NHS contributions from £5.9 to £6.1 billion.

#### The pace of progress with integration has been too slow

**89.** The average proportion of NHS and council funding to IJBs (71 per cent/ 29 per cent) and expenditure incurred (64 per cent/ 36 per cent) remains consistent with the previous two years. This does not indicate any significant shift in health and social care spend between partners and this finding is consistent with the Scottish Government's [spending and performance update](#) .

**90.** As a result of concerns about the pace of health and social care integration, the Cabinet Secretary for Health and Sport commissioned a review of progress. This was conducted in late 2018. The Ministerial Strategic Group for Health and Community Care (MSG) published its findings in February 2019 and set out proposals for ensuring the success of integration. Following publication of its review, the MSG issued a self-evaluation template. This aimed to evaluate the current position on the findings of the review. This exercise will be repeated to demonstrate any progress made.



NHS in Scotland 2019  
October 2019 

**91.** The Auditor General commented in [NHS in Scotland 2019](#) , October 2019, in relation to health and social care reform that the pace of change has been too slow. She recommended that the Scottish Government in partnership with NHS boards and integration authorities should 'develop a new national health and social care strategy to run from 2020 that supports large-scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed'.

### More IJBs now hold reserves, but this varies significantly

**92.** A further £34 million was added to IJB reserves in 2018/19, which now total £158 million or 1.8 per cent of total expenditure (1.5 per cent in 2017/18). Some of this increase in reserves is as a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. More IJBs now hold some level of reserve (26 in 2018/19 compared to 22 in 2017/18) ([Exhibit 13, page 36](#)). The IJBs without any reserve include Fife, Scottish Borders and South Ayrshire. One IJB, North Ayrshire, continues to hold a negative reserve of -£4.9 million. In 2018/19, the IJB started to repay this debt to the council and the remainder will be repaid in future years. This expectation of future 'repayment' of historic overspends is also identified as an issue in Argyll and Bute.



**What is your IJB's reserve policy?**

**Are the commitments made reviewed annually to ensure they reflect the best use of the IJB's reserves?**

**93.** Of those IJBs with reserves, the position varies from Argyll and Bute with 0.1 per cent of total annual expenditure held as reserve (£0.3 million) to Eilean Siar with 9.8 per cent (£5.8 million).

## 2018/19 financial position

### The majority of IJBs struggled to achieve break-even

**94.** In 2018/19, 20 IJBs reported a surplus, two reported break-even and eight reported a deficit. The overall position was an underspend of £34 million. A number of IJBs failed to deliver all of their planned savings in the year and many have struggled to achieve financial balance, requiring additional funding from partners. Without this additional funding, 19 would have recorded a total deficit of £58 million.

### Recruitment challenges present a risk to service sustainability

**95.** Some IJBs have indicated that staffing issues have contributed to either overspends or underspends against budgets.

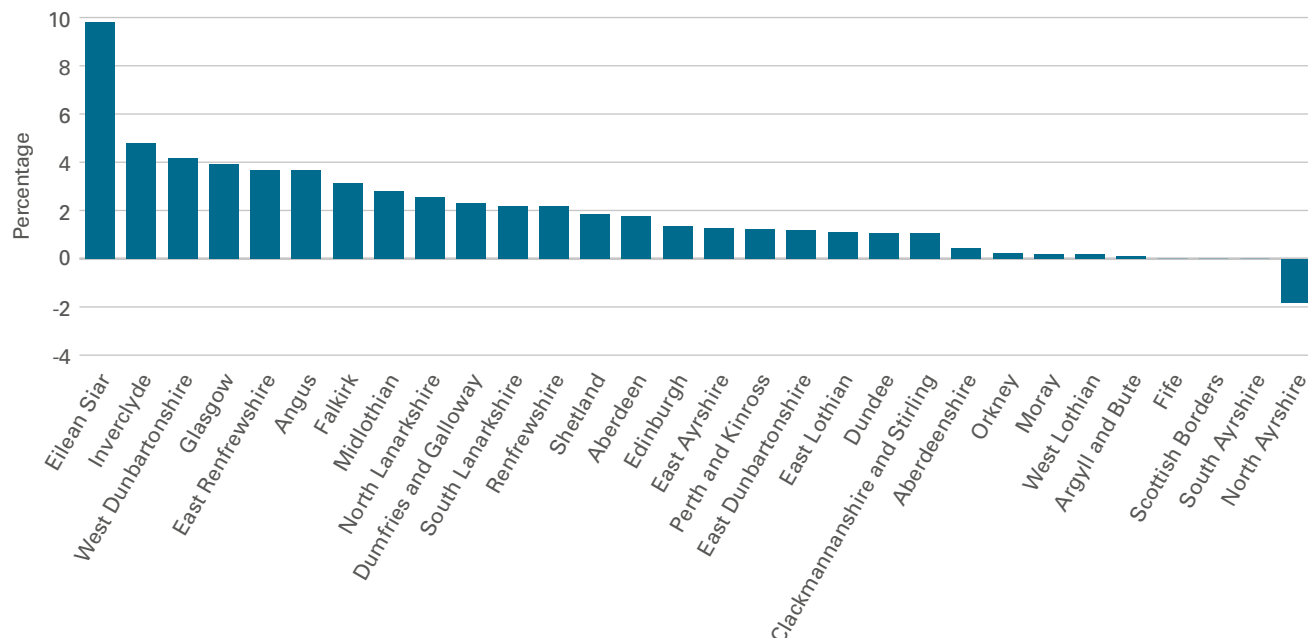
**96.** In the case of Eilean Siar, recruitment difficulties contribute to underspends against the IJB budget. The apparent healthy financial position masks issues of service sustainability, which are stated in the IJB's management commentary: 'Recruiting staff is already proving difficult for both nursing and social care staff and is expected to worsen as the available workforce on the islands decreases.'



## Exhibit 13

### Integration Joint Board reserves as a percentage of total spend, 2018/19


More IJBs (26) now hold a reserve, but this varies significantly.




Source: Audited financial statements 2018/19



**97.** Other IJBs have highlighted the risks that recruitment difficulties could present for the sustainability of services in the future. In Dumfries and Galloway, consultant vacancy rates have averaged around 20 per cent over the last two years and there has been a seven per cent increase in the use of agency staff. Edinburgh has reported that 45 per cent of their workforce are aged over 50, which could cause capacity and supply issues in the future.

**98.** Audit Scotland's report, [NHS workforce planning – part 2](#) , highlights pressures on the primary care workforce linked to recruitment and retention. The Scottish Government acknowledges the pressures on the workforce but has not estimated the impact they will have on primary care services. Integration Joint Boards are responsible for planning, designing and commissioning services and need to think differently about how these services can be delivered with the resources available.



NHS workforce  
planning – part 2  
August 2019 

## Financial planning

### Budgets were not always agreed by 1 April and budgets included unidentified savings plans

**99.** Having clear, complete and detailed agreed budgets is a fundamental business and governance tool. Fourteen IJBs failed to agree a budget with their partners for the start of the 2018/19 financial year. This position improved for 2019/20, with 11 encountering a delay that meant the budget was not formally agreed by 1 April 2019.





Is a budget agreed  
by the IJB before  
the start of the  
financial year?  
If not, why not?



**100.** Just under half of IJBs had budgets that included some unidentified savings. This meant the budgets were not balanced at the start of the year.

**101.** Our review of annual audit reports found that several IJBs, including Fife and Shetland, failed to deliver planned savings in year. This will have contributed to the financial pressures incurred.

**102.** The results from the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, [Health and social care integration: update on progress](#) , and the [Review of Progress with Integration of Health and Social Care](#)  report by the Ministerial Strategic Group for Health and Community Care indicate that IJBs recognise the timely agreement of budgets is an area for improvement. Eighteen IJBs assessed this area as either 'not established' or only 'partly established'.

## Financial outlook

### Medium-term financial planning is improving

**103.** Last year we reported that only a third of IJBs had a medium-term financial plan in place and that there was no evidence of longer-term financial planning. Since then, the position on medium-term financial planning has improved with auditors reporting that over two-thirds of IJBs have a medium-term financial plan. Over half of these covered a three-year period, with the remainder covering a longer period of between four and five years. Two thirds of the IJBs with medium-term financial plans reviewed them on an annual basis.

**104.** The plans typically included projections of net expenditure, income and projected funding gaps. Where estimates were included on pay growth, non-pay costs, demand and changes in government funding the estimated rates were found to vary significantly.

**105.** No IJBs had a financial plan that extended for more than five years. A focus on longer-term financial planning is required by IJBs as changes under integration are only likely to be achieved in the longer term.

### The projected funding gap is £208 million for 2019/20

**106.** Auditors identified a total estimated funding gap of £208 million for 2019/20, representing 2.5 per cent of total income. This is an improvement in comparison to 2018/19 (£248 million or 2.9% of total income). The 2019/20 funding gap as a proportion of total income varied between zero and 7.6 per cent.

**107.** [Exhibit 14 \(page 38\)](#) shows how IJBs propose to bridge the 2019/20 funding gap. Of the £208 million, 59 per cent was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Seven IJBs planned to cover part of the estimated funding gap from reserves.



**Does the medium-term plan provide sufficient information on host partner funding, projected net expenditure, projections for income, projections for cost of borrowing?**

**Does the IJB have a transformation plan?**

**Does it clearly set out the aims and objectives and how and when these will be achieved?**

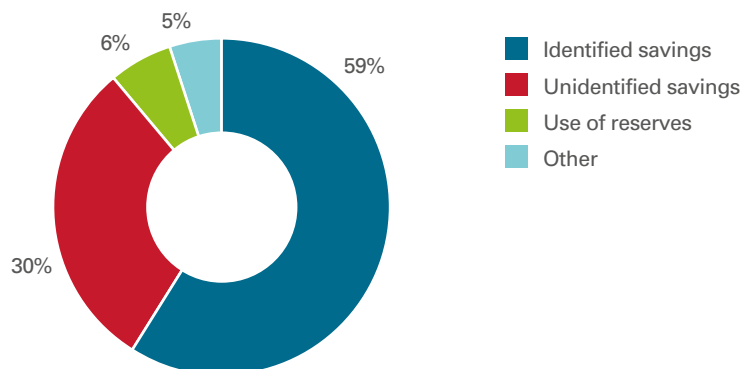


**How big is the funding gap for your IJB relative to the total budget?**

## Exhibit 14

### Plans to address 2019/20 funding gap

Savings had not been identified for 30 per cent of the 2019/20 funding gap.




Source: Auditor returns and IJB board papers



## Wider governance issues

### Over a third of IJB senior staff have changed during 2018/19

**108.** Based on data returns from auditors we found that over a third of IJBs have experienced turnover in their chief officer or chief finance officer in the year. In some cases, both these postholders have changed. Our report [Health and social care integration](#)  highlighted the risk of leadership changes and capacity to the transformation of services and successful integration.

**109.** The annual audit report for Argyll and Bute notes that the turnover in key staff led to weaknesses in financial reporting and a reduced focus on the delivery of approved savings. The chief officer changed, and two chief finance officers left the IJB in an eight-month period. Interim cover on a part-time basis was provided by the council's section 95 officer from December 2018 to June 2019, when a permanent appointment was made to the new role of head of finance and transformation.



Health and social care integration: update on progress


November 2018 

---

# Endnotes

---



- 1 Convention of Scottish Local Authorities.
- 2 Scottish Parliament Information Centre.
- 3 [\*Local government in Scotland: Challenges and performance 2019\*](#) , Accounts Commission, March 2019.
- 4 SPICe briefing on the Scottish Government's Medium-term Financial Strategy, May 2019.
- 5 *Scotland's Fiscal Outlook*, Scottish Government, May 2019.
- 6 [\*The 2018/19 audit of the Scottish Government Consolidated Accounts\*](#) , Auditor General, September 2019.
- 7 *Instrumental Music Services: Results from the IMS Survey May–July 2018*, Improvement Service, 2018.

# Local government in Scotland

## Financial overview

### 2018/19

This report is available in PDF and RTF formats, along with a podcast summary at:

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500

or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

ISBN 978 1 913287 12 2



Agenda Item

**2**

<b>Meeting(s):</b>	IJB Audit Committee Integration Joint Board	6 February 2020 5 March 2020
<b>Report Title:</b>	Annual Audit Plan 2019/20	
<b>Reference Number:</b>	F-003-F	
<b>Author / Job Title:</b>	Karl Williamson / IJB Chief Financial Officer	
<b>1.0</b>	<b>Decisions / Action required:</b>	
1.1	That the IJB Audit Committee and the IJB NOTE the contents of the Audit Plan 2019/20 for Shetland Islands Integration Joint Board (Appendix 1) from its external auditors, Deloitte LLP.	
<b>2.0</b>	<b>High Level Summary:</b>	
2.1	The Annual Audit Plan detailed at Appendix 1 provides information on the work that external auditors will undertake to review and assess the governance and performance of the Shetland Islands Integration Joint Board (IJB) in 2019/20	
<b>3.0</b>	<b>Corporate Priorities and Joint Working:</b>	
3.1	The audit process plays a key role in helping the IJB to maintain good governance, accountability and provides assurance around financial stewardship.	
3.2	The IJB represents partnership working between Shetland Islands Council and NHS Shetland with regard to the integration of Health and Social Care.	
<b>4.0</b>	<b>Key Issues:</b>	
4.1	<p>The Annual Audit Plans present the planned audit work by the IJB's external auditors, Deloitte LLP, for the 2019/20 financial year; the fourth year of a five-year appointment. Their core audit work includes:</p> <ul style="list-style-type: none"> <li>• perform an ISA (UK) compliant audit of the annual accounts and express specified audit opinion</li> <li>• audit and report on the audit dimensions of financial sustainability, financial management, governance and transparency and value for money;</li> <li>• contribute to performance audits (including performance audit reports, overview reports and impact reports);</li> <li>• share audit intelligence with Audit Scotland including highlighting potential statutory reports;</li> <li>• provide information on cases of fraud;</li> </ul>	
<b>5.0</b>	<b>Exempt and/or confidential information:</b>	

5.1	None.	
<b>6.0 Implications :</b>		
<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.	
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.	
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.	
<b>6.4 Legal:</b>	The Shetland Islands Integration Joint Board is required to prepare accounts in accordance with the Local Government (Scotland) Act 1973 and the Code of Practice on Local Authority Accounting 2019/20.	
<b>6.5 Finance:</b>	The audit fee for 2019/20 for Shetland Islands Integration Joint Board is £26,560, and increase of £1,560 (6.2%) from the prior year.	
<b>6.6 Assets and Property:</b>	None arising from this report.	
<b>6.7 ICT and new technologies:</b>	None arising from this report.	
<b>6.8 Environmental:</b>	None arising from this report.	
<b>6.9 Risk Management:</b>	The annual audit work is focused on identifying and assessing the key challenges and risks to the Shetland Islands Integration Joint Board in order to mitigate future risk.	
<b>6.10 Policy and Delegated Authority:</b>	The IJB Audit Committee's terms of reference states that it is to consider external audit plans and reports as appropriate and any matters arising from these and management actions identified in response.	
<b>6.11 Previously considered by:</b>	n/a	n/a

#### Contact Details:

Sheila Duncan, Management Accountant, [sheila.duncan@shetland.gov.uk](mailto:sheila.duncan@shetland.gov.uk), 16 February 2020

#### Appendices:

Appendix 1 – Shetland Islands Integration Joint Board Annual Audit Plan for 2019/20



## **Shetland Islands Integration Joint Board**

Planning report to the Audit Committee on the audit for the year ending  
31 March 2020

Issued 27 January 2020 for the meeting on 6 February 2020

# Contents

---

## 01 Planning report

Introduction	3
Responsibilities of the Audit Committee	5
Our audit explained	6
Continuous communication and reporting	7
Materiality	8
Scope of work and approach	9
Significant risks	11
Wider scope requirements	14
Maintaining audit quality	17
Purpose of our report and responsibility statement	19

---

## 02 Appendices

Fraud responsibilities and representations	21
Independence and fees	23
Our approach to quality	24

---

## 03 Sector developments

Shaping the future of UK healthcare	26
2019 Global Health Care Outlook	27
State of the State	28
Audit Scotland "NHS in Scotland 2019"	30
What does climate change mean for business	31



# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee (“the Committee”) of Shetland Islands Integration Joint Board (“the IJB”) for the year ending 31 March 2020 audit. I would like to draw your attention to the key messages of this audit plan:

### **Audit Plan**

We have updated our understanding of the IJB including discussion with management and review of relevant documentation from across the IJB. Based on these procedures, we have developed this plan in collaboration with the IJB to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the IJB.

### **Key Risks**

We have taken an initial view as to the significant audit risks the IJB faces. These are presented as a summary dashboard on page 11.

### **Audit Dimensions**

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the IJB’s key priorities and risks as well as any risks identified by Audit Scotland. The following specific risks have been identified:

**Financial sustainability** – There is a risk that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised. The latest financial monitoring reports for 2019/20 are projecting an overspend of circa £2.5m. There is therefore also an increased risk in achieving short term financial balance.

We will review the progress being made in the development of the updated Medium Term Financial Plan and refreshed Strategic Commissioning Plan.

**Financial management** – Given the current year projected overspend, as noted above, there remains a risk that the budget setting and monitoring arrangements are not sufficiently robust to ensure that the IJB operates within the delegated budgets.

We will review the IJB’s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

# Introduction (continued)

## The key messages in this report (continued)

### **Audit Dimensions (continued)**

**Governance and transparency** – There is a risk that the scrutiny and governance arrangements are not sufficiently robust to achieve the full benefits of integration. We will assess the work being done to formally review the Integration Scheme during 2020. We will also specifically follow up on the recommendations made in our 2018/19 Interim Report which were being addressed as part of the IJB Governance Review which features in the IJB Business Programme.

**Value for money** – There is a risk that the IJB is unable to demonstrate it is achieving its objectives and meeting planned outcomes if there is no clear link between expenditure and outcomes achieved. We will review the annual refresh of the Strategic Commissioning Plan, the IJB's performance against its objectives, the IJB's reporting and monitoring of these and the actions taken to improve the performance of the IJB.

Should any further risks specific to the four audit dimensions emerge during the year, we will provide an update to the Audit Committee.

### **Our Commitment to Quality**

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

### **Adding value**

Our aim is to add value to the IJB through our audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 26 to 31 of this paper.

**Pat Kenny**  
**Audit director**

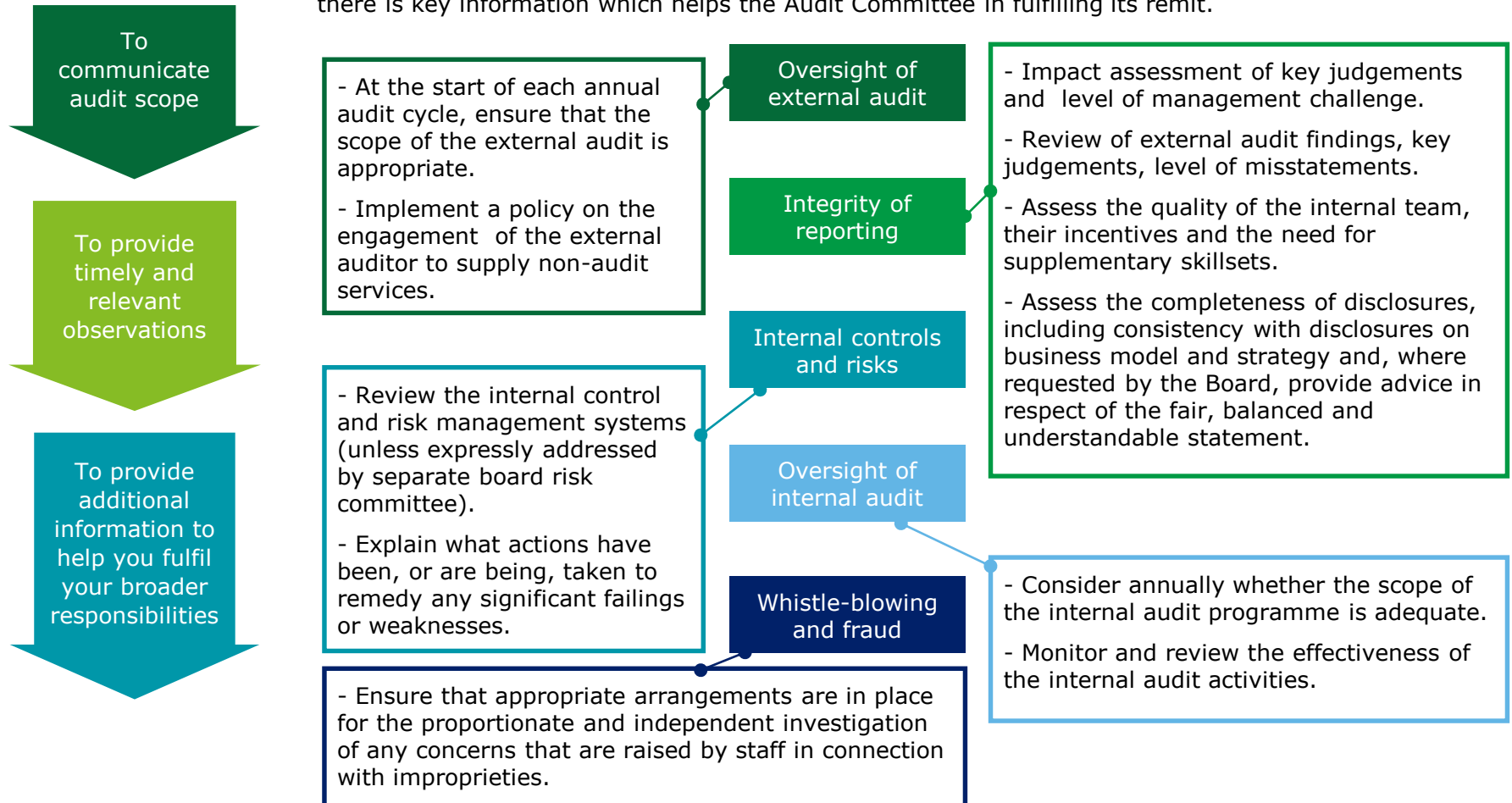
© 2020 Deloitte LLP. All rights reserved.

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

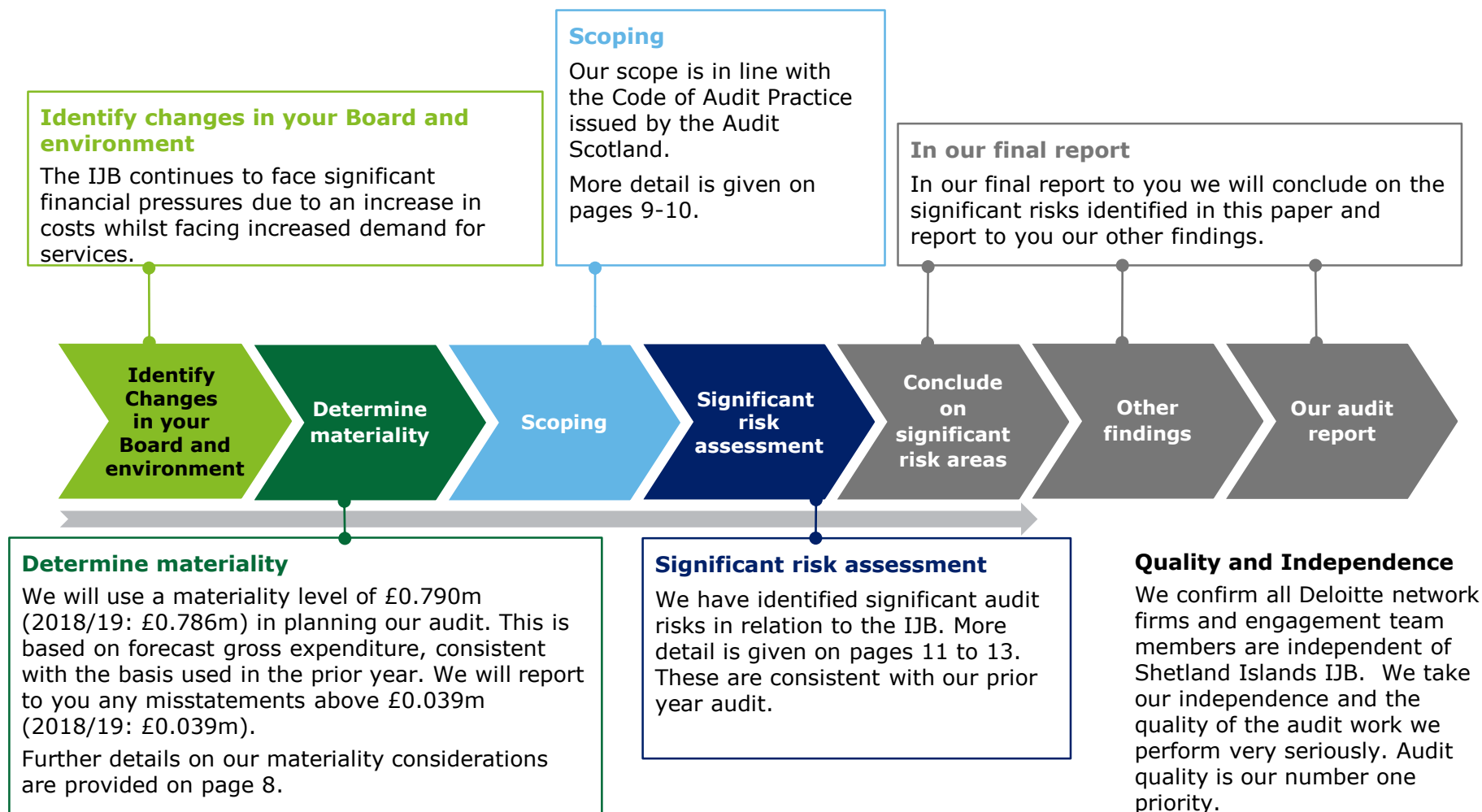
Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



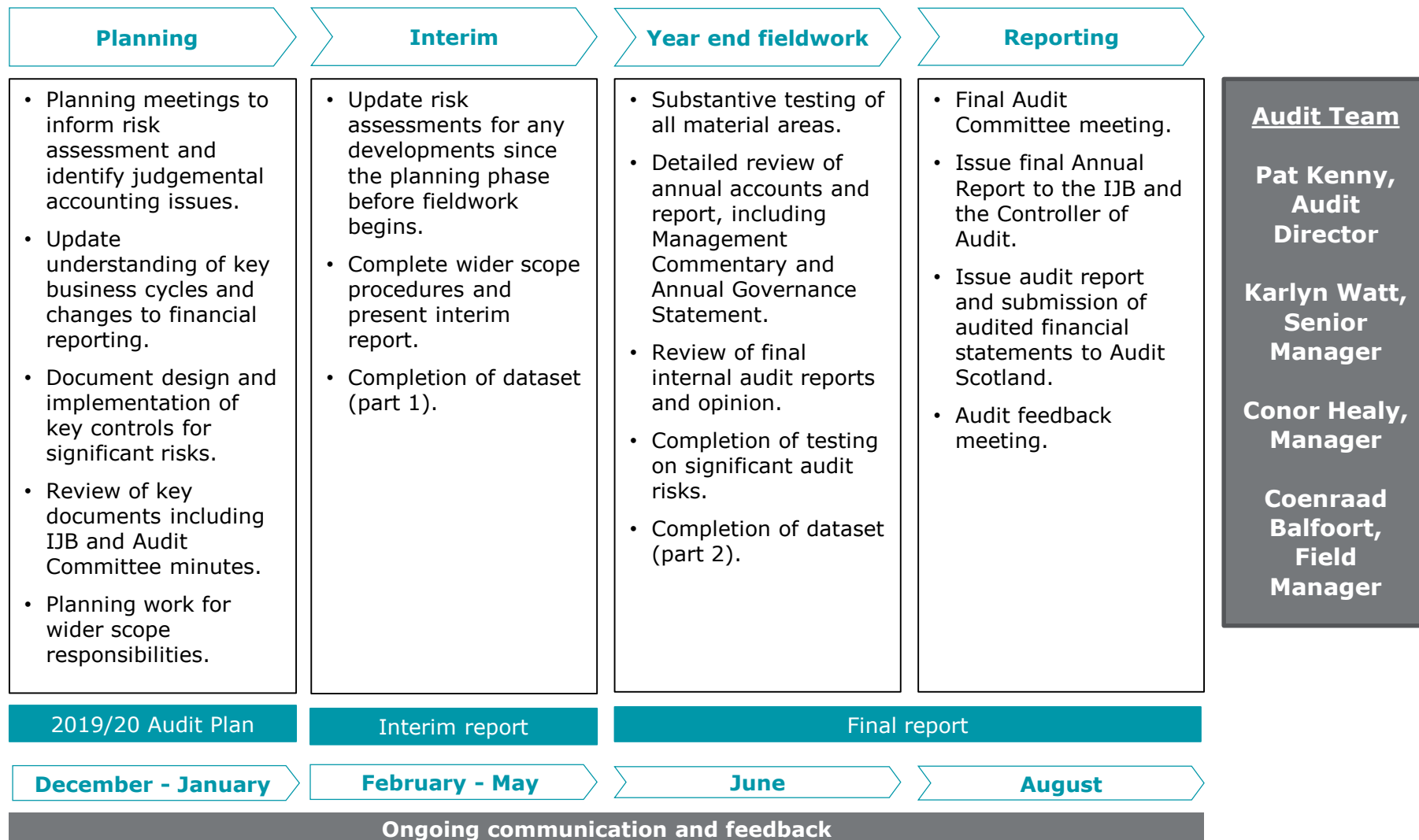
# Our audit explained

We tailor our audit to your Board and your strategy



# Continuous communication and reporting

## Planned timing of the audit



# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

- The audit director has determined materiality as £0.790m (2018/19: £0.786m) and performance materiality as £0.632m (2018/19: £0.628m) based on professional judgement and risk factors specific to the IJB, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecast gross expenditure (2018/19: 1.6%) as the benchmark for determining materiality and applied 80% as performance materiality (2018/19: 80%).
- We will update the materiality calculation using actual gross expenditure per the draft annual accounts.
- This approach is consistent with our prior year materiality calculation.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £0.039m (2018/19: £0.039m).

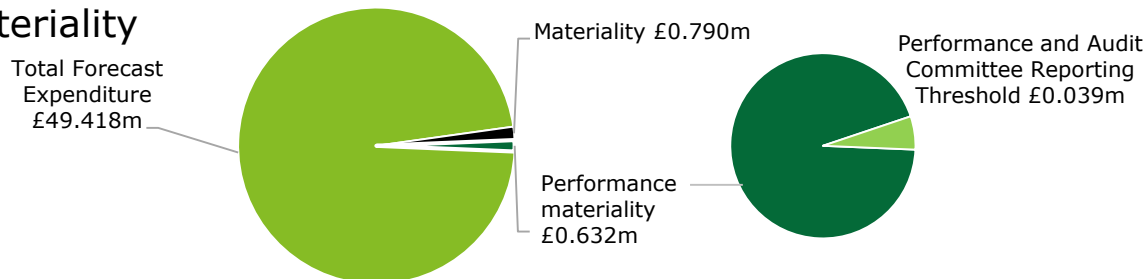
- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

### Our annual audit report

We will:

- Report the materiality benchmark applied in the audit of the IJB; and
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate.

### Materiality



Although materiality is the judgement of the Audit Director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



# Scope of work and approach

## Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	6 February 2020 30 September 2020
Consider and report on the audit dimensions	Annual audit plan Interim report Annual audit report	6 February 2020 30 June 2020 30 September 2020
Contribute to performance audits (including performance audit reports, overview reports and impact reports)	Dataset returns	8 May 2020 (part 1) 14 August 2020 (part 2)
Share audit intelligence with Audit Scotland including highlighting potential statutory reports	Current issues returns	17 January 2020 20 March 2020 7 August 2020 23 October 2020
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020

# Scope of work and approach (continued)

## Our approach

### Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

The IJB uses the corporate financial systems of Shetland Islands Council ("the Council") as well as the Council's internal audit function. We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the IJB staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of Practice on local authority accounts in the UK disclosure checklist to support the IJB in preparing high quality drafts of the annual report and financial statements, which we would recommend the IJB complete during drafting.

The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the IJB to exclude disclosure if the information is not material.

Audit Scotland has published good practice guides in relation to the Annual Report and the Governance Statement to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the IJB consider during drafting.

### Statutory Other Information

In addition to the financial statements, we are required to consider whether the Management Commentary and Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors' work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Obtain an understanding of the IJB and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.







Carry out "design and implementation" work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls.

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.



# Significant risks Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
Completeness and accuracy of income			Design and implementation		12
Management override of controls			Design and implementation		13



Some degree of management judgement



Limited management judgement

# Significant risks (continued)

## Risk 1 – Completeness and accuracy of income

---

**Risk identified**

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely Shetland Islands Council and NHS Shetland. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council. Given the year-end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.

---

**Our response**

We will perform the following:

- test the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
  - test the reconciliations performed by the IJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
  - confirm that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
  - assess the design and implementation of the controls around recognition of income.
-

# Significant risks (continued)

## Risk 2 – Management override of controls

We will use computer assisted audit techniques to support our work on the risk of management override

---

**Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the IJB's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risks around completeness and accuracy of income. This is inherently the areas in which management has the potential to use their judgement to influence the financial statements.

---

**Planned audit challenge**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

**Journal testing**

- We will test the design and implementation of controls over journal entry processing.
- We will risk assess journals and select items for detailed follow-up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

**Accounting estimates and judgements**

- We will test the design and implementation of controls over any key accounting estimates and judgements.
- We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

**Significant and unusual transactions**

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business for the IJB, or that otherwise appear to be unusual, given our understanding of the IJB and its environment.

# Wider scope requirements

## Audit dimensions

The Code of Audit Practice sets out **four audit dimensions** which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the IJB's key priorities and risks as well as any risks identified by Audit Scotland. We have set out below our identified audit risks in relation to the audit dimensions and proposed response. In addition, we will follow up the progress made in relation to our previous year's recommendations.

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.	As reported in our 2018/19 annual audit report, the IJB is not in a financially sustainable position and significant funding gaps are forecast for future years. We highlighted that the IJB needs to work with its partners to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium to longer term.	<p>There is a risk that that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised. The latest financial monitoring reports for 2019/20 are projecting an overspend of circa £2.5m. There is therefore also an increased risk in achieving short term financial balance.</p> <p>We will also review the progress being made in the development of the updated Medium Term Financial Plan and refreshed Strategic Commissioning Plan.</p>
<b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We concluded in 2018/19 that the IJB has effective financial management in place. However, we highlighted that there was room for improvement in the budget-setting process, the reporting of progress against budget and changes to the budget in year.	<p>Given the current year projected overspend, as noted above, there remains a risk that the budget setting and monitoring arrangements are not sufficiently robust to ensure that the IJB operates within the delegated budgets.</p> <p>We will review the IJB's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.</p>

# Wider scope requirements (continued)

## Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>In 2018/19 we concluded that the IJB promotes a culture of openness and transparency. We did, however, conclude, that the IJB needs to significantly improve its approach to self assessment. We recommended that it develops a self assessment programme to ensure that it has adequate arrangements in place.</p>	<p>There is a risk that the scrutiny and governance arrangements are not sufficiently robust to achieve the full benefits of integration.</p> <p>We will assess the work being done to formally review the Integration Scheme during 2020. We will also specifically follow up on the recommendations made in our 2018/19 Interim Report which were being addressed as part of the IJB Governance Review which features in the IJB Business Programme.</p>
<p><b>Value for money</b> is concerned with using resources effectively and continually improving services.</p>	<p>In 2018/19 we concluded that, while the IJB's performance continues to fare well against the national average this comes at a substantial cost. Given the current financial position, we highlighted that the IJB needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through the engagement with the wider community.</p>	<p>There is a risk that the IJB is unable to demonstrate it is achieving its objectives and meeting planned outcomes if there is no clear link between expenditure and outcomes achieved.</p> <p>We will review the annual refresh of the Strategic Commissioning Plan, the IJB's performance against its objectives, the IJB's reporting and monitoring of these and the actions taken to improve the performance of the IJB.</p>

# Wider scope requirements (continued)

## Other responsibilities

### Best Value (BV)

It is the duty of the IJB to secure BV as prescribed in the Local Government (Scotland) Act 1973.

In accordance with Audit Scotland planning guidance, we will include comments in our annual audit report on how the IJB demonstrates that it is meeting its BV duties. We are required to report on the IJB's own arrangements for doing this and how effectively this is reported in the IJB's annual performance report and are not required to perform detailed audit work against the BV characteristics.

### The Islands (Scotland) Act 2018

[The Islands \(Scotland\) Act 2018](#) received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities.

In our 2019/20 audit we will consider the implications of the Act as part of our consideration of BV arrangements.

### Sector overview/ Annual performance reports

As in previous years, the Accounts Commission will publish an annual performance report covering the local government sector. This report uses information from the audited accounts and the Annual Audit Reports, and therefore much of the required information is generally already available from the core audit work. However, we will be requested by Audit Scotland to provide important supplementary information collected as datasets. We will share these with management as soon as they are available.

### Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports. Audit Scotland plan to assess the impact of the report "**Children and young people's mental health**" during April/ May 2020.

# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

---

### The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).
- Deloitte fully supports an independent review into the role of auditors.
- The Government's Brydon Review will consider UK audit standards and how audits should evolve.

---

### Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.

---

### Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders.
- There are barriers to entry in the listed market that are significant, including the required global reach, unlimited liability, and the high cost of tendering.
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.

---

### Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients.
- Deloitte invests heavily in systems, processes and people to check for potential conflicts.
- We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest.
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).

---

### Deloitte

- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>

# Maintaining audit quality (continued)

## Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the local government and health sector and elsewhere to provide robust challenge to management.
- We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition and payroll expenditure enabling us to develop a risk-focused approach tailored to the Board.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.



### **Engagement Quality Control Review**

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the IJB.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

for and on behalf of Deloitte LLP

Glasgow

27 January 2020

# Appendices



# Fraud responsibilities and representations

## Responsibilities explained



### Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the completeness and accuracy of income and management override of controls as a key audit risk for your organisation.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter signed on behalf of the IJB:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



### **Internal audit and Local Counter Fraud Specialist**

- Whether internal audit and the Board's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.



# Independence and fees



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.	
Fees	The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £26,560 as analysed below:	
	£	
	Auditor remuneration	18,300
	Audit Scotland fixed charges:	
	Pooled costs	1,790
	Performance Audit and Best Value	5,360
	Audit support costs	1,110
	<b>Total proposed fee</b>	<b>26,560</b>
	There are no non-audit services fees proposed for the period.	
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.	
Relationships	We have no other relationships with the IJB, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.	

# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm-wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm-wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm-wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

#### **"Our key individual review findings related principally to the need to:**

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

#### **"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:**

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."



# Sector developments



# Shaping the future of UK healthcare

## Closing the digital gap

### Background

Leveraging the opportunities and efficiencies offered by digital transformation is key for any organisation to remain viable and fit for the future. But for the UK's healthcare services, which are made up of multiple services and organisations, across a range of geographies and jurisdictions, the view is more complex than for most.

The latest report from our Centre for Health Solutions examines the current challenges facing the healthcare system in realising the policy ambition of a digital first NHS, and some of the solutions to overcome them. We identify the key steps to accelerate digital transformation, what the main characteristics for successful digital programmes are and what digital healthcare of the future may look like.

While a number of digital and technology systems and services are being delivered in some parts of the NHS, our research shows that technology adoption in many hospitals, primary care and community settings is slow with a gap in the digital maturity of providers.

Although most providers have some form of electronic health record platform, the functionalities vary widely. The next step for digital transformation is to be able to access, share and use health information seamlessly. For healthcare to realise this will require a radical shift in the culture and mind-set of healthcare stakeholders. It will also require a review of how digital transformation is funded.

The insights provided in this report are drawn from an extensive literature review; a comprehensive survey of 1,500 doctors, nurses and allied health professionals; structured interviews with 65 key stakeholders across the health ecosystem; and the experience of our colleagues across Deloitte who have worked with clients on digital transformation projects in the UK and other comparable countries.

### Next steps

The full report is available at <https://www2.deloitte.com/uk/en/pages/life-sciences-and-healthcare/articles/shaping-the-future-of-uk-healthcare.html>



# 2019 Global Health Care Outlook

## Shaping the future

### Background

With financial sustainability, care delivery, patient centricity, digital transformation, and regulatory compliance at the top of the agenda, health care sector leaders need to collaborate with all stakeholders—both within the health care ecosystem and those in converging industries—as they look to shape the future of health care and establish a sustainable smart health community.

The adage, “What goes up, must come down” isn’t likely to apply to the global health care sector in 2019. Ageing and growing populations, greater prevalence of chronic diseases, exponential advances in innovative, but costly, digital technologies—these and other developments continue to increase health care demand and expenditures. Health care stakeholders—providers, governments, payers, consumers, and other companies/organisations—struggling to manage clinical, operational, and financial challenges envision a future in which new business and care delivery models, aided by digital technologies, may help to solve today’s problems and to build a sustainable foundation for affordable, accessible, high-quality health care. This vision may have a greater probability of becoming a reality if all stakeholders actively participate in shaping the future— by way of shifting focus away from a system of sick care in which we treat patients after they fall ill, to one of health care which supports well-being, prevention, and early intervention.

This 2019 outlook reviews the current state of the global health care sector and explores trends and issues impacting health care providers, governments, payers, patients, and other stakeholders. It also outlines suggestions for them as they seek to redefine the health care ecosystem and looks at examples from the market.

### Next steps

The full report is available at <https://www2.deloitte.com/global/en/pages/life-sciences-and-healthcare/articles/global-health-care-sector-outlook.html?id=gx:2em:3int:4HCoutlook2019:5awa:6lshc:20190110>

# State of the State

## The view from citizens, leaders and the frontline of public services

### Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services, and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity, and it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



### The State of the State 2019-20

The view from citizens, leaders and the frontline of public services

### Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/uk/thestateofthestate>

# State of the State (continued)

## The view from citizens, leaders and the frontline of public services

### Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.
- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.
- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.
- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.
- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

# Audit Scotland “NHS in Scotland 2019”

## NHS is ‘running hot’ and needs to refocus priorities

### Background

Audit Scotland published its “NHS in Scotland 2019” report in October 2019. Its overall conclusion is that Scotland's NHS needs to refocus its priorities to speed up health and social care integration and system wide reform.

The health service continues to face growing pressure from a population that is living longer. More people were seen and treated on time in the last year and patient safety improved. But just two out of eight key waiting time standards were met as staff struggled to meet rising demand for care.

Achieving financial sustainability also remains a major challenge for health boards. Half of all NHS savings were non-recurring, while predicted deficits and reliance on additional financial support from government have increased. The capital budget has also reduced by 63 per cent over the last decade and there is a near £1 billion of backlog maintenance and issues around high-profile capital builds.

The Scottish Government has taken positive steps to help health boards address their financial challenges and improve access to care. These include a shift from short to medium-term financial planning, a waiting times improvement plan and a project to develop NHS leaders. But it is too early to see the impact of these changes, and health and social care integration remains too slow.

---

### Next steps

The full report is available at <https://www.audit-scotland.gov.uk/report/nhs-in-scotland-2019>

The report makes a number of recommendations for the Scottish Government, NHS Boards and Integration Authorities to take forward. We therefore encourage the Board to review these and ensure that the relevant issues are being addressed.

---

# What does climate change mean for business?

## New website – learning, interviews and resources

### Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

**The time to act is now!**

**Deloitte.**

IN COLLABORATION WITH  
**ICAEW**

Learning | Interviews | Resources | Contact us



### What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

Supported by



### Next steps

Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals at [www.deloitte.co.uk/climatechange](http://www.deloitte.co.uk/climatechange)



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2020 Deloitte LLP. All rights reserved.



Meeting(s):	IJB Audit Committee	6 February 2020
Report Title:	Integration Self Evaluation Development Plan – update January 2020	
Reference Number:	CC- 04-20-F	
Author / Job Title:	Jo Robinson, Interim Chief Officer IJB	

1.0	Decisions / Action required:										
1.1	That the IJB Audit Committee REVIEW progress against the Development Plan in response to the Self Evaluation on Integration, as set out in Appendix 1.										
2.0	High Level Summary:										
2.1	On 6 March 2019, the Director General Health And Social Care Directorates, Scottish Government, and the Chief Executive, COSLA wrote to Integration Authority Chief Officers, NHS Board Chief Executives and Local Authority Chief Executives seeking feedback on progress towards health and care integration. The work was in response to the Audit Scotland Report “Health and Social Care Integration - Update on progress” (November 2018). On 14 May 2019 (Min. Ref. 19/19), the IJB considered and agreed the self evaluation template and indicative improvement activities.										
2.2	The Table below shows the original scoring for each dimension, at a summary level.										
	<table><tr><td>Not Yet Established</td><td>Partially Established</td><td>Established</td><td>Exemplary</td><td>Total</td></tr><tr><td>0</td><td>16</td><td>6</td><td>0</td><td>22</td></tr></table>	Not Yet Established	Partially Established	Established	Exemplary	Total	0	16	6	0	22
Not Yet Established	Partially Established	Established	Exemplary	Total							
0	16	6	0	22							
2.3	In most cases, the Development Plan set out to move the assessment from ‘Partially Established’ to ‘Established’ over a 16 month period. Except in one case, the proposal was to maintain our assessment of having an ‘Established’ approach. In one case, regarding the leadership and position of the Chief Officer, the proposal was to move to an ‘Exemplary’ grading.										
2.4	Appendix 1 sets out the Draft Development Plan, under the six Key Features of the Self Evaluation process:										
	<ul style="list-style-type: none"><li>- Collaborative leadership and building relationships</li><li>- Integrated finances and financial planning</li><li>- Effective strategic planning for improvement</li><li>- Governance and accountability arrangements</li><li>- Ability and willingness to share information</li><li>- Meaningful and sustained engagement</li></ul>										

2.5	<p>The improvement actions were collated under three broad activities:</p> <ul style="list-style-type: none"> <li>- the review of the Integration Scheme</li> <li>- the refresh of the Joint Strategic (Commissioning) Plan and</li> <li>- the update of the Medium Term Financial Plan.</li> </ul>
2.6	<p>The improvement plan further detailed a range of specific improvement actions. Appendix 1 shows the progress against the improvement actions, as of January 2020. The specific progress in terms of whether each element has achieved the required status of “Established” or “Exemplary” will be further reviewed through a formal reassessment exercise by the three parties; Shetland Islands Council, NHS Shetland and the Integration Joint Board in November 2020.</p>
3.0	Corporate Priorities and Joint Working:
3.3	<p>Achieving the full potential of integration, through the Public Bodies (Joint Working) (Scotland) Act relies on partnership working between Shetland Islands Council, NHS Shetland, Shetland Charitable Trust, other regional and national organisations (such as the Scottish Ambulance Service, NHS Grampian and other specialist Health Boards), third sector providers and community assets. Shetland has a long tradition of positive partnership work and collaboration on health and care services, through the Shetland Health and Social Care Partnership.</p>
4.0	Key Issues:
4.1	<p>Collaborative leadership and building relationships has a target of moving to established by 15 November 2020. The improvement actions continue to be developed through a programme of seminars. This would benefit from being updated for 2020/21 with a clear programme for the year. Efforts should be made to issue briefings timeously when requested.</p>
4.2	<p>Progress has been made in actions that will lead to an improvement around integrated finances and financial planning. 2020/21 budget setting for both NHS Shetland and Shetland Islands Council started timeously in 2019. The Local Partnership Finance Team continues to provide support to the Chief Finance Officer.</p>
4.3	<p>In terms of effective strategic planning for improvement, there are now mechanisms in place for an interface between the Acute and Community Commissioning Process through the Annual Operating Plan which will be reflected in the refresh of the Strategic plan. Options are under development for further stepped/ structural changes to be made to align service models with available resources.</p>
4.4	<p>Governance and accountability arrangements are on target to be delivered in the agreed timescales. New draft Scottish Government guidance was issued for comment in November 2019 which clarifies processes around issuing of directions, once these guideline had been agreed they will be implemented locally. Additionally, there is a national review of governance arrangements which officers of NHS Shetland/ Shetland Islands Council are engaged with. Any outcomes of this review will be implemented locally.</p>
4.5	<p>Progress in the area of ability and willingness to share information is maintained. The draft Local Government National Benchmarking Overview Report 2018-19 indicates that Shetland generally compares well with other areas of Scotland.</p>



4.6	Meaningful and sustained engagement has taken place through a range of activities including Community Led Support workshops and the Bressay Health and Care project. These activities have been well received by participants.
4.7	Work needs to continue on all of these areas to ensure that the target levels are reached consistently and then maintained going forward in order to maximise the positive impact of the Integration Joint Board.
5.0	Exempt and/or confidential information:
5.1	None.
6.0	Implications :
6.1 Service Users, Patients and Communities:	The underlying philosophy of the integration agenda is to help people to live longer, healthier lives and have the best possible experience of health and care services by taking an integrated and person centred approach.
6.2 Human Resources and Organisational Development:	There are no direct implications for staff.  The IJB Joint Organisation and Workforce Protocol will be updated in 2020 which will take account of issues around collaborative leadership.
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	The Public Bodies (Joint Working) (Scotland) Act 2014 established the legislative framework for the integration of health and social care services. Progress towards achieving the duties in the act is monitored regularly at a national and local level.
6.5 Finance:	There are no specific financial implications associated with this Report. Implementation of the Development Plan will primarily require staff time, which can be accommodated within existing budgets.
6.6 Assets and Property:	None.
6.7 ICT and new technologies:	None.
6.8 Environmental:	None.
6.9 Risk Management:	The risks of not monitoring delivery of the Development Plan will be: <ul style="list-style-type: none"> <li>- that the IJB does not fully maximise the potential for improvement to services made possible through the Public Bodies (Joint Working) (Scotland) Act 2014; and</li> <li>- that effective decision making is not supported.</li> </ul>
6.10 Policy and Delegated Authority:	<u>IJB Audit Committee</u> The Development Plan addresses issues with regard to the three key documents which underpin the operation of the IJB – the Integration

	Scheme, the Strategic Plan and the Medium Term Financial Plan.	
6.11 Previously considered by:	None	

### Contact Details:

Name: Jo Robinson

Title: Interim Director Community Health and Social Care/ Chief Officer Integration Joint Board

E-mail: jo.robinson@shetland.gov.uk

### Appendices:

Appendix 1: Integration Development Plan Update January 2020

### References

IJB Audit Committee, February 2019, Health and social care integration - Update on progress  
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23730>

Health and Social Care Integration- Update on progress (November 2018).  
<http://www.audit-scotland.gov.uk/report/health-and-social-care-integration-update-on-progress>

13 March 2019, IJB Audit Committee, Audit Scotland Report and response.  
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23730>

14 May 2019, IJB, Self Evaluation Report and Improvement Action Plan.  
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24049>

27 June 2019, IJB, Interim External Audit Report for 2018-19 and Action Plan.  
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24176>

**Ministerial Strategic Group for Health and Community Care**

**Integration Review Leadership Group**

**Development Plan**

For the Review of Progress with Integration of Health and Social Care

Shetland Islands Health and Social Care Partnership

**Version Control**

DATE	VERSION	RECORD OF CHANGES MADE TO DOCUMENT	AUTHOR	
25 July 2019	1.0	First Draft	Hazel Sutherland	
26 July 2019	1.1	Amendments in respect of implementation of recommendations on the Third Sector and inclusion of specific reference to the Local Finance Partnership Team.	Hazel Sutherland	

## Purpose

The purpose of this document is to set out a Development Plan to address the improvement activity identified through the Self Evaluation exercise on the Integration of Health and Social Care.

## Overview

On 6 March 2019, The Director General Health And Social Care Directorates, Scottish Government, and the Chief Executive, COSLA wrote to Integration Authority Chief Officers, NHS Board Chief Executives and Local Authority Chief Executives seeking feedback on progress towards health and care integration. The work is in response to the recently published Audit Scotland Report “Health and Social Care Integration- Update on progress” (November 2018).

On 14 May 2019, the IJB considered the self evaluation responses and a broad consensus was reached on the assessment, as set out below.

Not Yet Established	Partially Established	Established	Exemplary	Total	
0	16	6	0	22	

The Report also included proposed improvement actions.

On 13 March 2019, the IJB Audit Committee considered the Audit Scotland Report and agreed a local response.

On 27 June 2019, the IJB considered a response to the Interim External Audit Report for 2018-19, which included an Action Plan of management responses to address the issues raised.

The approach to pulling together a **Development Plan** takes all the actions – from whatever source (internal audit, external audit and the self evaluation exercise) – and collates the activity to focus on updates of the core documentation which supports the Integration of Health and Care, namely:

- the Integration Scheme;
- the Joint Strategic (Commissioning) Plan; and
- the Medium Term Financial Plan.

There are several ‘sub-tasks’ within these broad headings.

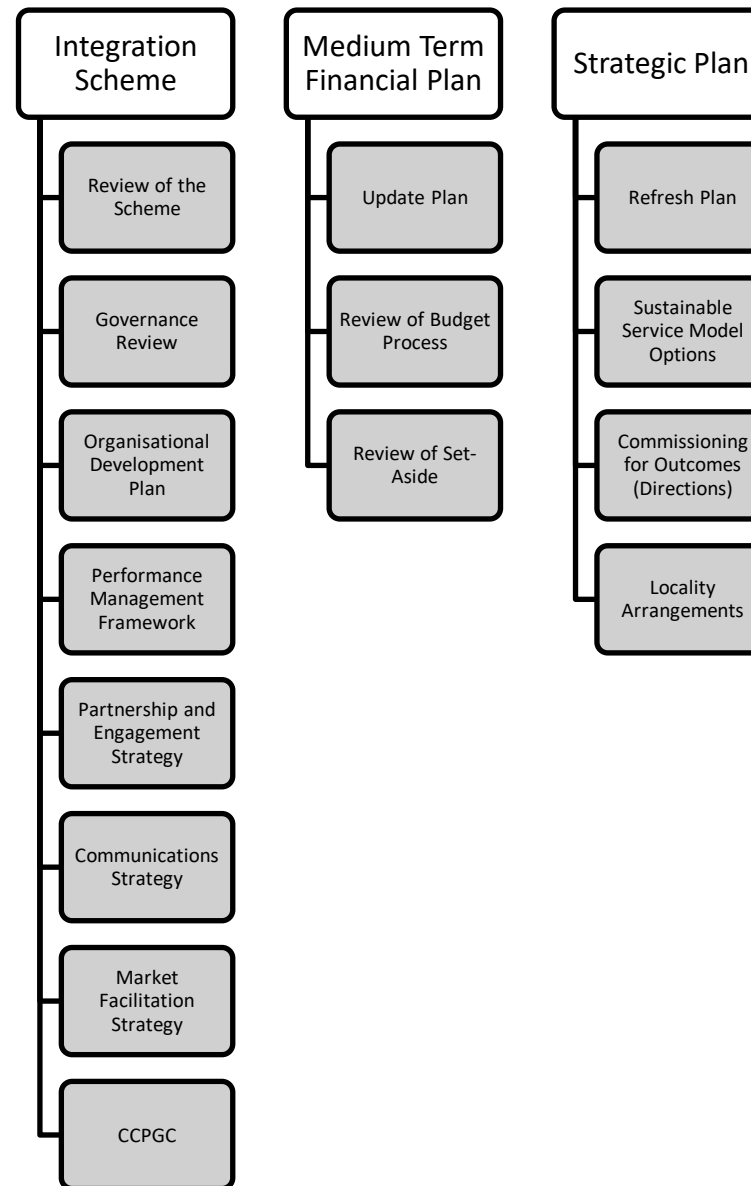
The diagram below shows the high level overview to link the Development Plan to the Key Features of the Self Evaluation Exercise. It is important to note that all the issues are inter-linked and it is not possible to fully describe a linear relationship between one activity and one output/ outcome. The ambition and challenge of integration is predicated on a collaborative approach, which is often ‘messy’ and not easy to describe.

Key Feature Number	Key Feature Category	Primarily Addressed Through:	
1	Collaborative leadership and building relationships	Review of the Integration Scheme	
2	Integrated finances and financial planning	Update of the Medium Term Financial Plan	
3	Effective strategic planning for improvement	Refresh of the Joint Strategic (Commissioning) Plan	
4	Governance and accountability arrangements	Review of the Integration Scheme	
5	Ability and willingness to share information	Review of the Integration Scheme	
6	Meaningful and sustained engagement	Review of the Integration Scheme	

The high level Programme of Work is set out below (taken from the External Audit Action Plan):

Action	Responsibility	Timescale	
Review of Integration Scheme	Director of Corporate Services, SIC	June 2020	
Update of Medium Term Financial Plan	IJB Chief Financial Officer	31 March 2020	
Refresh of the Joint Strategic (Commissioning) Plan	Chief Officer	31 March 2020	

The Diagram below sets out the overall programme of work, with the specific ‘sub-tasks’ listed to address the Improvement Actions.



## **Development Plan (Detail)**

This next section sets out the detailed Development Plan, taken from the Improvement Actions agreed by the IJB in May 2019.

### **References:**

13 March 2019, IJB Audit Committee, Audit Scotland Report and response.

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23730>

14 May 2019, IJB, Self Evaluation Report and Improvement Action Plan.

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24049>

27 June 2019, IJB, Interim External Audit Report for 2018-19 and Action Plan.

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24176>

Prepared by:

Hazel Sutherland

Head of Planning and Modernisation, NHS Shetland

25 July 2019



Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Collaborative leadership and building relationships	All leadership development will be focused on shared and collaborative practice	Move to 'Established'	Leadership in place has had the ability to drive change with collaboration evident in a number of key areas. Some shared learning and collaborative practice in place.	Review of the Integration Scheme	Organisational Development Plan  Communication Strategy / Plan	<ul style="list-style-type: none"> <li>- Understanding of Roles</li> <li>- Better Communication</li> <li>- Leadership training</li> <li>- Team Building</li> <li>- IJB Board Effectiveness evaluation</li> <li>- Financial Skills</li> <li>- Partners in Policy Making</li> <li>- A Rights Based Approach</li> <li>- 'Ambassadorial' role</li> </ul>	Chief Officer	15 November 2020	Continue to develop these aspects through a planned programme of seminars, regular and timely briefings, NHS and SIC resources.
	Relationships and collaborative working between partners must improve.	Move to 'Established'	Statutory partners and other partners have a clear understanding of each other's working practices and business practices – and are working more collaboratively together.						
	Relationships and partnership working with the third and independent sectors must improve	Move to 'Established'	Third and independent sectors routinely engaged in a range of activity and recognised as key partners.	Refresh of the Strategic Plan	Market Facilitation Strategy  Sustainable Service Model Options	Implement the approach in the Market Facilitation Strategy Locality Management / Delivery	Chief Officer	31 December 2019	Engagement has taken place though a range of forums (e.g. Alcohol and Drugs Forum and development of Community Led Support)

					Commissioning for Outcomes (Directions)	Community engagement / participation			
--	--	--	--	--	---	--------------------------------------	--	--	--

Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Integrated finances and financial planning	All partners should have a joint understanding of their respective financial positions as they relate to integration.	Maintain 'Established'	Consolidated advice on the financial position on shared interests under integration is provided to the NHS / LA Chief Executive and IJB Chief Officer from corresponding financial officers when considering the service impact of decisions.		Finance Advice	All 3 financial officers meet regularly in the LPFT where information is shared and joint approaches agreed	Chief Financial Officer	Ongoing	Local Partnership Finance Team meetings continue and progress on a joint approach to budget setting has been made
	Delegated budgets for IJBs must be agreed timeously	Move to 'Established'	Medium term financial and scenario planning in place and all delegated budgets are agreed by the Health Board, Local Authority	Update of the Medium Term Financial Plan	Review of Budget Process	Enabling the IJB to participate as an equal partner	Chief Financial Officer	30 September 2019	Budget setting for all partners started timeously in 2019 however external factors outwith the control of partners have led to a delay in concluding this process.

			and IJB by end of March each year.						
	Delegated hospital budgets and set aside budget requirements must be fully implemented	Move to 'Established'	<p>Set aside arrangements are in place with all partners implementing the delegated hospital budgets and set aside budget requirements.</p> <p>The six steps for establishing hospital budgets, as set out in the statutory guidance, are fully implemented.</p>		Review of Set Aside	Opportunity for IJB to participate in developing local solutions to Unscheduled Care.	Chief Officer	31 December 2019	Health and Social Care staff are working with acute services to establish a new unscheduled care out of hours model
	Each IJB must develop a transparent and prudent reserves policy	Maintain 'Established'	A reserves policy is in place to identify reserves and hold them against planned spend. Clear timescales for the use of reserves are agreed, and adhered to.		Application of Reserves Policy	None	Chief Financial Officer	Ongoing	This work is continuing.

Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Integrated finances and financial planning	Statutory partners must ensure appropriate support is provided to S95 Officers	Maintain 'Established'	IJB S95 Officer provides high quality advice to the IJB, fully supported by staff and resources from the Health Board and Local Authority and conflicts of interest are avoided. Strategic and operational finance functions are undertaken by the IJB S95 Officer. A regular year-in-year reporting and forecasting process is in place.		Current arrangements	Local Partnership Finance Team provides support through regular meetings focussing on a collaborative approach to support the CFO	Chief Financial Officer	Ongoing	Support continues to be provided through the Local Partnership Finance Team
	IJBs must be empowered to use the totality of resources at their disposal to better meet the needs of their local populations.	Move to 'Established'	Total delegated resources are effectively deployed as a single budget and their use is reflected in directions from the IJB to the Health Board and Local Authority	Refresh of the Strategic Plan	Sustainable Service Model Options  Commissioning for Outcomes (Directions)	Options for further stepped/ structural changes to service models to align with resources available.	Chief Officer	31 March 2020	Further work is required to develop a single budget approach

Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Effective strategic planning for improvement	Statutory partners must ensure that Chief Officers	Move to 'Exemplary'	The Chief Officer is entirely empowered to act and is recognised as pivotal in providing leadership at a		Line management arrangements through Chief Executives	Continuing Professional Development	Chief Executive NHS Shetland	31 March 2020	The Chief Officer has been well supported to

	are effectively supported and empowered to act on behalf of the IJB.		senior level. The Chief Officer is a highly valued leader and accorded due status by statutory partners, the IJB, and all other key partners. There is a clear and shared understanding of the capacity and capability of the Chief Officer and their senior team, which is well resourced and high functioning.				(Interim) and Chief Executive Shetland Islands Council		undertake the role. Some remaining capacity issues to enable full scope of role to undertaken remain to be addressed.
	Improved strategic planning and commissioning arrangements must be put in place.	Move to 'Established'	Integration Authority has undertaken an analysis and evaluated the effectiveness of strategic planning and commissioning arrangements. The Local Authority and Health Board provide good support for strategic planning and commissioning, including staffing and resources which are managed by the Chief Officer.	Refresh of the Joint Strategic (Commissioning) Plan	Sustainable Service Model Options  Commissioning for Outcomes (Directions)  Implementation of the Performance Management Framework	Options for further stepped/ structural changes to service models to align with resources available.	Chief Officer	31 March 2020	Revised planning arrangements are in place, report will be presented at March IJB outlining options for further stepped/ structural changes to be made to align resources with service models available.

Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Effective strategic planning for improvement	Improved capacity for strategic commissioning of delegated hospital services must be in place	Move to 'Established'	<p>Delegated hospital budget and set aside arrangements are full in place and from part of routine strategic commissioning and financial planning arrangements.</p> <p>Plans are developed from existing capacity and service plans, with a focus on planning delegated hospital capacity requirements with close working with acute sector and other partnership areas using the same hospitals.</p>		Review of Set Aside	Opportunity for IJB to participate in developing local solutions to Unscheduled Care.	Chief Officer	31 December 2019	Mechanisms now in place for interface between Acute and Community commissioning process through the Annual Operating Plan which will be reflected in the refresh of the strategic plan

Area	Proposal	Target Improvement	Target Improvement by	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Governance and accountability arrangements	The understanding of accountabilities and responsibilities between statutory partners must improve.	Move to 'Established'	Clear understanding of accountability and responsibility arrangements across statutory partners. Decisions about the planning and strategic commissioning of delegated health and social care functions sit with the IJB.	Review of the Integration Scheme	Governance Review	Explore opportunities to streamline governance and reporting arrangements	Director of Corporate Services, SIC, on behalf of Chief Executives of SIC and NHS Shetland	15 November 2020	Review underway
	Accountability processes across statutory partners will be streamlined	Move to 'Established'	Accountability processes are scoped for better alignment, with a focus on fully supporting integration and transparent public reporting.			Review Internal Audit function			
	IJB Chairs must be better supported to facilitate well run Boards capable of making effective decisions on a collective basis	Move to 'Established'	The IJB Chair is well supported, and has an open and inclusive approach to decision making, in line with statutory requirements and is seeking to maximise input of key partners.						

Area	Proposal	Target Improvement	Target Improvement by	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Governance and accountability arrangements	Clear Directions must be provided by IJB to Health Boards and Local Authorities	Move to 'Established'	Directions are issued at the end of a decision making process involving statutory partners. Clear directions are issued for all decisions made by the IJB, are focused on change, and take full account of financial implications.		Sustainable Service Model Options  Commissioning for Outcomes (Directions)	Options for further stepped/ structural changes to service models to align with resources available.  Evidence based practice / decision making.	Chief Officer	31 March 2020	Revised directions will be issued at appropriate stages of service change.
	Effective, coherent and joined up clinical and care governance arrangements must be in place.	Move to 'Established'	The key role clinical and professional leadership plays in supporting safe and appropriate decision making is fully understood. There are fully integrated arrangements in place for clinical and care governance.		Fully implement CCPGC arrangements set out in the Integration Scheme	Develop understanding of clinical governance between partners	Chief Officer	31 March 2020	These are implemented, therefore this is established, however there is a national review of governance arrangements underway



Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	Progress January 2020
Ability and willingness to share information	IJB Annual Performance Reports will be benchmarked by Chief Officers to allow them to better understand their local performance data.	Maintain 'Established'	Integration Authority annual reports are well developed to reflect progress and challenges in local systems, and ensure all statutory required information is reported on, by July 2019. Some benchmarking is underway and assisting consistency and presentation of annual reports.	Review of the Integration Scheme	Implementation of the Performance Management Framework	Locality based examples of good practice	Chief Officer	31 March 2020	Maintained
	Identifying and implementing good practice will be systematically undertaken by all partnerships.	Maintain 'Established'	The Integration Authority annual report is presented in a way that readily enables other partnerships to identify, share and use examples of good practice and lessons learned from things that have not worked.  Inspection findings are routinely used to identify and share good practice.			Benchmarking with peers, in line with the national guidance.  Maintain momentum on innovation and service redesign by seeking good practice from elsewhere.			

Area	Proposal	Target Improvement	Target Improvement	Delivered Through (High Level)	Delivered Through (Detail)	Improvement Action	Responsible Person	Target Date	
Meaningful and sustained engagement	Effective approaches for community engagement and participation must be put in place for integration	Move to 'Established'	Engagement is always carried out when a service change, redesign or development is proposed.	Review of the Integration Scheme	Implement the Participation and Engagement Strategy	Community Led Support	Chief Officer	31 March 2020	Improvement actions are underway as listed. The Bressay project is an example of successful coproduction. Involvement of Unpaid Carers is integral to success of community led support and asset based community development projects
	Improved Understanding of effective working relationships with carers, people using services and local communities is required.	Move to 'Established'	Meaningful and sustained engagement with service users, carers and communities is in place.  There is a good focus on improving and learning from best practice to maximise engagement and build effective working relationships.			Self Directed Support  Coproduction opportunities  Support unpaid carers representatives to access networks			
	We will support carers and representatives of people using services better to enable their full involvement in integration.	Move to 'Established'	Carers and representatives on the IJB are supported by the partnerships, enabling engagement.  Information is shared to allow engagement with other carers, and service users in						

			responding to issues raised.						
--	--	--	------------------------------	--	--	--	--	--	--



# Shetland Islands Health and Social Care Partnership

Agenda Item

**4**

 <p><b>Shetland NHS Board</b></p>	 <p><b>Shetland Islands Council</b></p>
--	--

<b>Meeting(s):</b>	IJB Audit Committee	6 February 2020
<b>Report Title:</b>	Internal Audit Review of Directions	
<b>Reference Number:</b>	CRP-05-20-F	
<b>Author / Job Title:</b>	Duncan Black, Chief Internal Auditor	

<b>1.0</b>	<b>Decisions / Action required:</b>
1.1	That Audit Committee NOTE the content of the report.
<b>2.0</b>	<b>High Level Summary:</b>
2.1	The attached Internal Audit Annual report provides the Audit Committee with an overview of the review of Directions.
<b>3.0</b>	<b>Corporate Priorities and Joint Working:</b>
3.1	A sound system of internal control and governance arrangements assists the Council in achieving its strategic objectives.
<b>4.0</b>	<b>Key Issues:</b>
4.1	Internal Audit is an independent appraisal function. Its work is based on an annual audit plan which is prepared after a risk assessment of all potential audit issues identified by Internal Audit and Directors, and takes account of the work of the IJB's external auditor, Deloitte and NHS Shetland's Internal Auditors.
4.2	During 2018/19 the role of the Chief Internal Auditor was passed to Audit Glasgow (Glasgow City Council). The joint working between the two Councils to provide internal audit services is progressing well.
<b>5.0</b>	<b>Exempt and/or confidential information:</b>
5.1	None
<b>6.0</b>	<b>Implications:</b>
<b>6.1</b>	<b>Service Users, Patients and Communities:</b>
	None

<b>6.2 Human Resources and Organisational Development:</b>	None
<b>6.3 Equality, Diversity and Human Rights:</b>	None
<b>6.4 Legal:</b>	None
<b>6.5 Finance:</b>	There are no financial implications arising from this report.
<b>6.6 Assets and Property:</b>	None
<b>6.7 ICT and new technologies:</b>	None
<b>6.8 Environmental:</b>	None
<b>6.9 Risk Management:</b>	Implementation of the recommendations in Internal Audit reports will help address risks identified through our work.
<b>6.10 Policy and Delegated Authority:</b>	Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015 and operates in accordance with the approved Integration Scheme, Scheme of Administration, and the Financial Regulations.
<b>6.11 Previously considered by:</b>	None

**Contact Details:**

Duncan Black, Chief Internal Auditor, [Duncan.black@glasgow.gov.uk](mailto:Duncan.black@glasgow.gov.uk)

28 October 2019

**Appendices:**

Appendix 1 – Internal Audit report – Review of Directions

**Background Documents:** None

## **1. Introduction**

- 1.1 As part of the agreed Internal Audit plan, we have carried out an Internal Audit review of the process for Directions within the Shetland Islands Integration Joint Board (IJB).
- 1.2 The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) places a duty on the Integrated Joint Boards (IJB) to develop a Strategic Plan for the functions and budgets under its control.
- 1.3 Integration Authorities require a mechanism to action their Strategic Plan. This mechanism takes the form of legally binding directions from the IJB to either one or both partners, Shetland Islands Council (SIC) and NHS Shetland (NHSS).
- 1.4 The scope of the audit was to ensure that there are adequate controls in place for issuing, monitoring and reporting directions. This included:
  - Ensuring that formal arrangements have been agreed by the IJB for issuing directions to SIC and NHSS.
  - Confirming that directions are being issued in line with the agreed procedures in place.
  - Ensuring that the directions that have been issued provide a clear guidance on what is expected by SIC and NHSS.
  - Reviewing the arrangements in place for monitoring directions that have been issued by the IJB.
  - Reviewing the arrangements in place for reporting progress against directions to the IJB Board.

## **2. Audit Opinion**

- 2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and four recommendations which management should address.

## **3. Main Findings**

- 3.1 Directions are in place and are generally operating effectively. In June 2017, the IJB approved the template to be used for directions. For a sample of directions reviewed, we found that the approved template had been used in all cases. All issued directions in the sample related to services delegated to the IJB and are in-line with the IJB's responsibilities.
- 3.2 However in two of seven directions sampled, the template was not fully complete. In these two cases, there is some mitigation due to a Service Plan accompanying each direction presented to the IJB.
- 3.3 We found that limited national guidance has been issued to IJBs to manage the direction process. Internally there is no formal process documented for the detailed administration for the issue, reporting and monitoring of directions. There is also no documented process covering the specific treatment where there are changes

to directions, how these are progressed and monitored and the arrangements for the IJB to receive progress reports and scrutinise directions.

3.8 We would like to thank officers involved in this audit for their cooperation and assistance.

3.4 We noted that where there is a change to the budget this is not detailed in the direction.

3.5 The IJB is legally obliged to notify the Chief Executives of the NHSS and SIC of directions; however, we found no evidence of this happening.

3.6 An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	3
Low	Lower level controls absent, not being operated as designed or could be improved.	1

3.7 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.



#### 4. Action Plan

<b>Key Control</b>	Formal arrangements are in place for the issue, reporting and monitoring of directions to SIC and NHSS.						
<b>Recommendation Title</b>	IJB Directions – Guidance for issuing, reporting & monitoring	<b>Priority</b>	Medium	<b>Responsible Officer</b>	Chief Officer IJB	<b>Due Date</b>	March 2020
<b>Observation &amp; Risk</b>				<b>Recommendation</b>		<b>Response</b>	
<p>Directions have been issued in-line with existing documentation. However, there is no specific guidance in place detailing how the IJB manages the directions process, for example:</p> <ul style="list-style-type: none"> <li>• Key roles and responsibilities;</li> <li>• The process for the issue, monitoring and reporting of directions to the IJB;</li> <li>• Reporting progress against directions; and</li> <li>• Dealing with amendments to an existing direction.</li> </ul> <p>We were advised that the progress on implementation is monitored through the performance management framework quarterly reports and by achievement of outcomes associated with the directions. However, the Board is not provided with a specific report outlining the progress of all directions that have been issued.</p> <p>IJB management also do not maintain a record / log of directions issued.</p> <p>Existing arrangements therefore increase the risk that the IJB may not be fully aware of the current position of a direction.</p>				<p>IJB Management should develop a comprehensive document that clearly outlines:</p> <ol style="list-style-type: none"> <li>1. When a direction should and should not be issued;</li> <li>2. The key responsibilities of those involved in the process, including guidance on the IJBs responsibilities regarding directions;</li> <li>3. The process to be used for monitoring and reporting progress of directions; and</li> <li>4. Amendments to existing directions.</li> </ol> <p>IJB management should also create a central log of all directions issues, and consider reporting a periodic update to the Board on the status / progress of all issued directions.</p>		<p>A comprehensive document will be developed that outlines the 3 areas highlighted under recommendations.</p> <p>The quarterly performance report to the IJB has been updated to indicate the status and progress of all the directions.</p>	

<b>Key Control</b>	Directions are being issued in-line with agreed procedures.						
<b>Recommendation Title</b>	IJB Directions – formal notification to Chief Executives	<b>Priority</b>	Medium	<b>Responsible Officer</b>	Chief Officer IJB	<b>Due Date</b>	Oct 2019
<b>Observation &amp; Risk</b>				<b>Recommendation</b>		<b>Response</b>	
<p>The IJB is legally obliged to notify the Chief Executives of the NHSS and SIC of any directions formally in writing. There was no evidence to support that this had been carried out.</p> <p>This increases the risk that the IJB is unable to hold NHSS/SIC to account for implementation of a direction.</p>				IJB management should ensure that evidence of formal notification of directions to the Chief Executives of NHSS and SIC is retained in all cases.		IJB management will formally notify Chief Executives of NHSS and SIC of directions after the committee meetings and retain a copy of this notification	

<b>Key Control</b>	Directions are being issued in-line with agreed procedures.						
<b>Recommendation Title</b>	IJB Directions – Alignment with Strategic Plan	<b>Priority</b>	Medium	<b>Responsible Officer</b>	Chief Officer IJB	<b>Due Date</b>	Oct 2019
<b>Observation &amp; Risk</b>				<b>Recommendation</b>		<b>Response</b>	
<p>From the sample of directions reviewed, no cases were identified where the budget information was missing from the direction. However, it was noted that the budgets included in these directions are based on the current service model and do not reflect the efficiency targets detailed in the Strategic Plan.</p> <p>The Scottish Government issued a Good Practice Guide in relation to directions. This states: “directions must include detailed information on the financial resources that are available for carrying out the functions that are the subject of directions, including the allocated budget and how that budget (whether this is payment, or an amount made available) is to be used”.</p> <p>Our sample checking found a lack of clarity over the efficiency savings expected due to the Strategic Plan and Financial Plan not being fully aligned.</p> <p>This increases the risk that the IJB is not aware of the budget implications when approving the issue of a direction.</p>				Clarification is needed to ensure the efficiency targets align with the Financial Plan / Strategic Plan and thereafter are reflected in the directions issued.		Approved directions template now makes provision for both efficiency/ cash savings and invest to save proposals.	

<b>Key Control</b>	Directions are being issued in-line with agreed procedures.						
<b>Recommendation Title</b>	IJB Directions – direction template completion	<b>Priority</b>	Low	<b>Responsible Officer</b>	Chief Officer IJB	<b>Due Date</b>	Oct 2019
<b>Observation &amp; Risk</b>				<b>Recommendation</b>		<b>Response</b>	
<p>A sample of seven directions were selected for review. All directions were in the agreed format and each direction specified a budget allocation.</p> <p>However, two of the seven directions did not have a fully completed directions template. The direction for Adult Services did not detail the 'Full text of direction' and the 'Outcomes' and Allied Health Professionals direction did not detail the 'Functions covered by the direction' or the 'Full text of direction'. The risk of ambiguity over these directions is partially mitigated by them being accompanied by a Service Plan.</p> <p>In addition, the reports that accompany directions to be considered by the Board cannot be distinguished from reports that do not contain directions. As there is currently no formal process for the issue of directions, it is the responsibility of the officer preparing the report to determine if a direction is required.</p> <p>Incomplete direction documentation may result in IJB Members not having sufficient information and context prior to making a decision or scrutinising a direction.</p>				<p>IJB management should ensure direction templates are fully / appropriately complete before being presented to the IJB for consideration and approval.</p> <p>IJB management should also consider adding an additional implications section to the report template which would highlight whether a direction was included.</p>		<p>IJB management will ensure direction templates are fully / appropriately complete before being presented to the IJB for consideration and approval.</p> <p>IJB management will review the report template with a view to adding an additional implications section to the report template</p>	





<b>Meeting(s):</b>	IJB Audit Committee	06 February 2020
<b>Report Title:</b>	IJB Audit Committee Business Programme 2020/21	
<b>Reference Number:</b>	CC-01-20-F	
<b>Author / Job Title:</b>	Josephine Robinson, Interim IJB Chief Officer	

## 1.0 Decisions / Action required:

- 1.1 That the IJB Audit Committee RESOLVES to consider and approve its business planned for the financial year to 31 March 2021, including any changes or additions identified.

## 2.0 High Level Summary:

- 2.1 The purpose of this report is to inform the IJB Audit Committee of the planned business to be presented over the financial year to 31 March 2021, and discuss with Officers any changes or additions required to that programme.

## 3.0 Corporate Priorities and Joint Working:

- 3.1 The IJB Joint Strategic Commissioning Plan describes how health and care services can be delivered, jointly, across the services described in the Shetland Islands Health and Social Care Partnership's Integration Scheme.
- 3.2 In order to fulfil the statutory duties with regard to the functions delegated to the IJB Audit Committee by the Shetland Islands Council (the Council) and Shetland NHS Board (the Health Board), and in order to meet public governance principles, the IJB Audit Committee must make sure its Business Programme supports its role in the planning and direction of services to meet the needs of some of the most vulnerable people in our community, and to set its business in accordance with local and national reporting frameworks.

## 4.0 Key Issues:

- 4.1 The IJB Audit Committee's governance documents contain the legislative requirements and matters of best practice and standards, and the Business Programme enhances these by publicising the plans for decision making and other public reporting requirements, in keeping with the principles of good governance.

4.2	There is a strong link between strategic planning and financial planning, to provide the best possible environment to ensure that the strategic direction, service models and resources to deliver services are aligned.
<b>5.0</b>	<b>Exempt and/or confidential information:</b>
5.1	None.
<b>6.0</b>	<b>Implications :</b>
<b>6.1</b>	<b>Service Users, Patients and Communities:</b>
	The Business Programme provides the community and other stakeholders with important information, along with the Strategic Commission Plans, as to the planned business for the coming year.
<b>6.2</b>	<b>Human Resources and Organisational Development:</b>
	There are no direct impacts on staffing or organisational development matters with regard to approval of the Business Programme. However approval of the Business Programme will give direction and assurances to staff with regard to the timing and requirements for decisions and public reporting that the IJB has agreed.
<b>6.3</b>	<b>Equality, Diversity and Human Rights:</b>
	There are no direct impacts on equality, diversity or human rights with regard to approval of the Business Programme, although individual items will have to have regard to those in terms of any outcomes and associated risks. The recommendation in this report does not require an Equalities Impact Assessment.
<b>6.4</b>	<b>Legal:</b>
	<p>The IJB Audit Committee is advised to establish a Business Programme, but there are no legal requirements to do so.</p> <p>There are no direct legal impacts with regard to approval of the Business Programme, although individual reports will have to have regard to current and impending legislation and the impact on the IJB, and the services which the NHS and SIC deliver, in terms of outcomes and legal risks.</p>
<b>6.5</b>	<b>Finance:</b>
	<p>There are no direct financial implications by approving the Business Programme, but indirect costs may be avoided by optimising time spent by officers and members of the IJB at scheduled meetings. Regular financial and performance reporting will ensure that the IJB fulfils the terms of the Integration Scheme.</p> <p>Any costs associated with the development and maintenance of the IJB Audit Committee Business Programme will be met from within</p>

	existing budgets of the Council and the Health Board.
<b>6.6 Assets and Property:</b>	There are no implications for major assets and property. It is proposed that all meetings of the IJB Audit Committee will be held in either the premises of the Council or the Health Board and that the costs will be covered accordingly by the Council and the Health Board.
<b>6.7 ICT and new technologies:</b>	There are no ICT and new technology issues arising from this report.
<b>6.8 Environmental:</b>	There are no environmental issues arising from this report.
<b>6.9 Risk Management:</b>	The risks associated with setting the Business Programme are around the challenges for officers meeting the timescales required, and any part of the Business Programme slipping and causing reputational damage to the IJB, the Council or the NHS. Equally, not applying the Business Programme would result in decision making being unplanned and haphazard and aligning the IJB's Business Programme with the objectives and actions contained in its Strategic Plans could mitigate against those risks.
<b>6.10 Policy and Delegated Authority:</b>	As a separate legal entity the IJB has full autonomy and capacity to act on its own behalf. Having in place a structured approach to considering key planning, policy and performance documents at the right time is a key element of good governance. Regular Business Planning reports are already prepared for each IJB meeting.
<b>6.11 Previously considered by:</b>	None

**Contact Details:**

Jo Robinson  
 IJB Chief Officer - Interim  
[Jo.robinson@shetland.gov.uk](mailto:Jo.robinson@shetland.gov.uk)

**Date Finalised:** 27 January 2020

**Appendices:**

Appendix 1 Business Programme 2020/21  
 Appendix 2 Action Tracker







Shetland NHS  
Board



Shetland Islands  
Council

Shetland Health and Social Care Partnership  
**Integration Joint Board Audit Committee**  
**Meeting Dates and Business Programme 2020/21**  
as at Tuesday, 28 January 2020

IJB Audit Committee		
<b>Quarter 1</b> – 1 April 2020 to 30 June 2020	Thursday 23 April 2020 10 a.m.  Bressay Room, Montfield	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business</li> <li>Internal Audit Plan 2020/21</li> </ul>
	Thursday 25 June 2020 <i>Special Meeting A/Cs only</i> 2 p.m.  Bressay Room, Montfield	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business Programme</li> <li>Interim External Audit Report</li> <li>Unaudited Accounts</li> </ul>
<b>Quarter 2</b> – 1 July 2020 to 30 September 2020	Thursday 27 August 2020 10 a.m.  Council Chamber, Town Hall	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business Programme</li> </ul>
<b>Quarter 3</b> - 1 October 2020 to 31 December 2020	Thursday 24 September 2020 <i>Special Meeting A/Cs only</i> 2 p.m.  Bressay Room, Montfield	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business Programme</li> <li>Final Audited Accounts</li> <li>Annual External Audit Report / ISA 260</li> </ul>
<b>Quarter 4</b> 1 January 2021 to 31 March 2021	Thursday 26 November 2020 10 a.m.  Council Chamber, Town Hall	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business Programme</li> </ul>
<b>Quarter 1</b> – 1 April 2021 to 30 June 2021	Thursday 18 February 2021 <i>Special Meeting A/Cs only</i> 2 p.m.  Bressay Room, Montfield	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business Programme</li> <li>Internal Audit Plan 2021/22</li> <li>External Audit Plan 2020/21</li> </ul>
	Thursday 11 March 2021 10 a.m.  Bressay Room, Montfield	<ul style="list-style-type: none"> <li>2020/21 IJB Audit Dates Committee Business</li> </ul>

END OF BUSINESS PROGRAMME as at Tuesday, 28 January 2020



ACTIONS – IJB AUDIT							
No	Agenda Item	Responsible Post Holder	IJB Meeting Date	Target Date	Action	Update	R/A/G Status C (Completed)
1	2019/20 Budget	Chief Financial Officer	13.03.19	May 2019	4 service areas listed 4.12 in budget report to be brought to May meeting with more detail.	<p>Recovery plan update on IJB meeting agenda 14th May 2019</p> <p>Recovery plan to remain on tracker for ongoing monitoring and quarterly updates.</p>	G