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30 November 2022

To: Councillors Henderson (Chair), Bell, Cullen, Kilpatrick, McGinley, Ramsay, Scott and Weir.

All other Elected Members for information only

Dear Councillors

AUDIT AND GOVERNANCE PANEL

You are requested to participate in the above Panel to be held **on Wednesday 7 December 2022 at 10.00 a.m.** for the purpose of considering the undernoted business.

This meeting will be held on a hybrid basis for Elected Members, will be live-streamed and available to view at <https://south-ayrshire.public-i.tv/>

Yours sincerely

CATRIONA CAVES
Head of Legal and Regulatory Services

B U S I N E S S

1. Declarations of Interest.
2. Call-ins from Cabinet.
3. Minutes of previous meetings of
 - (a) 9 November 2022; and
 - (b) 23 November 2022 (Special)
(copies herewith).
4. Action Log and Work Programme (copy herewith).

External Audit Reports

5. Audit Scotland : Briefing on Tackling Child Poverty – Submit report by Director of Strategic Change and Communities (copy herewith).

6. Audit Scotland: Local Government in Scotland Overview 2022- Submit report by Director of Strategic Change and Communities (copy herewith).

Internal Audit Reports

7. Corporate Fraud Team – Activity Report and Update on 2022/23 National Fraud Initiative – Submit report by Chief Internal Auditor (copy herewith).

Other Governance Reports

8. Treasury Management and Investment Strategy Mid-Year Report 2022/23 – Submit report by Head of Finance, ICT and Procurement (copy herewith).

For more information on any of the items on this agenda, please telephone Janice McClure, Committee Services on 01292 612169, Wellington Square, Ayr or e-mail: committeeservices@south-ayrshire.gov.uk
www.south-ayrshire.gov.uk

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AUDIT AND GOVERNANCE PANEL.

Minutes of a hybrid webcast meeting on 9 November 2022 at 10.00 a.m.

Present in County Hall:	Councillors Peter Henderson (Chair), Brian McGinley, Cameron Ramsay and George Weir.
Present Remotely:	Councillors Chris Cullen and Mary Kilpatrick.
Apologies:	Councillors Kenneth Bell and Gavin Scott.
In Attendance For Call-in:	Councillors Alec Clark (as Portfolio Holder), William Grant and Duncan Townson.
Attending in County Hall:	E. Howat, Chief Executive; M. Newall, Depute Chief Executive and Director of Housing, Operations and Development; J. Bradley, Director of Strategic Change and Communities; T. Baulk, Head of Finance, ICT and Procurement; C. Caves, Head of Legal and Regulatory Services; W. Carlaw, Service Lead – Democratic Governance; K. Dalrymple, Service Lead – Neighbourhood Services; K. Anderson, Service Lead – Policy, Performance and Community Planning; L. Kerr, Service Lead – Destination South Ayrshire, Culture and Sport; C. McGhee, Chief Internal Auditor; S. MacMillan, Project Implementation Co-ordinator, J. McClure, Committee Services Lead Officer; and C. McCallum, Committee Services Assistant.

Opening Remarks.

The Chair

- (1) welcomed everyone to the meeting; and
- (2) outlined the procedures for conducting this meeting and advised that this meeting would be broadcast live.

1. Sederunt and Declarations of Interest.

The Chair called the Sederunt for the meeting and having called the roll, confirmed that there were no declarations of interest by Members in terms of Council Standing Order No. 17 and the Councillors' Code of Conduct.

2. Call-in from Cabinet– “Proposal to Deliver an Airshow in September 2023, 2024, 2025, 2026 and 2027”

Reference was made to the Minutes of the Cabinet of 1 November 2022 (Page 3, paragraph 8) when the Cabinet had decided

- (1) to agree that officers progress with the planning of the Airshow including work to identify sponsors;
- (2) to approve that funding for the Airshow of £300,000 per year, for a period of five years, would be considered as part of the budget setting process for 2023-2024;
- (3) to approve the name for the Airshow - The International Ayr Show – Festival of Flight;
- (4) to approve the proposal to have the Royal Air Force Benevolent Fund as the charity partner for the event; and
- (5) to note the progress made by the SKYLAB in relation to expressions of interest with military display teams.

There were submitted two [call-ins](#) (issued) from Councillors William Grant and Duncan Townson and [Responses/Feedback](#) from Officers to the reasons for the call-ins (issued).

The Panel then heard Councillors William Grant and Duncan Townson outline the details of their call-ins; and the Director of Strategic Change and Communities responded to the points raised by both Members as follows:-

- (a) that the Council had entered into a partnership contract with SKYLAB who had been involved in delivering previous airshows and that the cost of the contract would be met through the Significant Events Fund;
- (b) that officers were currently working on proposals for the events village such as food and beverages, car parking, VIP ticketed packages and land based entertainment to generate income for the Council which would be applied to offset the cost of delivering the Airshow;
- (c) that works could progress to identify sponsors, in conjunction with the Royal Airforce Benevolent Fund, once approval was granted to commence; and that she was confident that the Council could attract sponsorship packages from a wide range of organisations, some of which had already expressed an interest and that this would be marketed widely;
- (d) that having, reviewed the financial statements of the previous company who had run the Airshow, she was confident that the Council could break even or hopefully generate income over the first few years of the Airshow;
- (e) that the contract with SKYLAB was a 2 +1 + 1 + 1 contract which and that the Council required to register an interest in having military aircraft at the Airshow in the September of the year prior to the airshow;
- (f) that this was likely to be the only Airshow north of Blackpool next year which would attract significant interest with interest also registered in civilian aircraft and a number of ground attractions being examined;

- (g) that the Council would engage with local businesses to ensure that they benefited from this event and that, as the plan was to hold a three day event, visitors to the area would use local accommodation and other local businesses;
- (h) that the intention was that the Airshow would generate income in future years as it was an event of significant importance to South Ayrshire as a driver for tourism and supporting the regeneration of the local economy;
- (i) that the budget for this event would be submitted for consideration of Members at the meeting of South Ayrshire Council of 2 March 2023 and that the intention was to include the proposals for the funding of the Airshow as part of that; and
- (j) that it was difficult to be clear at present on what could be achieved in conjunction with partner organisations as approval had not yet been granted to formally approach partners; and that this report was seeking approval to liaise with the partners.

Following further comments from Councillor Grant that this was an event of national significance and that sponsorship should be sought from large national companies; and that assurances were required that other local events would not be affected due to staff being involved in this large event; the Director of Strategic Change and Communities advised that the Events Team was currently recruiting an officer who would be dedicated to developing and organising the Airshow, along with staff from a range of other services who had previously been involved in arranging this event as she was aware of the significance and size of the event and the number of staff required to arrange this, which was why approval was being sought at this time as an event of this size required a long-term plan, however she was confident this could be delivered.

Following a further question from Councillor Townson on what guarantees could be given to local businesses that the Airshow would support them economically and support the local economy throughout South Ayrshire; the Director of Strategic Change and Communities and the Service Lead – Destination South Ayrshire, Culture and Sport advised

- (i) that local businesses would be given an opportunity through the procurement process to apply to take concessions within the local village;
- (ii) that, although it was acknowledged that some visitors would drive to the event, park then leave following the event, it was hoped to encourage visitors to stay and use hotels, restaurants and shops;
- (iii) that this event would showcase South Ayrshire as a fantastic place to visit and it was hoped to have a calendar of events arranged for South Ayrshire to issue to the visitors to the Airshow to encourage them to return to the area; and
- (iv) that an app was shortly being launched which visitors to the area could download highlighting what was on offer in the area; and that activities would be taking place at the bottom of the High Street to ensure that the town centre was seen as part of the wider festival and that the businesses in the High Street also benefited from the increased footfall.

Councillor Clark, as Portfolio Holder with responsibility for this matter then responded to the comments made by Councillors Grant and Townson and referred to the organisation of the previous Airshows when the Council had less input in the organisation and staging of the event and had provided monies to a company to stage the previous airshows however, the Council had management control over the ground activities for the proposed upcoming Airshow and he had confidence that Skylab had the technical expertise to deal with the aircraft; and that he had confidence in Skylab and the Council Officers managing the event. He further advised that, as a major event, this was a chance to promote South Ayrshire and stimulate the economy while also promoting other upcoming events.

A full discussion took place and comments were made by Panel Members in relation to:-

- (A) this matter being “called in” twice detailing similar concerns which outlined that the level of information required to make a proper decision was not provided within the original report which was concerning;
- (B) that, whilst there was confidence in the Council Officers to deliver this event, there was no evidence to show that this event had been sufficiently planned and developed at this point;
- (C) that, as there was no financial plan, business plan, environmental impact plan, insurance costs or mitigations outlined within the report, this raised concerns and more information was required to allow the event to go forward;
- (D) that, as £300,000 was the base budget and marketing, clean-up and insurance costs etc would require to be included, there were concerns that, at a time when the Council was required to make significant cuts to balance the budget, the cost of the Airshow could have a significant impact on service delivery, as well as the environmental impact;
- (E) certain elements of the planning of this event required to be in place prior to the approval of the Airshow; and
- (F) concerns that the Council could not withdraw from the contract with SKYLAB after year one but could only withdraw after year two.

The Director of Strategic Change and Communities responded to the above comments by advising that this report was seeking approval to progress with the planning and delivery of the Airshow and that, until this approval was granted, she was unable to produce a more detailed plan but, if approval was granted, she would develop these plans and they would be subject to continuous review and be fully evaluated following the first event which would then inform the future delivery and any amendments to the future delivery plan; that an officer dedicated to this event was being recruited and the Events Team would be assisting with the delivery of this event and she was very confident in the Council’s ability to deliver the Airshow; that the Administration had outlined its support of the event and there had been significant interest from the people of South Ayrshire; and that she appreciated the Member’s confidence in the Officers concerned.

Questions were raised by Panel Members in relation to:-

- (I) the financial accounts of the previous company who managed the Airshow; and the Director of Strategic Change and Communities advised that, having examined the accounts of this company along with the Council's potential income generation, she was confident that the Council could deliver the Airshow within the budget sought;
- (II) the reference to £300,000 within the written responses as a potential increase from that allocated to the last airshow was to take account of increased costs for staging the event and this would be reviewed annually and the £1.5m was proposed but not fixed; and the Director of Strategic Change and Communities advised that, as part of the budget setting process, the £300,000 was allocated for the delivery of the Airshow, however, it was hoped that the income generated in the first few years would negate the requirement for these monies in future years. She further advised that, in advance of delivering the Airshow, deposits required to be paid but that these would be offset by the income generated by the event which was why it was requested that this was built into the process for the next five years;
- (III) the event being met through the Significant Events Budget and whether this would have an impact on other events within South Ayrshire or any future events; and the Director of Strategic Change and Communities advised that the Council was currently committed to a two year contract with SKYLAB and was requesting a base budget of £300,000 at present, no funding above that figure;
- (IV) whether running the Airshow would affect the Council's Carbon Budget; and the Service Lead – Destination South Ayrshire, Culture and Sport advised that SKYLAB had joined the British Air Display Association which represented all areas of the British Air Display Industry and encouraged and advanced safety and standards, encouraged members of the Association to embrace the air display's environmental sustainability charter and that they would be creating an environmental action plan with the aim of reducing climate impact. She further advised that the Council, as part of the five year proposition, would aim to make the Airshow the UK leader in carbon offsetting and responsible design and would look to justify each aircraft booking responsibly.

Councillor Clark, as Portfolio Holder, responded to the questions and comments by Panel Members and advised that the questions raised at Cabinet outlined that scrutiny had taken place when approving this report; that the Council was being responsible with the contract agreed with SKYLAB; and that, with the Council's professional partners, a significant and successful Airshow could take place for the people of South Ayrshire.

The Chair then thanked all Panel Members for their contribution and outlined that the role of this Panel was to scrutinise reports to ensure best value for the people of South Ayrshire, however, he outlined concerns with the monies required to produce this Airshow due to current pressures on Council budgets and also concerns regarding the environmental impact of those travelling to and from the event. The Director of Strategic Change and Communities advised that the Council would be encouraging visitors to the event to view this as a weekend event as there would be other activities provided and, therefore use the local guest houses and restaurants; and that it was anticipated that large numbers of people would visit the event during the course of the weekend and that the event would showcase Ayr and also the whole of South Ayrshire.

The Chair then outlined the options open to the Panel when considering this call-in.

Councillor McGinley, seconded by Councillor Cullen, moved that the Panel continue consideration of this matter to the next meeting of this Panel scheduled to be held on

7 December 2022 to allow officers to compile a robust scoping exercise and indicative costs.

The Panel heard the Service Lead – Democratic Governance advise that this Motion could not be practically realised due to the short timescales; and heard from the Chief Executive and the Head of Legal and Regulatory Services in relation to the decision of the Cabinet of 1 November 2022; outlining that the £300,000 would be submitted for approval as part of the budget-setting process; and that to allow officers to develop the proposals and come forward with a business plan, officers required to be granted approval to undertake planning for the event.

Councillor McGinley as Mover of the Motion, agreed to Amend the Motion, with the agreement of the Seconder, Councillor Cullen to:-

“that officers progress the planning of the Airshow as per the Cabinet decision of 1 November 2022, with the proviso that officers bring forward information on a robust scoping exercise and indicative costs to a future meeting of this Panel, prior to the budget setting meeting of South Ayrshire Council of 2 March 2023”.

The Panel

Decided: that officers progress the planning of the Airshow as per the Cabinet decision of 1 November 2022, with the proviso that officers bring forward information on a robust scoping exercise and indicative costs to a future meeting of this Panel, prior to the budget setting meeting of South Ayrshire Council of 2 March 2023.

3. Minutes of Previous Meeting.

The [Minutes](#) of the meeting 5 October 2022 of (issued) were submitted and approved.

Adjournment

The time being 11.08 a.m., the Panel agreed to adjourn for 15 minutes.

Resumption of Meeting.

The meeting resumed at 11.23 a.m.

4. Action Log and Work Programme.

There was submitted an update of the [Action Log and Work Programme](#) for this Panel (issued).

The Head of Finance, ICT and Procurement provided the Panel with an update of the status of the Action Log and Work Programme.

Questions were raised by a Panel Members in relation to:

- (1) item 3 of the Action Log regarding Equalities Training for Elected Members and employees; and the Service Lead – Policy, Performance and Community Planning advised that a meeting of the Equality and Diversity Forum would be taking place on 15 November 2022 when it would discuss training needs and also the update of the Forum's Terms of Reference, especially regarding the Fairer Scotland Duty; and that he would update the Panel on the agreed date for this training. The Chair then commented that the United Nations Convention on the Rights of the Child would come into force soon and he hoped to see this included within the training; and
- (2) item 5 of the Action Log regarding the Best Value Action Plan requesting information on the process for this; and the Chief Executive advised that a session for all Elected Members had taken place with the Improvement Service to identify priorities and that a further meeting was scheduled for 10 November 2022 with the Administration when their priorities for the Council Plan would be identified and would be submitted to a future meeting of South Ayrshire Council for approval. She further advised that a decision had been taken in January 2022 to extend the Council Plan to allow the new Administration following the Local Government Election to set out their priorities, however, extending the Plan would have an impact on some of the previously agreed dates.

The Panel

Decided: to note the current status of the Action Log and Work Programme.

External Audit Report

5. Best Value Action Plan 2021-22 – Update

There was submitted a [report](#) (issued) of 1 November 2022 by the Depute Chief Executive and Director of Housing, Operations and Development advising Members of the progress made in delivering the actions identified in the Best Value Assurance Report [Action Plan 2021-22](#).

The Depute Chief Executive and Director of Housing, Operations and Development provided the Panel with an overview of the report and advised that, in January 2022, the Leadership Panel had agreed to extend the existing Council Plan (2018-22) by no more than one year to allow new Members the opportunity to contribute to the development of a new Plan with it being anticipated that the new Council Plan would be agreed by Cabinet by March 2023; and outlining that the majority of identified actions in Appendix 1 to the report had been fully completed or were scheduled to be completed by the due date.

Questions were raised by Panel Members in relation to:-

- (1) page 5 of Appendix 1 where an action had a due date of 31 December 2022, however was being submitted to Cabinet for approval on 31 March 2023; and the Depute Chief Executive and Director of Housing, Operations and Development advised that some items were before Panel today for approval of a revised date, including the action referred to;

- (2) item 4 on page 5 of Appendix 1 which referred to “the Thriving Communities team have structures in place to support consultation and engagement with communities at the appropriate time when the Council plan was being developed” and when the appropriate time would be; and the Director of Strategic Change and Communities advised that, as the priorities of the Administration emerged through the development work, this would provide the substance to engage with communities; and that a Communications Plan was in place for this;
- (3) the action on “Developing a Workforce Plan” on page 6 of Appendix 1 and the next stage of this; and the Chief Executive advised that this matter had been considered at Service and Performance Panel on 25 October 2022 and that a report clearly articulating the next steps in terms of developing the Workforce Plan and the actions allocated to the relevant officers would be submitted to Cabinet for approval on 29 November 2022; and
- (4) the consultations referred to in the Best Value Action Plan and at which stage communities were involved; and the Director of Strategic Change and Communities advised that the community engagement element referred to in the Best Value Action Plan was for the Council to ensure that robust community engagement was in place across all services, therefore multi-skilled locality based teams had been established to work across the five main towns and the villages and that these teams had established appropriate networks for consultation and engagement; that the Council had also developed a more robust online consultation system, had engaged the Consultation Institute who had undertaken training with members and with officers at various levels and that an officers’ consultation reference group had been established which carried out consultations using the appropriate channels.

The Panel, having scrutinised the content of the Best Value Action Plan 2021-22 update report

Decided: to note the progress through the narrative set out within [Appendix 1](#).

6. Internal Audit – Progress Report : (i) Progress of Annual Internal Audit Plan 2022/23; (ii) Implementation of Internal Audit Action Plans; and (iii) Quality Assurance and Improvement Programme Update

There was submitted a [report](#) (issued) of 27 October 2022 by the Chief Internal Auditor advising Members of Internal Audit’s progress of the 2022/23 Internal Audit plan, directorate progress against implementation of Internal Audit action plans and the status of the current Quality Assurance and Improvement Programme.

The Chief Internal Auditor provided an overview to the report and gave an update advising

- (1) that, following the submission of this report, three final reports had been issued, one draft report had been issued and a further three assignments from the plan had commenced; that, following the submission of this report, three final reports had been issued, one draft report had been issued and three assignments from the plan had commenced;

- (2) that following comments made by Panel Members at the meeting of 7 September 2022, processes had now been updated insofar as officers requesting an extension for a third time would now require to attend Panel to request this; and officers would require to attend Panel to address why an action was overdue, however, there were no overdue actions or requests for extension in this report;
- (3) that she would be having quarterly meetings with officers in Risk Management to ensure that information on risks from audit reports or from Risk Management were shared to ensure that this information was reflected in the risk registers and the annual internal Audit Plan; and
- (4) that, with regards to the Quality Assurance and Improvement Programme, the self-assessment part of this had now been completed and the external assessment had commenced and that, subject to the external assessment being completed timeously, it was hoped that a report on this matter be submitted to the meeting of this Panel scheduled to be held on 22 February 2022.

Comments were made by Members in relation to:-

- (a) the importance of Panel Members understanding that this report reflected the period up to 30 September 2022 and that progress had been made since this date and
- (b) the requirement for Officers to update Pentana regularly.

Questions were raised by Panel Members in relation to:-

- (i) whether the Chief Internal Auditor felt she had sufficient resources to complete the Plan as outlined at Appendix 1 to the report; and the Chief Internal Auditor advised that there had been resource issues at the start of the year but these had been considered when the Plan had been developed, she now had a full complement of staff and she was confident the Plan could be delivered;
- (ii) "Payment Card Industry Data Security Standard Compliance Management – Review Procedures and Compliance with Training" and whether this would be completed within the timescales; and the Head Finance, ICT and Procurement advised that this item had a due date of 31 October 2022 and had been completed within the timescales;
- (iii) progress with the Fuel Management System action; and the Service Lead – Neighbourhood Services advised that progress had been made since the report was written with most items to be completed by 27 November 2022, however an initial investigation regarding fuel fobs had uncovered a significant cleansing exercise was required to complete this task and this may require a new due date of January or February 2023;

- (iv) whether the Service Lead – Neighbourhood Services was confident that he had taken cognisance of the potential risks with regard to the “fuel fobs” action and whether this was an administrative exercise; and the Service Lead – Neighbourhood Services advised that this was an administrative exercise and that there was no real risk of theft, however records had been historical and not updated for some time which had been picked up through the audit process; and that an additional piece of work was now going to be carried out once names had been matched to fuel fobs with licence checks also taking place. The Depute Chief Executive and Director of Housing, Operations and Development further advised that responsibility for fleet use, including fuel use, sat with Services Leads; and that the policy was clear that, while Fleet Management had responsibility for managing the fuel system, Service Leads were responsible for driving licence checks and ensuring that the correct officers were drawing fuel; and
- (v) the reasons for the extension in the due dates for the “Main Accounting System Review”; and the Head of Finance, ICT and Procurement advised that an extension had been requested to align with the Oracle Fusion Project, which had been delayed due to technical issues, however, these had now been resolved and this project was moving forward.

The Panel

Decided: to note the contents of the report.

The meeting ended at 11.55 a.m.

AUDIT AND GOVERNANCE PANEL (SPECIAL)

Minutes of a hybrid webcast meeting on 23 November 2022 at 2.00 p.m.

Present in County Hall: Councillors Peter Henderson (Chair), Kenneth Bell, Brian McGinley, Cameron Ramsay and George Weir.

Present

Remotely: Councillors Chris Cullen, Mary Kilpatrick and Gavin Scott.

Attending: E. Howat, Chief Executive; J. Bradley, Director – Strategic Change and Communities; T. Baulk, Head of Finance, ICT and Procurement; C. Caves, Head of Legal and Regulatory Services; W. Carlaw, Service Lead – Democratic Governance; T. Simpson, Service Lead - Corporate Accounting; L. Kerr, Service Lead – Destination South Ayrshire; A. Nelson, Co-ordinator – Democratic Support; A. Gibson, Committee Services Officer, and E. Moore, Committee Services Assistant.

Attending

Remotely: C. McGhee, Chief Internal Auditor and P. Kenny, Deloitte LLP.

Opening Remarks.

The Chair

- (1) welcomed everyone to the meeting; and
- (2) outlined the procedures for conducting this meeting and advised that this meeting would be broadcast live.

1. Sederunt and Declarations of Interest.

The Chair called the Sederunt for the meeting and having called the roll, confirmed that that there were no declarations of interest by Members of the Panel in terms of Council Standing Order No. 17 and the Councillors' Code of Conduct.

2. Final Report on the 2021/22 Audit

There was submitted a [report](#) (issued) of 17 November 2022 by the Head of Finance, ICT and Procurement submitting the Annual Accounts for the financial year ended 31 March 2022 and the proposed independent auditor's report to Members and to allow the auditor to communicate the matters raised during the audit to the Panel.

The Service Lead – Corporate Accounting outlined the main points of the report and highlighted two minor changes to the Annual Accounts, namely Page 4 of the Annual Accounts referred to FTE employees as at 31 March 2022 which had changed from 4723 to 4640 following the provision of revised information from HR colleagues. The second correction was on page 51, a reclassification of the previous year's creditors figure. There was no change to the total creditors figure but the classification between trade creditors and other payable amounts had changed by £11.8m. This change had no impact on the bottom line.

P. Kenny, Deloitte LLP then took the Panel through the main points of the Annual Audit Report focussing on the Council's financial statements.

Comments were made and questions raised by Members in relation to: -

- (1) equality matters and in particular Fairer Scotland duties and whether the Council was meeting expectations in terms of their legal responsibilities; and P. Kenny advised that this issue was part of the wider scope element of the audit and that the Accounts Commission was keen to pursue this; and that there would be an increased focus on this element in the future.
- (2) Section 4.3.3. of the report and the accumulated surplus being £39m and uncommitted general reserves being £5.9m when a Member had intimated that these figures were accurate when the audit was undertaken in June 2022 and sought an explanation as to why the figures hadn't been updated; and the Head of Finance, ICT and Procurement confirmed that the accounts were audited at a fixed point in time and that a budget management report would be submitted to Cabinet on 30 November 2022 which would update Members on this;
- (3) the Council Plan and how the Council's budget related to achieving the ambitions of the Council Plan; and the Chief Executive advised that work was ongoing on the new Council Plan and further advised that the Plan required to be achievable in light of tighter budgets and that priorities would require to be set. ; and
- (4) whether it was clear what required to be undertaken in relation to the Strategic Change Programme to address the concerns raised within the audit; and the Head of Finance, ICT and Procurement intimated that the Council had made progress on this matter, since the audit and had been carried out and the Director of Strategic Change and Communities subsequently advised that a report would be submitted to Cabinet in the near future.

The Chair highlighted that there was no date entered against Item 8 point 2.1. of the covering report.

The Panel, having thanked the Service Lead – Corporate Accounting and his staff for their work on these Accounts,

Decided:

- (a) to consider the 2021/22 Annual Audit Report by Deloitte LLP (Annex 1) and note that the Annual Accounts and Charitable Trust Accounts had an unmodified audit opinion.
- (b) to approve the Council's audited Annual Accounts (Annex 2) for signature and their subsequent issue by 30 November 2022; and
- (c) to approve the Charitable Trusts audited Annual Accounts (Annex 3) for signature and their subsequent issue by 30 November 2022.

3. Continuation of Call in from Cabinet – “Proposal to Deliver an Airshow in September 2023, 2024, 2025, 2026 and 2027”.

Reference was made to

- (1) the Minutes of the Cabinet of 1 November 2022 (Page 3, paragraph 8) when the Cabinet had decided
 - (a) to agree that officers progress with the planning of the Airshow including work to identify sponsors;
 - (b) to approve that funding for the Airshow of £300,000 per year, for a period of five years, would be considered as part of the budget setting process for 2023-2024;
 - (c) to approve the name for the Airshow - The International Ayr Show – Festival of Flight;
 - (d) to approve the proposal to have the Royal Air Force Benevolent Fund as the charity partner for the event; and
 - (e) to note the progress made by the SKYLAB in relation to expressions of interest with military display teams; and
- (2) the Minutes of the Audit and Governance Panel of 9 November 2022 (Page 2, paragraph 2) when the Panel had decided that officers progress the planning of the Airshow as per the Cabinet decision of 1 November 2022, with the proviso that officers bring forward information on a robust scoping exercise and indicative costs to a future meeting of this Panel, prior to the budget setting meeting of South Ayrshire Council of 2 March 2023.

Following the decision of the meeting of this Panel of 9 November 2022, there was submitted a [report](#) (issued) of 22 November 2022 by the Director of Strategic Change and Communities providing information on a scoping exercise with indicative costs for the delivery of an Airshow in September 2023; and seeking approval to progress with the recommendations as outlined in the report.

The Director advised that extensive work was required in the planning and delivery of an Airshow and that a scoping exercise had been carried out which involved scrutinising previously available financial information and consultation with the Council's strategic partner which subsequently allowed for the provision of an estimated indicative financial projection (attached as Appendix 1 to the report). She further advised that detailed projections could not be produced until potential sponsors had been contacted and until the charity partner could contact their potential sponsors and advertisers, which once carried out, further information on this and other indicative projections could be further interrogated and details brought forward in the budget setting process.

Questions were raised by Panel Members in relation to:

- (i) the period of funding; and the Director of Strategic Change and Communities advised that funding had been sought for a period of 5 years, ie 2023, 2024, 2025, 2026 and 2027; and that separately the contract with the Council's strategic partner was on a 2+1+1+1 basis;
- (ii) whilst acknowledging the challenges faced by Officers, the lack of robust financial information was a concern and what options were open to the Panel when considering the report; and the Chief Executive outlined the options open to the Panel when considering this call-in which were:
 - (A) to agree the Cabinet decision of 1 November 2022; or
 - (B) to refer the matter back to Cabinet, with recommendations, for final determination.

Adjournment

The time being 2.46 pm., the Panel adjourned for twenty five minutes.

Resumption of Meeting

The meeting resumed at 3.11 p.m.

Councillor Bell, seconded by Councillor Kilpatrick, moved that the Panel

- (I) note the financial projections contained in Appendix 1 of the report;
- (II) request that officers present further more detailed financial information to Members through the budget setting process and in advance of the meeting of the Council on 2 March 2023; and
- (III) agree the decision of Cabinet at its meeting of 1 November 2022, as outlined at paragraphs 3.2(1), 3.2(2), 3.2(3), 3.2(4) and 3.2(5) of the report.

By way of Amendment, Councillor McGinley, seconded by Councillor Ramsay, moved that the Panel

- (aa) note the financial projections contained in Appendix 1 of the report;
- (bb) request that officers present further more detailed financial information to Members through the budget setting process and in advance of the meeting of the Council on 2 March 2023;
- (cc) agree part of the decision of Cabinet at its meeting of 1 November 2022, namely paragraphs 3.2(1), 3.2(3), 3.2(4) and 3.2(5) of the report; and
- (dd) refer the matter back to Cabinet recommending that officers be requested to present a detailed financial report to Audit and Governance Panel on 22 February 2023.

A Panel Member requested a roll call vote and the Service Lead – Democratic Governance then took the vote by calling the roll as follows:-

Peter Henderson	Amendment
Kenneth Bell	Motion
Chris Cullen	Amendment
Mary Kilpatrick	Motion
Brian McGinley	Amendment
Cameron Ramsay	Amendment
Gavin Scott	Amendment
George Weir	Amendment

Six Members voted for the Amendment and two for the Motion. The Amendment was accordingly declared carried and the Panel

Decided:

- (AA) to note the financial projections contained in Appendix 1 of the report;
- (BB) to request that officers present further more detailed financial information to Members through the budget setting process and in advance of the meeting of the Council on 2 March 2023;
- (CC) to agree part of the decision of Cabinet at its meeting of 1 November 2022, namely paragraphs 3.2(1), 3.2(3), 3.2(4) and 3.2(5) of the report; and
- (DD) to refer the matter back to Cabinet recommending that officers be requested to present a detailed financial report to Audit and Governance Panel on 22 February 2023.

The meeting ended at 2.45 p.m.

Audit and Governance Panel

Agenda Item No. 4

Action Log

No	Date of Meeting	Issue	Actions	Assigned/ Re-assigned to	Update	Completed
1	01/09/22 and 05/10/22	Equalities	<p>01/09/22 - Equality and Diversity Forum to be requested to investigate training for Elected Members and Employees on Equalities; and the format that this should take.</p> <p>05/10/22 – date of training to be provided to Panel</p>	Service Lead – Policy, Performance and Community Planning	<p>28/11 - Equality and Diversity Forum met on the 15th of November and agreed a new Terms of Reference and training plan. A series of webinars will be held every month and will look at a range of equality related topics. The first webinar will be held in Jan/Feb 23 and will focus on breastfeeding. A timetable of future topics will be agreed at the next meeting of the forum</p>	Complete
2	01/09/22 and 05/10/22	Best Value Action Plan 2021-22 – Update - when is the “appropriate time” for the engagement strategy to be developed and delivered through the Thriving Communities Team	<p>01/09/22 - To be picked up with the Thriving Communities Team and to engage with the Administration to determine the priorities going forward</p> <p>05/10/22 - Should not be delayed due to awaiting the Council Plan and should be progressed timeously</p>	Director of Strategic Change and Communities	<p>Work is underway to develop the new Council Plan. In anticipation of this videos have been developed and a communications plan is ready to be implemented.</p>	Complete

Audit and Governance Panel

No	Date of Meeting	Issue	Actions	Assigned/ Re-assigned to	Update	Completed
3	01/09/22 and 05/10/22	Best Value Action Plan 2021-22 – Update – a number of targets 0% or 10% progress and the Best Value report required these to be addressed within the timescales	01/09/22 - This matter to be referred to Cabinet for the Portfolio Holders to ensure the appropriate actions are taken 05/10/22 – update to be provided to Panel at next meeting on 09/11/22	Chief Executive	Improvement Service briefing held on 11 October 2022 for all elected members and meeting with Administration scheduled for 10 November 2022. Meeting of Best Value Working Group scheduled for 1 November	Complete
4	05/10/22	Audit Scotland : Fraud and Irregularity 2021/22	Discussions to take place with Chief Internal Auditor on whether anything further could be done on receipt of risk alerts	Head of Finance, ICT and Procurement	Discussions have taken place and current arrangements are considered sufficient to ensure information on specific frauds are shared with the relevant members of staff within the Council however a fraud bulletin is being developed to be circulated to staff during International Fraud Awareness week (13-19 November) to remind staff what type of frauds are investigated by the Corporate Fraud Team, how to report fraud and who to report it to.	Complete

Audit and Governance Panel

Work Programme 2022/23

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
1.	Internal Audit - Progress Report (i) Progress of Annual Internal Audit Plan 2022/23 (ii) Implementation of Internal Audit Action Plans	Report to Panel	Chief Internal Auditor	Quarterly reports throughout the year (Feb, May, Sept, Nov)	
2.	External Audit Progress Reports	Report to Panel	Head of Finance, ICT and Procurement	Regular reports throughout the year	Deferred until 25 January 2023 pending outcome of Final Report on 2021/22 Audit for any actions to be progressed.
3.	Corporate Fraud Team Activity Report	Report to Panel	Chief Internal Auditor	Six monthly (May and Dec)	Report to this Panel
4.	Strategic Risk Report	Report to Panel	Head of Legal and Regulatory Services	Six monthly	
5.	Best Value Assurance Report - Quarterly Updates on Progress against the Action Plan	Report to Panel	Assistant Director - Strategic Change	Quarterly reports throughout the year	
6.	Audit Scotland: Local Government in Scotland Overview 2022	Report to Panel	Depute Chief Executive and Director of Housing, Operations and Development	9 November 2022	Deferred to this Panel

Audit and Governance Panel

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
7.	Audit Scotland : Tackling Child Poverty	Report to Panel	Assistant Director - Strategic Change	9 November 2022	Deferred to this Panel
8.	Museums – Stores Control	Report to Panel	Director of Strategic Change and Communities	7 December 2022	Deferred to 22 February 2023
9.	Treasury Management Mid-Year Report 2022/23	Report to Panel	Head of Finance, ICT and Procurement	7 December 2022	Report to this Panel
10.	Equalities	Report to Panel	Director of Strategic Change and Communities	25 January 2023	
11.	Proposed Internal Audit Plan 2023/24 (including Annual Review of Internal Audit Charter	Report to Panel	Chief Internal Auditor	22 March 2023	

South Ayrshire Council

**Report by Director of Strategic Change and Communities
to Audit and Governance Panel
of 7 December 2022**

Subject: Audit Scotland: Briefing on Tackling Child Poverty

1. Purpose

1.1 The purpose of this report is to advise Members of the findings from the Audit Scotland: Briefing on Tackling Child Poverty.

2. Recommendation

2.1 It is recommended that the Panel considers the findings outlined in the Audit Scotland briefing ‘Tackling Child Poverty’ (attached as Appendix 1) and any further action by the Council.

3. Background

3.1 Twenty-six per cent of children in Scotland were living in relative poverty in 2019/20. Children living in poverty are more likely to have health issues including mental health problems, gain fewer qualifications, experience stigma and bullying at school and be at higher risk of being care experienced. Child poverty is at a higher level than when targets were set by the Scottish Parliament in 2017. In August 2020, Audit Scotland set out a strategic medium-term approach to reflect Covid-19 in future local government overview reporting.

3.2 The UK Government, Scottish Government, local government and their partners all have a role in reducing and preventing child poverty through their different areas of responsibility:

3.2.1 The UK Government is responsible for the majority of all social security spending, including Universal Credit, housing benefit and child benefit as well as employment law, energy markets and the budget settlement;

3.2.2 The Scottish Government is responsible for setting national policy in devolved areas such as childcare, housing and some aspects of employability. It is also able to introduce new benefits to support low-income households or top up reserved benefits through its devolved social security powers, for example the Scottish Child Payment and Best Start Grant; and

3.2.3 Local government is responsible for delivering services in line with local policy and priorities. It also implements the Scottish Government’s policies, reflecting local circumstances, in areas such as childcare,

employability and housing and administering financial insecurity and hardship funding.

4. Proposals

4.1 The Accounts Commission and the Auditor General for Scotland have identified the way in which public bodies are addressing inequalities and human rights as one of their key areas of interest. This briefing paper examines:

- the impact of child poverty on children's lives;
- what the Scottish Government, local government and others are doing to reduce and prevent child poverty;
- spending on tackling child poverty since the Scottish Government published its first tackling child poverty delivery plan in 2018; and
- progress towards meeting the targets for reducing child poverty.

4.2 The Scottish Government should:

4.2.1 Increase the focus on policies aimed at preventing children from experiencing poverty;

4.2.2 Consider how best to involve children and families with lived experience of poverty in providing strategic oversight of how it is tackling child poverty;

4.2.3 Work with local government, the third sector and other partners, and children and families with lived experience of poverty to quickly set out how the actions in the second delivery plan will be delivered, monitored and their impact evaluated;

4.2.4 Consider how to develop its understanding of the reach of universal spending and the extent to which low-income households are benefiting. This would help better understand the impact of this spending on reducing child poverty, and any changes needed;

4.2.5 Set out options and progress actions to meet the final targets well in advance of the next delivery plan in 2026.

4.3 Councils and national groups they participate in should:

4.3.1 Consider how best to share information about what councils are doing to tackle child poverty and its impact. This would support learning and improvement. They should also ensure this is supported by robust data and evaluation;

4.4 The Scottish Government and Councils should:

4.4.1 Consistently use the suite of child poverty indicators to reflect the impact of cost of living increases on low-income families; and

4.4.2 Consider how to improve national and local data to ensure that it fully captures and measures the characteristics and complexity of children living in poverty and the impact of actions on outcomes for children across different demographic groups.

4.5 In South Ayrshire, the primary focus has centred on 6 strands of activity:

- **Income maximisation** ensuring that people are accessing all benefits and grants that they are entitled to. This work includes a programme of awareness raising sessions within the NHS and HSCP to highlight financial inclusion pathways that people can be referred on to.
- **Tackling fuel poverty** with both the Information and Advice Hub and Home Energy Scotland providing support to local communities through access to fuel poverty grants and information about funding along with the Energy Agency who have been promoting energy efficiency measures.
- **Tackling food insecurity** through the South Ayrshire Community Food Network and the Food Pantries and trying to ensure that people can access low cost food with relative ease and that they are not disadvantaged if they live outwith the main towns. We have also continued with our holiday meal programme which combines the provision of meals with activities in targeted areas.
- **Access to Period Products** and preparing to implement The Period Products (Free Provision) (Scotland) Act 2021 through consulting on local arrangements to inform a local delivery plan which respects dignity and adheres to the principles of the legislation. The wee white bag initiative has been very popular with 9,500 distributed since it launched in Summer 2019.
- **Employability and Inclusive Growth** to support as many people into employment as practicable and to maximise the inclusive growth opportunities offered by the Ayrshire Growth Deal and the South Ayrshire approach to Fair Work.
- **Community Wealth Building** to redirect wealth back into local communities and focused on 5 key principles: procurement, fair employment, financial power, land and assets and democratic ownership of the economy.

4.6 Development work is now beginning on a new child poverty plan that will align with the new national plan and consider the challenges emerging through the cost of living crisis.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Rejecting the recommendations may impact on the reputation of the Council.

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to delivery of all of the Council's strategic objectives and all of the strategic outcomes.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this report.

13.2 Consultation has taken place with Councillor Martin Dowey, Portfolio Holder for Corporate and Strategic, and the contents of this report reflect any feedback provided.

Background Papers **None**

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Date: 24 November 2022

Briefing

Tackling child poverty

ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland
September 2022

Contents

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Audit team

The core audit team consisted of: Tricia Meldrum, Corrinne Forsyth and Gemma Wilson, with support from other colleagues and under the direction of Carolyn McLeod, Audit Director.

Key messages

- 1** The Scottish Government has not yet demonstrated a clear shift to preventing child poverty. In 2019/20, over a quarter of children were living in poverty, affecting every aspect of their wellbeing and life chances and having wider implications for society. This is higher than when targets were set in 2017, and the current increases in the cost of living risk more children experiencing poverty.
- 2** It is not possible to assess the success of the Scottish Government's first four-year plan to reduce child poverty, launched in 2018. Children and families have been supported with social security payments and other measures but the Scottish Government did not set out what impact the plan was expected to have on levels of child poverty. And the impact of Covid-19 on data collection means data on child poverty is only available up to 2019/20, the halfway point in the four-year plan.
- 3** The key policy actions to reduce child poverty in Scotland rest with the UK Government, the Scottish Government and local government. The Scottish Government's second child poverty delivery plan sets out a more joined-up approach across central and local government and with their partners. There now needs to be detailed joint planning between the Scottish Government and local government to deliver the actions and evaluate their impact.

- 4 The views of children and families living in poverty are not always meaningfully considered as policies and actions are developed, implemented and evaluated. Gaps in data at both national and local levels hinder the development of sufficiently targeted policies, and limit effective impact assessment.
 - 5 The Scottish Government's modelling predicts it will meet the 2023/24 interim target for reducing one of the key measures of child poverty, largely through social security measures. But the modelling also predicts that it will not meet the target for another measure that reflects the current increases in the cost of living. The current delivery plan runs to 2025/26. The Scottish Government is working on identifying how the 2030/31 targets will be met, and early planning is essential.
-

Introduction

- 1.** Twenty-six per cent of children in Scotland were living in relative poverty in 2019/20.¹ And over a quarter of children in Scotland are worried about their family having enough money.² Children living in poverty are more likely to have health issues including mental health problems, gain fewer qualifications, experience stigma and bullying at school and be at higher risk of being care experienced.³ Child poverty is at a higher level than when targets were set by the Scottish Parliament in 2017.
- 2.** There are four main indicators used to report on child poverty in Scotland, which are set out in [Exhibit 3 \(page 12\)](#). The indicator most commonly used is relative child poverty.
- 3.** The UK Government, Scottish Government, local government and their partners all have a role in reducing and preventing child poverty through their different areas of responsibility:
 - The UK Government is responsible for the majority of all social security spending, including Universal Credit, housing benefit and child benefit as well as employment law, energy markets and the budget settlement.
 - The Scottish Government is responsible for setting national policy in devolved areas such as childcare, housing and some aspects of employability. It is also able to introduce new benefits to support low-income households or top up reserved benefits through its devolved social security powers, for example the Scottish Child Payment and Best Start Grant.
 - Local government is responsible for delivering services in line with local policy and priorities. It also implements the Scottish Government's policies, reflecting local circumstances, in areas such as childcare, employability and housing and administering financial insecurity and hardship funding.

The way in which these powers interact can be complex. For instance, while the UK Government retains most power for social security, the Scottish Government can top up reserved benefits, for example to take account of the impact of the under-occupancy charge (also known as the bedroom tax) on Universal Credit. The Scottish Government has a role in engaging with the UK Government and seeking to influence relevant policy decisions.

4. The Accounts Commission and the Auditor General for Scotland have identified the way in which public bodies are addressing inequalities and human rights as one of their key areas of interest. This briefing paper examines:

- the impact of child poverty on children's lives
- what the Scottish Government, local government and others are doing to reduce and prevent child poverty
- spending on tackling child poverty since the Scottish Government published its first tackling child poverty delivery plan in 2018
- progress towards meeting the targets for reducing child poverty.

5. This is an opportune time to publish a briefing paper on tackling child poverty, allowing us to reflect on the achievements of the Scottish Government's first tackling child poverty delivery plan (2018-22) and comment on its plan for the next four years (2022-26). It sets out some recommendations for the Scottish Government and local government as they advance their planning and deliver the actions.

6. To compile the briefing paper, we referred to information on child poverty in the public domain and spoke to people from across the Scottish Government, local government umbrella organisations, the Poverty and Inequality Commission and the third sector (for example charity groups). We also drew on references to child poverty in our wider work. Given the high-level nature of the briefing paper, we did not carry out work in individual councils or other public bodies providing frontline services.

7. We plan to carry out future audit work building on this briefing paper. This is likely to assess councils' actions to reduce and prevent child poverty, as well as examine the Scottish Government's and its partners' progress with the national work to reduce and prevent child poverty, and the impact of that work.

1. The impact of child poverty

Children growing up in poverty are at risk of poorer outcomes in the short and longer term

8. Poverty affects children in practical ways such as not having enough food to eat, not living in a warm house and not having the necessities of life. Children living in poverty may not be able to fully participate in learning because of the cost of things at school, the impact on their health and wellbeing and the impact of hunger on their ability to learn. Children have said that because worrying about money is stressful for adults, they see, hear and feel this worry and stress.⁴

9. Recent research found that 53 per cent of children in Scotland have experienced poverty in the last 12 years.⁵ One in ten children experience poverty persistently while others do so for short periods, moving in and out of poverty. Child poverty is not restricted to households where parents or carers are not in work. The Scottish Government reported that, on average, 25 per cent of children in working households were living in poverty in the period 2017-20.⁶ Experiencing poverty for any period has an impact on children and families' outcomes and wellbeing.

If a child doesn't have food they won't have energy to go to school meaning that they won't be able to get a job and the chain will continue.⁷ Quote from 11-year-old child

10. Children living in poverty are more likely to have health issues including mental health problems, gain fewer qualifications and experience stigma and bullying at school.⁸ Low-income families have felt the impact of Covid-19 particularly acutely.⁹ Through our own work we have commented that:

- the experience of child poverty is strongly linked with poor mental health. Some studies suggest that children living in low-income households are nearly three times as likely to suffer mental health problems than their more affluent peers ([Children and young people's mental health](#), September 2018)

- there is long-term evidence of a continued and strong link between problem drug and alcohol use and deprivation. Tackling deprivation, poverty and widening inequalities could positively impact on prevention and recovery ([Drug and alcohol services: An update](#), May 2019)
- the poverty-related attainment gap remains wide and inequalities have been exacerbated by Covid-19 ([Improving outcomes for young people through school education](#), March 2021)
- the pandemic has had severe social and wellbeing impacts on children and young people...greatest for children and young people in vulnerable groups and living in poverty. This includes developmental delays seen in the very youngest because of increased social isolation, worsening mental health, a fall in educational attainment, and young people's increasing concerns about their job prospects ([Local government in Scotland Overview 2022](#), May 2022).

Living in poverty can affect children's rights

11. The Children's Parliament reports that children consistently identify poverty as the most important barrier to a good life.¹⁰ The Children and Young People's Commissioner Scotland (CYPCS) considers this the biggest human rights issue facing children in Scotland.¹¹ The United Nations Convention on the Rights of the Child (UNCRC) does not contain a specific right to freedom from poverty but a range of rights relate to child poverty and its effects on children. The CYPCS has identified the rights he considers most relevant to child poverty ([Exhibit 1, page 9](#)).

Exhibit 1.

Articles of the United Nations Convention on the Rights of the Child identified by the Children and Young People's Commissioner Scotland as being most relevant to child poverty

Article 3:

Children's best interests must be a primary consideration in all actions that affect them. This includes taking decisions around welfare and support that significantly impact on families.

Article 6:

Governments must ensure the survival and development of a child to the maximum possible extent, which often doesn't happen for children who are in poverty.

Article 12:

Children and young people's views should be meaningfully considered on matters that affect them, but this doesn't tend to happen when policies are made that impact on child poverty. Children and young people are often able to identify new approaches to tackling poverty and suggest ways in which they can best be supported.

Article 24:

Children and young people have the right to the best health possible. This includes the right to adequate and nutritious food, which can be affected when children and young people experience food insecurity.

Article 26:

Children and young people's human right to social security should be fully realised.

Article 27:

Every child has the right to a standard of living that allows them to develop physically, mentally, spiritually and socially. Poverty can mean children have a standard of living that falls below this threshold.

Sources: [Children and Young People's Commissioner Scotland](#); [A summary of the UN Convention on the Rights of the Child, UNICEF](#)

Child poverty also has wider costs to society

12. A 2021 study estimated that child poverty costs the UK around £38 billion a year, equating to around £3 billion in Scotland.¹² While the full negative impact on children's lives is impossible to quantify, the study estimates the wider economic cost to society of child poverty, extending beyond those children and families experiencing poverty. This is based on a reduction in the future prosperity of those affected as a result of earning less, the loss to the Treasury in the tax they will not pay, how much more it will cost to support them during periods of unemployment, and the cost of services addressing the consequences of child poverty, such as mental health services.

13. The Independent Care Review highlighted in its report, [The Promise](#), that children living in poverty can be at increased risk of needing care. It estimated that Scotland spends around £942 million every year on supporting care-experienced children and young people.¹³

Child poverty has been increasing in Scotland

14. In 2017, the Scottish Parliament set statutory targets for the Scottish Government to significantly reduce four key indicators of child poverty by 2023/24, and then again by 2030/31, through the Child Poverty (Scotland) Act 2017 (the Act). The Act sets out targets to reduce the number of children living in relative poverty to 18 per cent by 2023/24 (interim target) and then to ten per cent by 2030/31 (final target).

15. Relative child poverty is the indicator most commonly used to report on levels of child poverty. The latest three-year average statistics available suggest that relative child poverty has been rising since 2011-14, notwithstanding a small reduction in 2016-19 ([Exhibit 2, page 11](#)). Relative child poverty levels have risen from 21 per cent in 2011-14 to 24 per cent in 2017-20. In 2019/20, pre-dating Covid-19, the latest single-year data available indicates that 260,000 children (26 per cent) were living in poverty.¹⁴

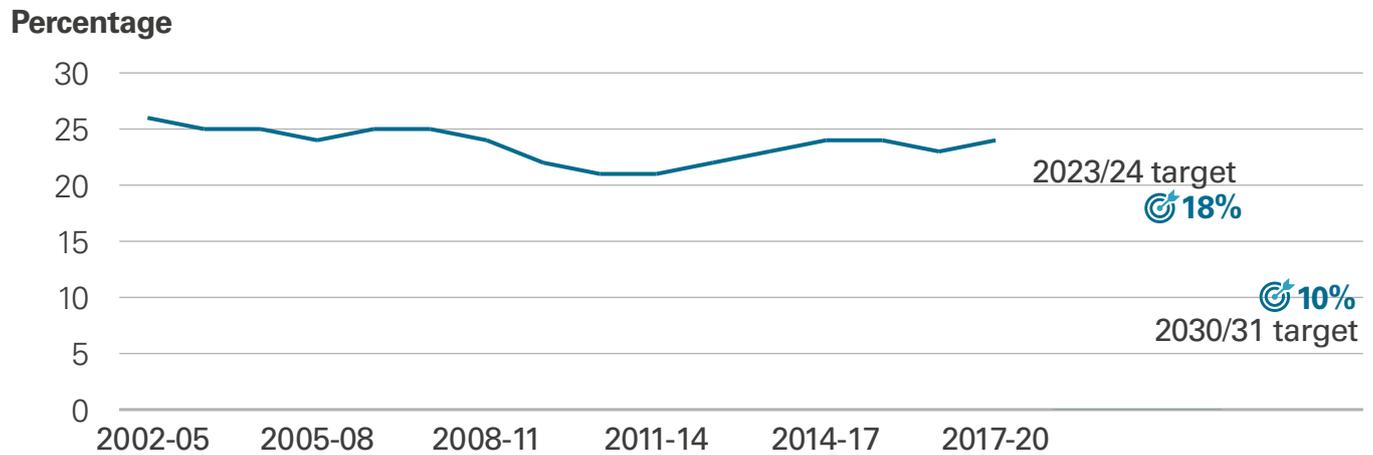
16. We do not know whether levels of child poverty increased or decreased in 2020/21. The Scottish Government assessed data for three of the four child poverty indicators for 2020/21 not robust enough to be published as official statistics because of issues with data collection during the pandemic. Although the lack of data is frustrating, the Fraser of Allander Institute pointed out that, over the long term, 2020/21 would always have been an outlier because of the level of Covid-19 disruption and the impact of policies such as the furlough scheme and the temporary uplift to Universal Credit.¹⁵

17. The Scottish Government expects new data on levels of child poverty in 2021/22 to be published in 2023. The time lag in getting data on child poverty makes it difficult for policymakers to assess progress against the targets and amend actions as required.

Exhibit 2.

Trends in relative child poverty

The level of relative child poverty has been increasing overall since 2011.



Source: Audit Scotland, based on [Scottish Government child poverty analysis](#)

The most commonly used child poverty indicator does not fully reflect the impact of the cost of living crisis on children and families

18. The ongoing cost of living crisis is likely to push many more children and their families into poverty. The Resolution Foundation estimates that the typical working age household across the UK will be around £1,100 worse off in 2022.¹⁶ The lowest income households are feeling the crisis most severely. The Institute for Fiscal Studies estimates that, by October 2022, the inflation rate faced by the least affluent ten per cent of households could be as much as 75 per cent higher than that faced by the most affluent ten per cent. This is because of the large increases in the costs of food and energy, which form a larger part of low-income households' budgets.¹⁷

19. Relative child poverty is often referred to as the headline indicator of child poverty. But because it is based primarily on income it will not fully reflect the impact of the considerable increases in the cost of living that all households are currently experiencing. It is one of four indicators specified in the Act. Two of the four indicators – absolute poverty and combined low income and material deprivation – provide insight into the impact of increases in the cost of basic goods and services on households. [Exhibit 3 \(page 12\)](#) sets out definitions and interpretations of the child poverty indicators along with commentary on the extent to which each reflects increases in the cost of living.

Exhibit 3.

Definitions of child poverty and trends in indicators

The Child Poverty (Scotland) Act 2017 set out four indicators to measure child poverty.

Child poverty indicator: Relative poverty		
Definition	What this means	Extent to which it reflects rises in the cost of living
<p>The proportion of children living in households with incomes lower than 60 per cent of the average (median) household income.</p>	<p>Relative poverty measures how household income compares to average household income.</p> <p>This indicator falls if low-income households' incomes catch up with middle-income households' incomes.</p> <p>The relative poverty rate was 26 per cent in 2019/20.</p>	<p>✘ Rises in the cost of living are not fully reflected</p> <p>Household income after housing costs is used to work out relative child poverty. Energy costs and other inflationary increases in the costs of food and other goods are not taken into account, although together they account for significant expenditure.</p>

Percentage

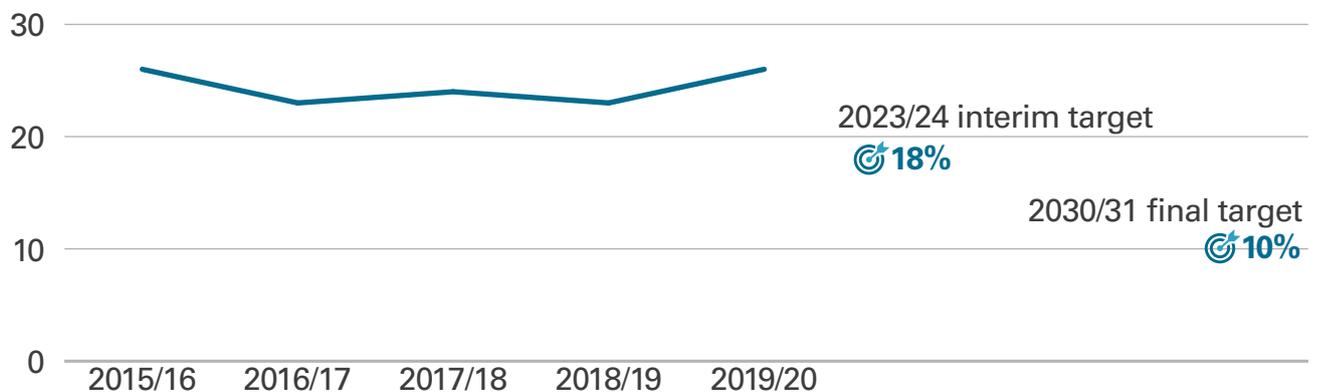


Exhibit 3. continued

Child poverty indicator: Absolute poverty

Definition

The proportion of children living in households with incomes that would have been below the relative poverty line in 2010/11.

What this means

Changes in absolute poverty show whether incomes after housing costs have been improving faster than the cost of living over time. We would usually expect absolute poverty to fall as incomes and living standards increase over time (because of economic growth).

The absolute poverty rate was 23 per cent in 2019/20.

Extent to which it reflects rises in the cost of living

✓ Rises in the cost of living are reflected

When prices increase (including energy and fuel prices), inflation increases. When inflation increases, the absolute poverty line also rises, more households fall below the line, and therefore absolute poverty increases.

Percentage

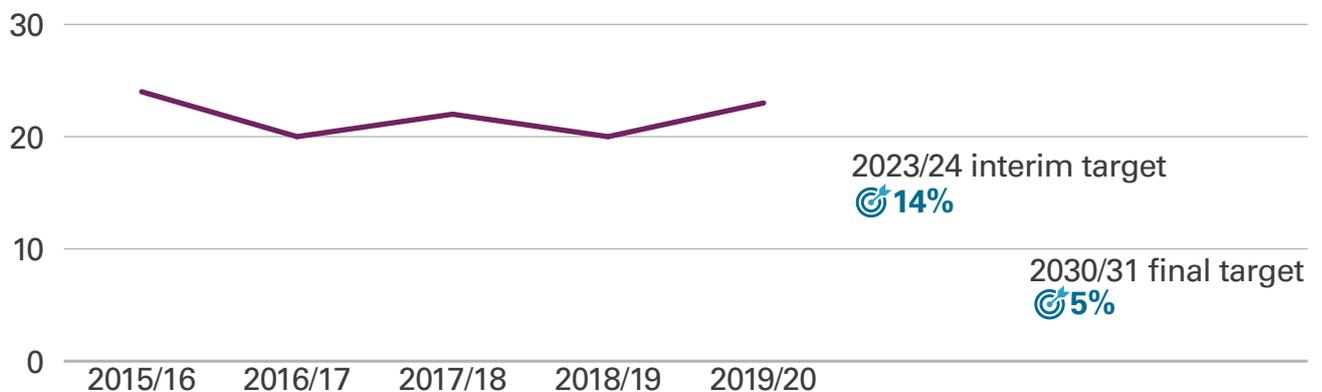


Exhibit 3. continued

Child poverty indicator: Combined low income and material deprivation		
Definition	What this means	Extent to which it reflects rises in the cost of living
<p>The proportion of children living in low-income households (less than 70 per cent of the current average (median)) that cannot afford basic goods and services that society considers essential.</p>	<p>The proportion of children who live in low-income households and cannot afford a range of basic goods and services (based on questions in the Family Resources Survey), such as having a warm winter coat and going on a school trip at least once a term. This indicator provides a measure of children's living standards that is not solely based on income.</p> <p>The combined low income and material deprivation rate was 12 per cent in 2019/20.</p>	<p><input checked="" type="checkbox"/> Rises in the cost of living are reflected</p> <p>Low-income households now spending more on food and energy costs are less likely to be able to afford other items and activities that are counted as essential, causing this indicator to increase.</p>

Percentage

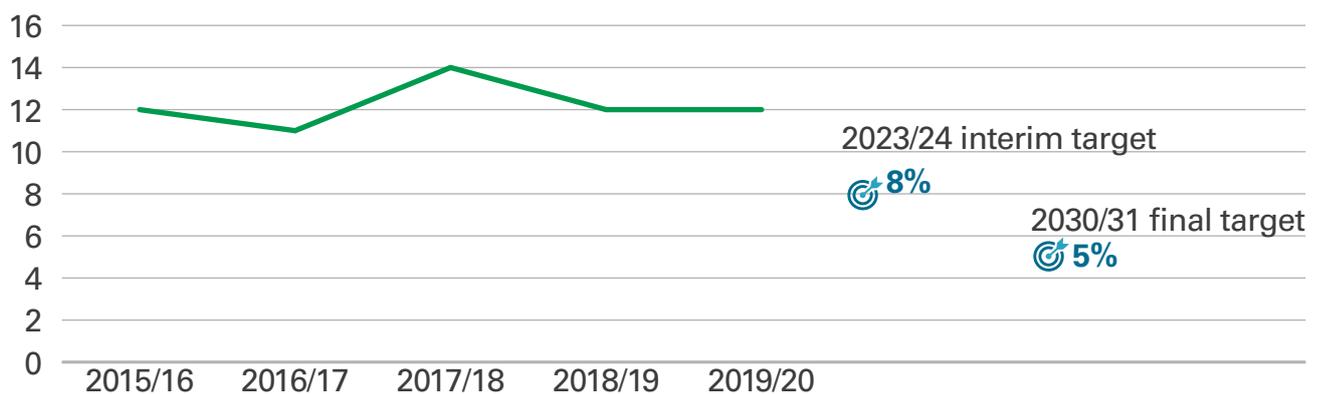
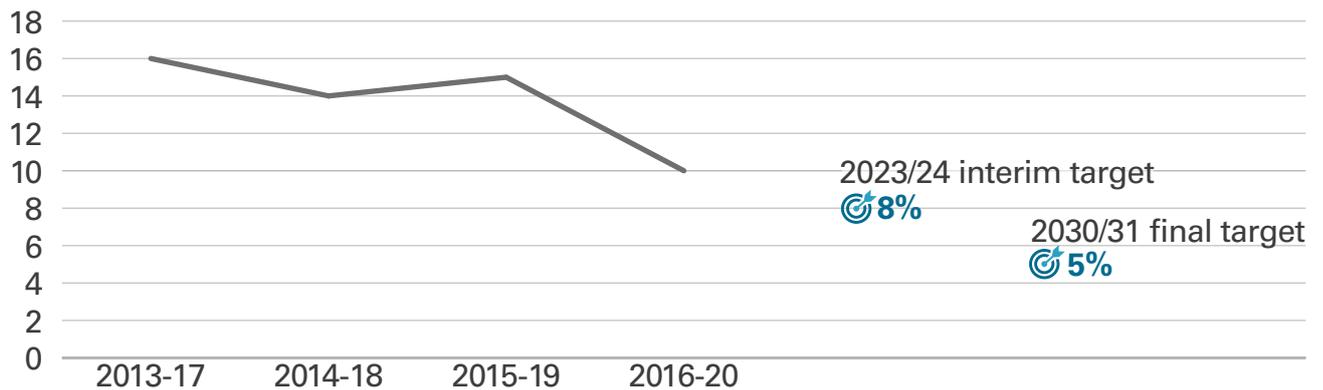


Exhibit 3. continued

Child poverty indicator: Persistent poverty		
Definition	What this means	Extent to which it reflects rises in the cost of living
The proportion of children in households in relative poverty for three years out of four.	<p>The extent to which families remain trapped in poverty over time.</p> <p>The persistent poverty rate was ten per cent in 2016-20.</p>	<p>✘ Rises in the cost of living are not fully reflected</p> <p>The same definition as for relative poverty applies. While housing costs are reflected, energy costs and other inflationary increases in the cost of food and other goods are not taken into account.</p>

Percentage



Sources: Poverty in Scotland 2021, Joseph Rowntree Foundation, 2021; Scottish Government

20. The cost of living crisis has highlighted the limitations of referring to relative child poverty in isolation as the headline indicator of child poverty. Child poverty is a complex issue to capture in one indicator and that is why four indicators exist.

Recommendation

The Scottish Government and councils should consistently use the suite of child poverty indicators to reflect the impact of cost of living increases on low-income families.

2. Actions to reduce child poverty

There has not been a sufficient shift to prevention to reduce the disadvantage caused by child poverty

21. Ten years ago, the Christie Commission recommended that the Scottish Government and local government shift more focus to prevention to improve outcomes in the longer term. However, policies and spending remain more focused on helping children out of poverty and reducing the impact of child poverty on outcomes than on longer-term measures to prevent it. The Auditor General and Accounts Commission recognise the challenges of shifting to a longer-term, preventative and whole-systems focus, but this is essential to break the cycle of poverty, reduce inequalities and make better use of public funding.^{18 19}

22. Ideally, as a society, we want to prevent children ever experiencing poverty, so that they are not subjected to both the shorter- and longer-term negative consequences. While children are living in poverty, government policies, such as many of those set out in [Exhibit 4 \(page 21\)](#), are intended to either lift them out of poverty or reduce financial pressures while they remain in poverty. These policies could therefore be described as alleviating but not eradicating the negative impact of children experiencing poverty.

23. A number of existing policies aim to both prevent children living in poverty and reduce its impact. The expansion of funded early learning and childcare (ELC) is a good example of this dual role. It is intended to improve outcomes for children and contribute to closing the poverty-related attainment gap, ensuring that children living in poverty can benefit from opportunities previously inaccessible because of cost. Closing the attainment gap aims to improve outcomes such as helping the children of today – the parents of tomorrow – into employment. The expansion in funded ELC also aims to reduce costs for parents and encourage parental employment. We will be publishing further work on the impact of the expansion in ELC on outcomes.

The Scottish Government has made support available to children and families through the tackling child poverty delivery plans but did not set out what impact it expected the first plan to have on levels of child poverty

24. To reach the targets to reduce child poverty, the Scottish Government set out actions in two four-year delivery plans to tackle child poverty. The first ran from 2018 to 2022 and the second covers 2022 to 2026. The actions in both plans largely focus on addressing three drivers of child poverty: income from employment, costs of living and income from social security.

25. In both delivery plans, the Scottish Government set out its intention to focus efforts on six priority family types at greatest risk of poverty: lone parents, larger families, minority ethnic families, families with a disabled adult or child, young mothers and families with a child under a year old.

26. The Scottish Government's final progress report on the first delivery plan outlines the support provided during 2018 to 2022, including:

- introducing the Scottish Child Payment in February 2021 and making 1.2 million individual payments, giving more than £58.6 million to eligible families with a child under six between February 2021 and March 2022
- expanding free school meals to all primary 4 and primary 5 pupils and providing meals during school holidays to 145,000 children from low-income households
- providing support to over 8,300 parents through Fair Start Scotland, with nearly 3,000 parents starting jobs between April 2018 and March 2022
- increasing the school clothing grant to at least £120 for every eligible primary school age child and £150 for every eligible secondary school age child.²⁰

27. The Poverty and Inequality Commission provides independent advice and scrutiny to Scottish ministers on poverty and inequality. Over the life of the first delivery plan (2018-22), it consistently advised the Scottish Government to ensure that its actions were more clearly linked to the targets for reducing child poverty and to be clear about what the impact of each action was expected to be.

28. The Scottish Government did not set out what impact the plan was expected to have on levels of child poverty. It did not include an anticipated trajectory towards meeting the targets over that initial four-year period. Because of this it is not possible to make a proper evaluation of whether the first delivery plan delivered its aims.

Actions from the 2018-22 delivery plan have not yet reduced child poverty

29. As illustrated in [Exhibit 2 \(page 11\)](#), there is no evidence that actions from the first delivery plan have reduced child poverty levels yet, although the latest data available is from 2019/20, just halfway through the life of the first plan and before some actions had been implemented. The Scottish Child Payment, then referred to as an income supplement for families, was set out in the first delivery plan. It was delivered, ahead of schedule, for children under six in 2021 and is being rolled out for 6-15-year-olds in November 2022.²¹ Its impact will not be seen in child poverty statistics until 2023, when the 2021/22 figures are due to be published.

30. While child poverty has not reduced, that is not to say the Scottish Government's actions have not had an impact on the trends in levels. Although difficult to prove definitively, the Scottish Government predicted that relative child poverty would have been two percentage points higher in 2019/20, at 28 per cent, if policies such as discretionary housing payments to take account of the effect of the under-occupancy charge (commonly known as the bedroom tax) and the Best Start Grant had not been in place.²²

The Scottish Government has renewed efforts to reduce child poverty in the 2022-26 delivery plan and has set out the anticipated impact more clearly

31. The Scottish Government's second tackling child poverty delivery plan was published in March 2022. [Exhibit 4 \(page 21\)](#) shows the key policies in the plan to address child poverty, organised according to the three drivers set out in [paragraph 24](#). This delivery plan includes more information on what impact the Scottish Government expects policies, such as the Scottish Child Payment and its increased employability funding, to have on the targets to reduce child poverty. For example, the plan states explicitly that the Scottish Child Payment and other direct financial support is anticipated to reduce relative child poverty by five percentage points, while the employability offer could reduce it by up to two percentage points.

32. The plan also sets out a new 'local pathfinder' approach to identifying barriers, and finding solutions, to moving families out of poverty. It highlights that one approach across Scotland will not suit everyone and emphasises the value of local approaches in supporting improved outcomes. The pathfinders are intended to improve the system of support for families in poverty, which can be seen as complicated to navigate and not delivering the best outcomes for families.

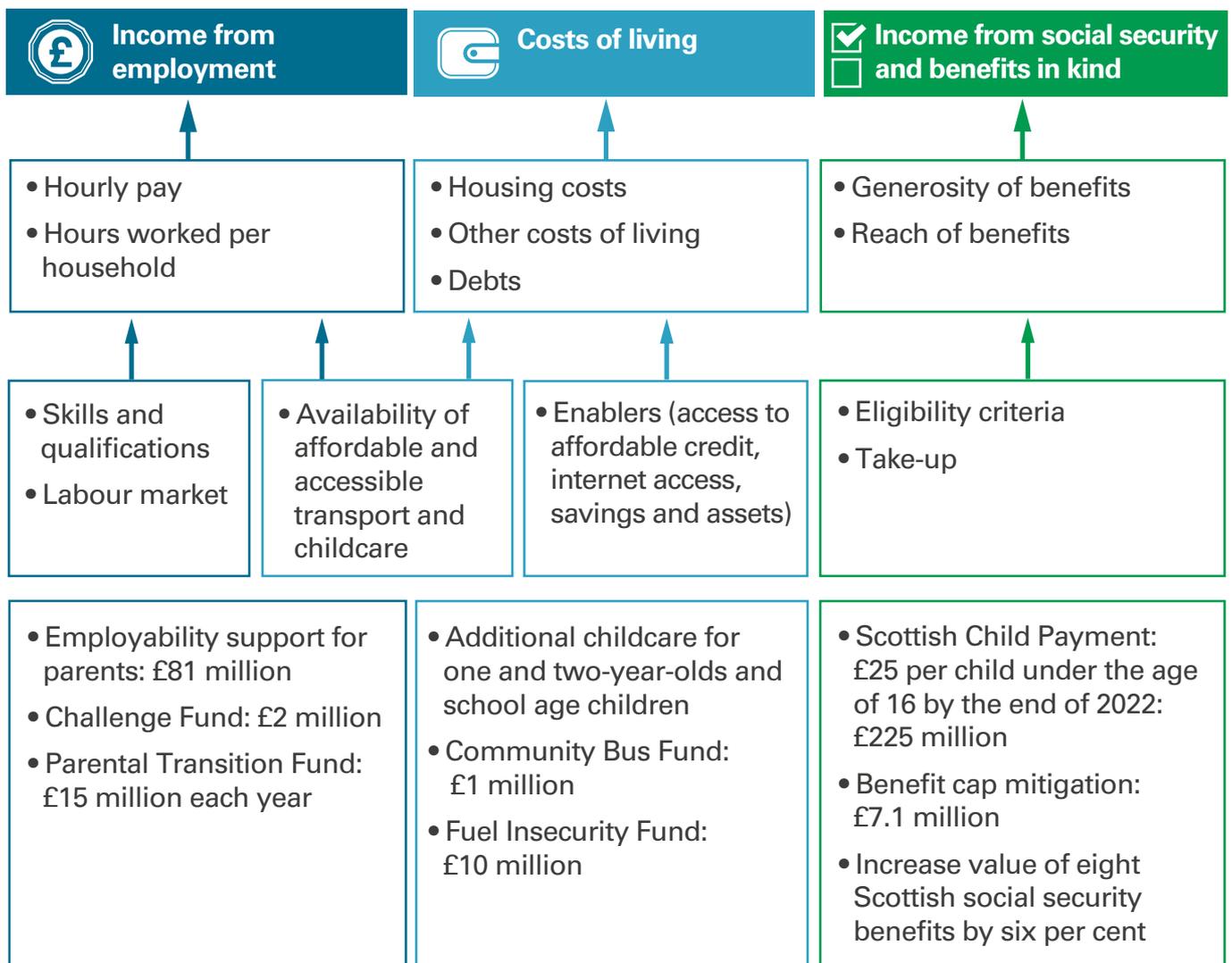
33. Pathfinder projects in Glasgow and Dundee are already under way, bringing together the respective councils, the Scottish Government and other partners. The aim is to test and expand either elements of, or the entire integrated package of support tailored to meet the needs of families. This can include employability services, childcare, transport and fair work opportunities. The Scottish Government aims to work with partners to evaluate the pathfinder projects and roll out successful approaches across the country over the life of the delivery plan.

34. Organisations and stakeholders working to reduce child poverty and to support children and families have broadly supported the increase in the amount of the Scottish Child Payment and the increased investment in employability support in the second delivery plan. The Poverty and Inequality Commission thinks that the second plan shows much greater recognition than before of the scale of action needed to meet the interim targets. The Joseph Rowntree Foundation and Save the Children describe the second plan as 'a strong diagnosis of the struggle that many families currently experiencing poverty face...which in many respects correctly identifies the areas where additional action is needed'.²³

Exhibit 4.

Key policies to address the three drivers of child poverty from Best Start, Bright Futures: Tackling Child Poverty Delivery Plan, 2022-26

The Scottish Government increased the scale of its support for tackling child poverty in its second delivery plan.



Notes:

1. All figures cited are the maximum support available.
2. Employability support for parents was subsequently reduced to £29 million in the Public sector pay and emergency budget review statement on 7 September 2022.
3. The implementation date for the Scottish Child Payment was subsequently announced as November 2022 in the Programme for Government in September 2022, and the funding was amended to £204 million in Scotland's Economic and Fiscal Forecasts (Scottish Fiscal Commission) in May 2022.

Source: Scottish Government and Audit Scotland

The second delivery plan sets out some steps towards a more preventative approach

35. Of the three drivers of child poverty, increasing social security and mitigating rises in the costs of living, for example by reducing council tax, could be seen as alleviating poverty to a greater degree than preventing it. In simple terms, ensuring that their parents have adequate income from working, when they are able to do so, is the driver most likely to prevent children experiencing poverty.

36. The Scottish Government set out its commitment to better wages and fair work as a way of reducing child poverty and in-work poverty in its most recent economic strategy.²⁴ The significant increase in investment in employability support for parents originally announced in the second delivery plan was universally welcomed. However, this spending was subsequently reduced in the emergency budget review statement on 7 September 2022.²⁵ Spending on employability could support a more preventative approach. The provision of affordable housing is also key in preventing child poverty as housing is one of the most significant costs for families. The Scottish Government has delivered over 35,000 affordable homes since 2018 and is allocating £830 million to the delivery of more affordable homes in 2022/23.^{26 27}

37. The second delivery plan also refers to longer-term preventative actions including the Scottish Attainment Challenge and the Young Person's Guarantee – a commitment to connect every 16 to 24 year old in Scotland to a job, apprenticeship, further or higher education, training or volunteering. Because of their longer-term focus, these actions are not expected to have a direct impact on the existing targets to reduce child poverty. Rather, they aim to secure better lifelong outcomes for children and young people and prevent them becoming parents of children in poverty in the future.

38. Many other policy areas outwith the three drivers in [Exhibit 4 \(page 21\)](#) have an effect on reducing child poverty and its impact. Our [update on drug and alcohol services](#) highlights the links between poverty and addiction, and the significant, long-lasting effects of childhood harms. It found that spending on drug and alcohol services could be more effectively targeted at prevention, for example on interventions tackling the root causes of drug addiction in communities.

Recommendation

The Scottish Government should increase the focus on policies aimed at preventing children from experiencing poverty.

Local government has a key role in reducing and preventing child poverty but there is limited information across councils on what they are doing and its impact

39. Councils have a key role to play in tackling child poverty to address both local and national priorities. This is through services such as employability, housing, education, childcare, transport and welfare support. Relative child poverty rates across the 32 councils ranged from 15.8 per cent (East Renfrewshire and Shetland Islands) to 32.3 per cent (Glasgow) in 2019/20. The rate increased across all councils between 2018/19 and 2019/20.²⁸

40. Councils have committed to tackling child poverty. Nineteen of the Accounts Commission Best Value Assurance Reports (BVARs) on councils highlighted the council's work on tackling poverty.²⁹ The Act requires councils and health boards to produce annual joint local child poverty action reports which set out ongoing and planned action to tackle child poverty at a local level.³⁰

41. The Accounts Commission's BVARs have highlighted a number of examples of good practice across councils, including:

- Renfrewshire Council – The Tackling Poverty Commission was established in 2014, the first of its kind in Scotland, to assess the nature, causes and impact of child poverty in Renfrewshire. The council agreed a £6 million investment programme with a supporting action plan. The programme involves working closely with local communities and third sector organisations to enable officers to talk directly to those with lived experience of poverty.
- North Ayrshire Council – The Skills for Life Programme supports long-term unemployed lone parents into employment, giving them a six-month mentored vocational placement within the council.
- East Dunbartonshire Council – Snack and Play programme to reduce child poverty. Children who receive free school meals and those identified as vulnerable are given priority to attend a local primary school during school holidays free of charge for play, sports and craft activities and a hot lunch.

42. Councils are responsible for implementing many of the actions set out in both the first and second delivery plans. The Scottish Government has said it will work in partnership with councils in areas including:

- reducing the impact of the UK Government's benefit cap
- the [Scottish Attainment Challenge](#), which aims to close the [poverty-related attainment gap](#) for school pupils
- the pathfinders approach

- employability support
- early learning and childcare
- school clothing grant, free school meals, [Education Maintenance Allowance](#)
- increasing the uptake of targeted support, by working with the Department for Work and Pensions and Her Majesty's Revenue and Customs to improve data sharing and by working towards automated payment for devolved social security benefits.

43. The Improvement Service supports this work across councils. It helps councils to prepare the local child poverty action reports, leads networks of child poverty practitioners to share good practice, works with partners to remove barriers to data sharing and has published local examples of policies addressing the three drivers of child poverty. It also supports councils to take a more strategic approach to tackling child poverty through supported self-assessment and outcome-based planning.

44. However, there is limited up-to-date evidence on how councils and their partners are tackling child poverty. For example, there is no timely national overview of the actions in the local child poverty action reports and the impact of those actions. This would help support improvement. The Poverty and Inequality Commission reviewed a sample of ten local child poverty action reports in detail in 2019, the first year they were required to be produced, to understand local approaches. Its findings included:

- people with experience of living in poverty were rarely involved in developing plans
- only four out of 27 reports available had an introduction signed by the chief executive. The level of sign-off of reports was seen as an indicator of the level of commitment to tackling child poverty
- most reports used data well in describing their local area
- not many reports considered monitoring and evaluation carefully.³¹

The Scottish Poverty and Inequality Research Unit is due to produce a review of the year two (2020) local child poverty action reports in 2022.

Recommendation

Councils and national groups they participate in should consider how best to share information about what councils are doing to tackle child poverty and its impact. This would support learning and improvement. They should also ensure this is supported by robust data and evaluation.

The third sector plays an important role in supporting families experiencing poverty

45. The third sector plays an important role in supporting children and families affected by poverty. For example:

- the Child Poverty Action Group develops, organises and delivers welfare rights training, information and casework support to advisers and other frontline workers. It does this to increase its capacity and capability to give accurate and effective advice and information on benefits to households
- the third sector is involved in:
 - community initiatives that provide food and other help to children and families throughout the year, including addressing food insecurity during school holiday periods
 - working with children to deal with the consequences of child poverty such as through initiatives supporting their mental health and wellbeing
 - identifying and overcoming barriers to parents' employment
- councils and schools work with third sector organisations to improve outcomes for children and young people, as we have noted previously.³²

46. The second delivery plan sets out the key role the third sector can play in tackling child poverty:

'Government cannot tackle poverty alone, and neither would we want to. In order to provide the support that families need we must draw on the experience and knowledge of our third sector partners and community organisations across the length and breadth of the country – empowering them to take action and support those in need.'

47. In the plan the Scottish Government committed to providing multi-year funding for the third sector where possible to enable more sustainable strategic planning. This aims to help the sector address capacity and resource constraints.

The second delivery plan sets out a more joined-up approach across government and with partners to tackling child poverty

48. In June 2021 the Scottish Government declared that tackling child poverty is a national mission.³³ It has emphasised that the second delivery plan is not just a plan for the Scottish Government but is a plan 'for all of Scotland, recognising the contribution all parts of society must make to deliver the change needed for children and families'. Local government has also committed to the national mission to

tackle child poverty. The second delivery plan includes actions for local government and wider parts of the public sector, and involves input from the third sector and private sector.

49. The Scottish Government established new governance arrangements in the second delivery plan. This was to support a more cross-governmental approach, more strategic involvement at senior level and better working with partners. The membership of the new Tackling Child Poverty Programme Board, established to oversee the overall progress of the implementation of the second delivery plan, includes local government and the third sector. These are positive developments reflecting the importance to the Scottish Government of addressing child poverty, although it is too early to assess their effectiveness.

50. Children and families with lived experience of poverty are not part of the programme board. The Scottish Government will need to ensure their views are reflected in arrangements in the future, to support a rights-based approach and in line with Article 12 of the UNCRC ([Exhibit 1, page 9](#)).

Recommendation

The Scottish Government should consider how best to involve children and families with lived experience of poverty in providing strategic oversight of how it is tackling child poverty.

Gaps in data and not enough involvement of children and families with lived experience of poverty are hindering the development of sufficiently targeted policies

51. It is crucial that policymakers understand the key characteristics of families living in poverty. This is important at a national level, but taking account of local needs is also essential. As well as using data, it is important to work with children and families with lived experience of poverty to help understand the challenges families face and ensure that the most effective policies are designed.

52. In [Local government in Scotland Overview 2022](#), we featured a case study on Glasgow City Council's work with the Centre for Civic Innovation using data to develop a clearer picture of child poverty in Glasgow. Our [Early learning and childcare: Follow-up](#) in March 2020 set out the importance of having good quality child-level data in place to capture equalities characteristics.

53. There are particular gaps in the data on families who fall into more than one of the groups more at risk of experiencing child poverty, and who therefore experience several potential disadvantages at the same time. As well as socio-economic status, inequality can be experienced on the basis of characteristics such as gender, race or ethnicity, disability and nationality or migration. The Scottish Government and its partners have developed a child poverty dashboard for local areas which includes data on the prevalence of different priority groups. It has acknowledged that families with more than one equalities characteristic are often among those deepest in poverty but the measurement framework for its first delivery plan did not capture the nature of these cumulative impacts well.³⁴

54. At a local level, we have previously commented on the lack of data and evidence that would allow councils to fully understand the adverse impacts of the pandemic on different groups in their area and inform local plans.³⁵ We recommended:

‘A key priority for councils’ recovery and renewal is assessing the impact of the pandemic and service disruption on the most vulnerable and learning from this to inform how they support those most affected and address inequalities. This will need better local data to improve understanding.’

55. The Get Heard Scotland programme, coordinated by the Poverty Alliance and funded by the Scottish Government, aims to generate community evidence on what needs to be done to address child poverty by speaking to people with lived experience.³⁶ As part of the programme, the Poverty Alliance carried out a range of engagement activities to identify key issues, concerns and ideas that could contribute to the development of the second delivery plan. The results of these discussions were fed back to the Scottish Government, allowing them to be considered in developing the plan.

56. The second delivery plan includes multiple references to the importance of involving people with lived experience in delivering many aspects of the plan. However, the Poverty Alliance commented that the Scottish Government needs a clearer and more coherent approach to children and families directly affected by poverty taking part in the continued development and evaluation of the plan.³⁷ As we highlighted previously, this is in line with the UNCRC.

Recommendation

The Scottish Government and councils should consider how to improve national and local data to ensure that it fully captures and measures the characteristics and complexity of children living in poverty and the impact of actions on outcomes for children across different demographic groups.

The Scottish Government and local government need to work together and with partners, as well as with children and families with lived experience of poverty, to urgently develop and implement the actions in the second delivery plan

57. The second delivery plan lacks detail on how and when some of the actions will be delivered, and this needs to be addressed urgently. The Poverty and Inequality Commission highlighted that:

- many of the policies in the plan still do not include estimates of the number or type of households in poverty that are expected to benefit, which will make it difficult to assess their impact
- it is vital that actions in the plan are delivered quickly in order to support families and have an impact on the targets
- more needs to be done to ensure that addressing child poverty is at the core of the design and delivery of policies across government.³⁸

58. The Scottish Government and local government have committed to work together to develop and implement the actions but it is not yet clear how and when this will happen. This also needs to involve the third sector and other partners, as well as children and families with lived experience of poverty.

Recommendation

The Scottish Government should work with local government, the third sector and other partners, and children and families with lived experience of poverty to quickly set out how the actions in the second delivery plan will be delivered, monitored and their impact evaluated.

3. Spending

The Scottish Government estimates that £3.3 billion was spent on tackling child poverty between 2018/19 and 2021/22 but it is not always clear how funding has impacted on child poverty

59. It is challenging to definitively track spending on addressing child poverty. Spending that impacts on child poverty can be:

- part of the Tackling Child Poverty Fund
- targeted at low-income households with children
- targeted at all low-income households (the Scottish Government estimates that around a quarter include children)
- universal, that is aimed at all members of the population in a certain demographic irrespective of income.

60. The Scottish Government does not collect or publish information on the proportion of spending on universal policies reaching low-income families. Universal policies likely to benefit households with children living in poverty include early learning and childcare for all three- and four-year-olds and eligible two-year-olds, providing free school meals to children in primary 1-5 and free tuition for university students.

61. The Scottish Government estimates that nearly £3.3 billion was spent on policies helping low-income households with children between 2018/19 and 2021/22. This does not include spending on universal services. It is made up of:

- £1.6 billion directed specifically at low-income households with children, for example the Scottish Child Payment and Best Start Grant
- £1.5 billion (of a total of £6.5 billion) directed at all low-income households. This figure was calculated, in the main, by adjusting the total spending on low-income households to reflect the proportion of people living in poverty who were children in each year (ranging from 23 to 25 per cent). Examples include providing affordable homes and fuel poverty support
- an additional £206 million as a result of Covid-19. This consisted of £118 million targeted at low-income households with children and £88 million (of a total of £317 million directed at all low-income households) estimated to benefit low-income households with children.³⁹ Examples of spending include additional free school meals over school holidays and school closures, hardship payments and additional funding for vulnerable children.^{40 41}

62. The Scottish Government has not yet set out its total planned spending on child poverty in 2022/23. However, it has set out proposed spending around key policies such as the Scottish Child Payment (up to £204 million) and employability support for parents (up to £29 million). It has also committed up to £200 million for the Scottish Attainment Challenge and up to £45 million for the Young Person's Guarantee.

Recommendation

The Scottish Government should consider how to develop its understanding of the reach of universal spending and the extent to which low-income households are benefiting. This would help better understand the impact of this spending on reducing child poverty, and any changes needed.

There is a tension between the Scottish Government allocating funding for specific purposes to help deliver national policies and retaining local government's flexibility

63. There is no readily available evidence on how much councils spend on tackling child poverty. It is difficult to fully identify this as it involves a range of actions across different policy areas. The increase in the numbers of children living in poverty in recent years is likely to have created more demand for council services such as administration of benefits, employability and financial advice services as well as cost of the school day-related activities, such as subsidising school trips.⁴²

64. Councils have broadly welcomed the actions and associated funding to tackle child poverty set out in the second delivery plan but some concerns have been expressed about the extent to which local government funding is earmarked for central government initiatives. As we have said previously, while ring-fenced funding helps support the delivery of key Scottish Government policies, such as expanding early learning and childcare, it can remove local discretion over how some of the total funding and resources available to councils can be used.⁴³

65. Ringfencing also leads to many different pots of funding that those requiring help need to access. This lack of a joined-up approach can make it more challenging for families and for those helping families access funding to get all the help that is available. It can also be a barrier to councils working in a person-centred way. It is important that councils work across different policy areas to ensure that the approaches and allocation of funding to tackle child poverty support an approach that is centred around the needs of children and families. This is one of the aims of the pathfinders.

4. Achieving the child poverty targets

Scottish Government modelling suggests that the interim target on relative child poverty could be achieved using social security as the main lever but another key target will be missed

66. Scottish Government modelling in the second delivery plan indicates that relative child poverty could be reduced to 17 per cent by 2023/24, lower than the interim target of 18 per cent. The Fraser of Allander Institute looked at this modelling and was less optimistic, estimating these same policies would reduce child poverty to 19 per cent, missing the interim target.⁴⁴ The last available data from 2019/20 reported relative child poverty at 26 per cent.

67. The Scottish Government's modelling predicts that absolute poverty, an indicator that reflects increases in the cost of living, will decrease to 16 per cent by 2023/24, higher than the interim target of 14 per cent. The rate of absolute poverty was 23 per cent in 2019/20.

68. Key commentators, who conducted their analyses and modelling before the Scottish Government and used different assumptions, predicted the relative poverty interim target would not be met unless the Scottish Government implemented significant policy changes. As this modelling took place before the second delivery plan was published, it does not use the same policies or levels of benefits as the Scottish Government's baseline.

69. The common theme throughout the models is using social security as the main lever to achieve the 2023/24 child poverty target, in particular through the Scottish Child Payment. According to the Scottish Government modelling, setting the Scottish Child Payment at £25 per week for each child under the age of 16, planned for November 2022, could reduce relative child poverty levels by five percentage points in 2023/24. This is alongside an increase of six per cent in other Scottish social security benefits, such as the Best Start Grant and the Carer's Allowance Supplement, to keep pace with rising costs, and an improved employability offer for parents.

The Scottish Government and its partners will need to take further significant action to meet the 2030/31 child poverty targets

70. The final 2030/31 targets will not be met unless the Scottish Government and its partners take further significant action. The second delivery plan does not set out how the 2030/31 targets will be met. The Scottish Government modelling, included in the plan, only runs to 2025/26 and so does not include the 2030/31 targets. However, it does recognise that the reduction in child poverty required by 2030/31 will not be achieved unless considerable changes are made to the drivers of poverty.

71. Employability policies, in particular, often take a long time to achieve positive outcomes, and so these policies need to be put in place now if the targets are to be achieved. The Scottish Government is continuing to work on identifying how the 2030/31 targets will be met. This needs to happen well in advance of the third delivery plan in 2026, given the lag between actions being implemented and them reducing rates of child poverty.

Recommendation

The Scottish Government should set out options and progress actions to meet the final targets well in advance of the next delivery plan in 2026.

Recommendations

The Scottish Government should:

- increase the focus on policies aimed at preventing children from experiencing poverty
- consider how best to involve children and families with lived experience of poverty in providing strategic oversight of how it is tackling child poverty
- work with local government, the third sector and other partners, and children and families with lived experience of poverty to quickly set out how the actions in the second delivery plan will be delivered, monitored and their impact evaluated
- consider how to develop its understanding of the reach of universal spending and the extent to which low-income households are benefiting. This would help better understand the impact of this spending on reducing child poverty, and any changes needed
- set out options and progress actions to meet the final targets well in advance of the next delivery plan in 2026.

Councils and national groups they participate in should:

- consider how best to share information about what councils are doing to tackle child poverty and its impact. This would support learning and improvement. They should also ensure this is supported by robust data and evaluation.

The Scottish Government and councils should:

- consistently use the suite of child poverty indicators to reflect the impact of cost of living increases on low-income families
- consider how to improve national and local data to ensure that it fully captures and measures the characteristics and complexity of children living in poverty and the impact of actions on outcomes for children across different demographic groups.

Glossary

Benefit cap – a limit on the total amount of some benefits that working-age people can receive.

Best Start Grant – payments that help towards the costs of being pregnant or looking after a child. It consists of three one-off payments: pregnancy and baby payment; early learning payment; and school age payment. It is available to individuals receiving certain benefits or tax credits who are pregnant or the main person looking after a baby or child of an eligible age.

Best Start Foods – a prepaid card that can be used in shops or online to buy healthy food for children under three years old. It is available to individuals who receive certain benefits or tax credits who are pregnant or the main person looking after a baby or child under three.

Education Maintenance Allowance – financial support for eligible 16 to 19-year-olds who wish to continue their education, either at school or college.

Funded early learning and childcare – children aged three and four and eligible two-year-olds can get up to 1,140 hours of funded early learning and childcare a year (around 30 hours a week in term time).

Scottish Attainment Challenge – since 2015 the Scottish Government has provided additional funding to schools and councils to close the poverty-related attainment gap between children and young people from the least and most disadvantaged communities.

Scottish Child Payment – a top-up benefit that helps with the costs of looking after a child. Currently it is a weekly payment of £20 for each child aged under six but it will be fully rolled out to children under the age of 16 and it will be increased to £25 per week in November 2022.

Under-occupancy charge (also known as the bedroom tax) – a reduction in housing benefit or the housing element of universal credit if someone is a tenant of a council or housing association and classed as having a spare bedroom.

Universal Credit two-child limit – a policy established in April 2017 to limit support through Universal Credit to a maximum of two children per household.

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- 37** [Poverty Alliance Briefing on Bright Start, Better Futures - Social Justice and Social Security Committee](#), The Poverty Alliance, April 2022.
- 38** [Poverty and Inequality Commission briefing for Social Justice and Social Security Committee on Best Start, Bright Futures: Tackling child poverty delivery plan 2022-26](#), Scottish Parliament, April 2022.
- 39** [Every Child, Every Chance, Tackling Child Poverty Delivery Plan: Third year progress report, 2020-21](#), Scottish Government, June 2021.
- 40** [Investment in tackling child poverty](#), Scottish Government, 2022.
- 41** [Every Child, Every Chance: Tackling Child Poverty Delivery Plan - Fourth year progress report 2021-22](#), Scottish Government, June 2022.
- 42** [Local government in Scotland Overview 2022](#), Accounts Commission, 2022.
- 43** Ibid.
- 44** [Estimating the impact of the Tackling Child Poverty Delivery Plan: agree to disagree?](#), Fraser of Allander Institute, June 2022.

Tackling child poverty

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South Ayrshire Council

**Report by Director of Strategic Change and Communities
to Audit and Governance Panel
of 7 December 2022**

**Subject: Audit Scotland: Local Government in Scotland
 Overview 2022**

1. Purpose

1.1 The purpose of this report is to advise Members of the findings from the Audit Scotland: Local Government Overview Report 2022.

2. Recommendation

2.1 It is recommended that the Panel considers the findings outlined in the Audit Scotland report 'Local Government in Scotland Overview 2022 (attached as Appendix 1) and any further actions by officers.

3. Background

3.1 In August 2020, Audit Scotland set out a strategic medium-term approach to reflect Covid-19 in future local government overview reporting.

3.2 The first report in the series, Local Government in Scotland: Overview 2021, considered the initial response phase of the pandemic from March 2020 to February 2021. This included:

3.2.1 the initial emergency response and the impact on Council services, how Councils and their workforce were working in new ways, and how collaboration with communities and partners had been vital; and

3.2.2 the continued financial challenges Councils face, and how Councils were starting to plan for recovery and learn lessons from responding to the pandemic.

3.3 Future reporting will cover further progress towards recovery and renewal and examine the longer-term impact of the pandemic.

3.4 An in-depth financial overview of the sector complements each local government overview. This year's report, Financial overview 2020/21, was published in March.

4. Proposals

4.1 This is the second in the series of reports that reflects the evolving and long-term nature of the impact of the Covid-19 pandemic.

- 4.2 It considers the second year of the pandemic from March 2021 to February 2022, with data and information correct as at the end of February 2022.
- 4.3 It builds on last year's overview report and assesses: – the ongoing impact of Covid-19 and Councils' progress towards recovery and renewal – how Councils are positioned to address long-term priorities including climate change, inequality and public service reform – how effectively Council leadership is managing recovery and renewal.
- 4.4 The report includes exhibits and case studies throughout to illustrate issues and practice across Councils.
- 4.5 The report makes a series of leadership recommendations with respect to organising the Council (p31) and meeting local needs (p44). Many of the recommendations are currently being progressed in South Ayrshire as part of the Council's response to the Best Value Assurance Report, including:
- Revision of strategic plans, including the Local Outcomes Improvement Plan (LOIP);
 - Elected Members and senior managers working together to drive change, make decisions and drive renewal;
 - Workforce planning and wellbeing;
 - Sound governance arrangements;
 - Elected member training;
 - Financial planning linked to recovery from Covid and strategic priorities; and
 - Workforce wellbeing.
- 4.6 The report also highlighted new areas that the Council will consider as part on the ongoing work relating to Best Value, including:
- Improving our understanding and use of data in decision making; and
 - Assessing and mitigating the impacts of digital exclusion.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Rejecting the recommendations may impact on the reputation of the Council.

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

10. Sustainable Development Implications

10.1 *Considering Strategic Environmental Assessment (SEA)* - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to delivery of all of the Council's strategic objectives and all of the strategic outcomes.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this report.

13.2 Consultation has taken place with Councillor Martin Dowey, Portfolio Holder for Corporate and Strategic, and the contents of this report reflect any feedback provided.

Background Papers [Audit Scotland: Local Government in Scotland: Overview 2021 – May 2021](#)

[Audit Scotland: Local Government in Scotland: Financial Overview 2020/21 – March 2022](#)

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Date: 24 November 2022

Overview 2022



Who we are

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

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Key messages



1. Councils have had a very difficult year

Alongside the ongoing response to the pandemic, councils have faced challenges in recovering services, dealing with increased demand and backlogs, and meeting community needs and expectations. This has taken place against a backdrop of long-standing pressures such as increased demand from an ageing population and rising poverty.



2. The challenging context means collaborative leadership is more important than ever

Councils are operating in a difficult and uncertain strategic context and face longer-term financial pressures, a lack of certainty and flexibility over long-term funding, and the prospect of major service reforms. This challenging context needs local government leaders skilled in effective strategic thinking, decision-making and collaborative working, and able to learn lessons from new ways of working. Collaborative leadership is more important than ever as councils work with partners, communities, and citizens to support recovery and improve outcomes.



3. Pressure on the local government workforce continues

Councils are continuing to experience high absence levels. Impacts on staff wellbeing and skills shortages, particularly in front-line workers, have also been noted. A resilient workforce is critical to the ongoing response to Covid-19 and the recovery of services. Workforce plans will need to be updated, considering lessons learned from new ways of working. Wellbeing support for the workforce must also continue.



4. The impact of the pandemic and service disruption have been felt most strongly by those already experiencing inequality

Councils have worked hard and adapted to maintain service delivery but not all services are back at pre-pandemic levels so those most in need of support are still being affected. Councils must evaluate these impacts so that recovery and renewal supports those most affected and addresses inequalities. Recovery and renewal should also reflect the wider ambitions of the public service reform agenda.



5. The early response showed what could be achieved by working closely with communities and the voluntary sector

This momentum may be lost if communities and the voluntary sector are not involved in shaping recovery. Flexible governance and decision-making structures will be needed, as will opportunities for more local participation.



6. Improvements are needed in data availability, tools and skills to support performance monitoring, strategic decision-making and planning service improvements

Data has been important in guiding the response to the pandemic but there are key areas where a lack of data could hamper recovery, such as unmet needs, service demands and backlogs. Data is a key tool in tackling inequality but there are gaps in equality data, particularly at a local level.

Key facts



32

Councils



5.5 million

People served by councils



213,000

Workforce

Local government workforce FTE Q4 2021. 2.4 per cent increase since Q4 2020



£13.8 billion

Budget

Net expenditure budget for 2021/22



1.3 million

Covid-19 cases

Cases between Mar 2021 and Feb 2022



£0.5 billion

Lost income

Estimated loss of income from customers and clients in 2020/21



Inequality

24 years less

Healthy life expectancy in most deprived areas compared to less deprived areas

24.3 per cent

Children living in poverty in 2019/20 (most recent year available)



Financial hardship

8.8 per cent

Rent arrears as a per cent of rent due at Dec 2021. Up from 7.3 per cent in 2019/20 (pre-pandemic)

132,435

Claimant count Feb 2022. Still above pre-pandemic levels



Support

30 per cent

Increase in Discretionary Housing Payment budget since 2019/20 (pre-pandemic)

£600 million

Value of business support grants administered 2021/22

56,205

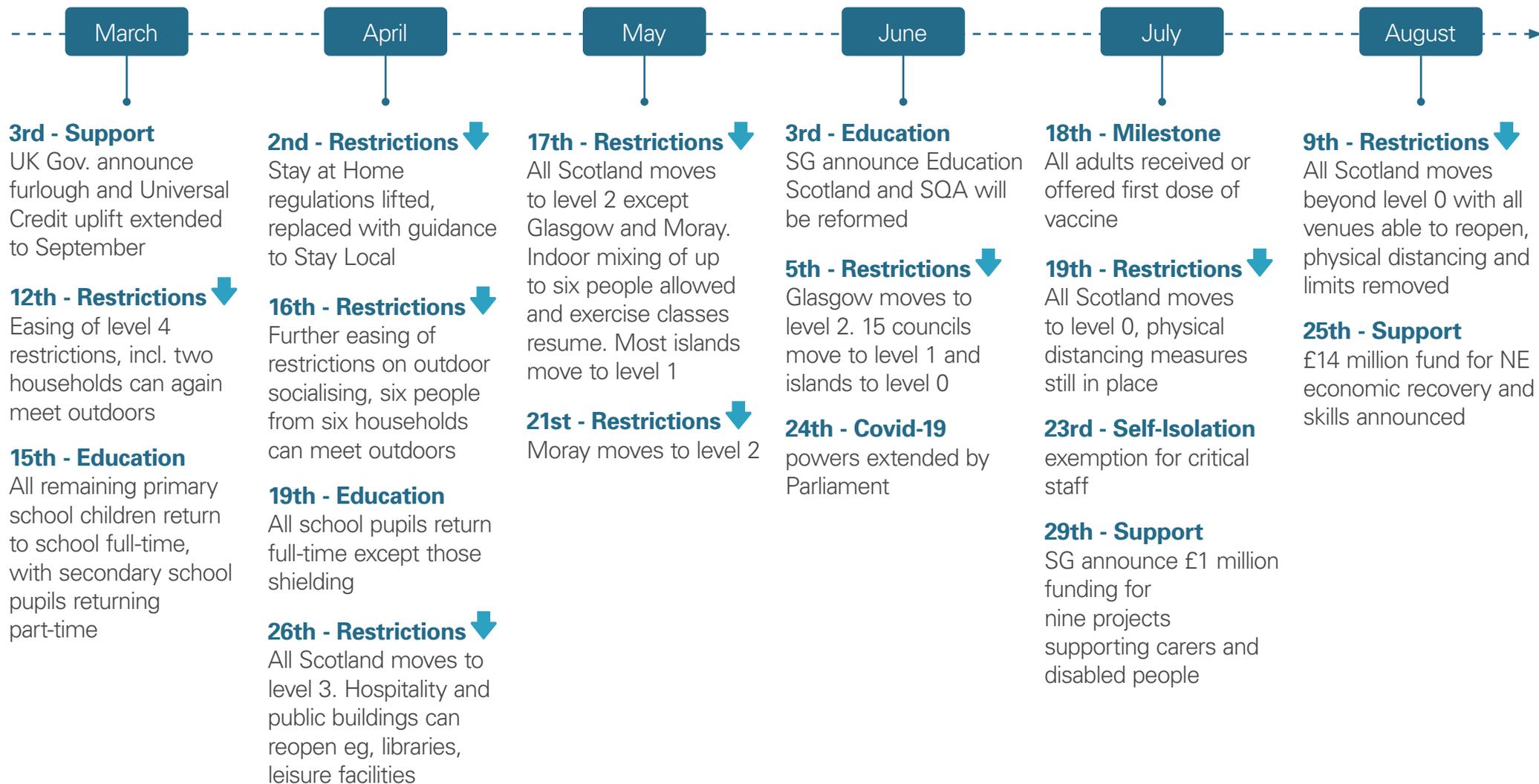
Self-isolation grants awarded at end Nov 2021 (started 12 Oct 2020)

491,016

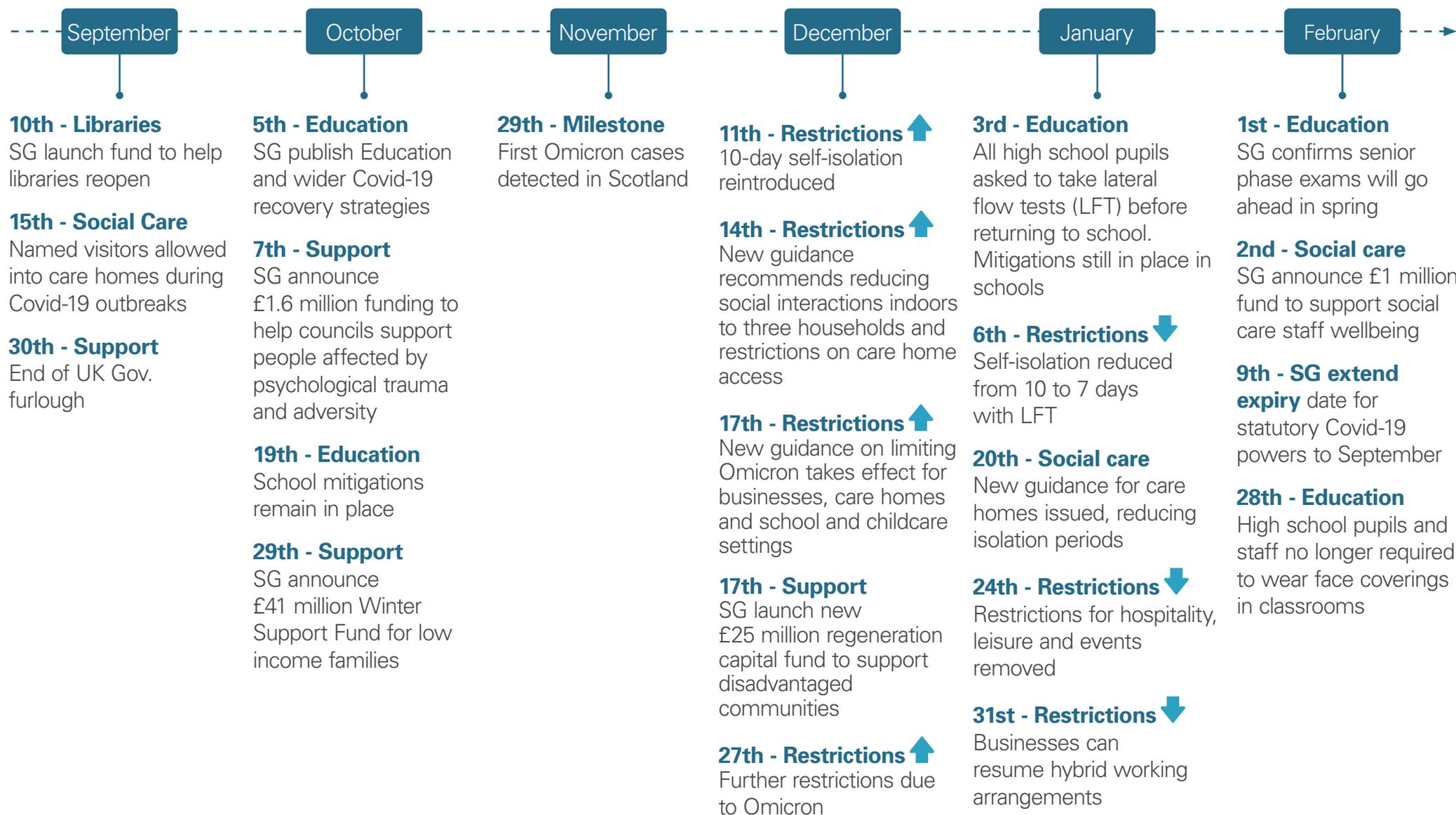
Number of Helpline calls and texts (includes Test and Protect), Mar 2021 to Feb 2022

Timeline

Covid-19 restrictions and key events between March 2021 and February 2022



Timeline continued



Source: SPICE (Scottish Parliament Information Centre), Scottish Parliament

Background

Reporting on the impact of Covid-19 on local government

Our strategic approach to covering Covid-19 in local government overview reporting

1. In August 2020, we set out a strategic medium-term approach to reflect Covid-19 in future local government overview reporting.
2. The first report in the series, [Local government in Scotland: Overview 2021](#), considered the initial response phase of the pandemic from March 2020 to February 2021. This included:
 - the initial emergency response and the impact on council services, how councils and their workforce were working in new ways, and how collaboration with communities and partners had been vital
 - the continued financial challenges councils face, and how councils were starting to plan for recovery and learn lessons from responding to the pandemic.
3. Future reporting will cover further progress towards recovery and renewal and examine the longer-term impact of the pandemic.
4. An in-depth financial overview of the sector complements each local government overview. This year's report, [Financial overview 2020/21](#), was published in March.

This report:

- is the second in the series of reports that reflects the evolving and long-term nature of the impact of the Covid-19 pandemic
- considers the second year of the pandemic from March 2021 to February 2022, with data and information correct as at the end of February 2022. We attempted to use this timeframe for all data but where it was not possible the most recent available was used instead
- builds on last year's overview report and assesses:
 - the ongoing impact of Covid-19 and councils' progress towards recovery and renewal
 - how councils are positioned to address long-term priorities including climate change, inequality and public service reform
 - how effectively council leadership is managing recovery and renewal
- includes exhibits and case studies throughout to illustrate issues and practice across councils
- The findings of this report are drawn from the range of local and national audit work carried out during the year as well as specific research and analysis of available data and intelligence.

Progress towards recovery and renewal

Councils have had a difficult year. Alongside continuing to respond to Covid-19 they have been planning and recovering services and renewal in an increasingly complex and uncertain environment.

5. As we began scoping this year's overview, we hoped that the second year of the pandemic would be about recovery and returning to normal. That has not been the case. Covid-19 has continued to have a significant impact on all aspects of daily life.

6. Councils too have had a difficult year. They have moved on from the immediate emergency response of year 1, but they have had to continue to respond to Covid-19 – managing restrictions and mitigation measures, providing support to communities, and operating differently – while also recovering services and planning renewal in a complex and uncertain environment. The [timeline \(pages 8 and 9\)](#) shows the complexity as councils moved in and out of restrictions throughout the year and different programmes of support were introduced.

7. Recovery and renewal are not about returning to the pre-pandemic status quo. The process of recovery and renewal includes directing resources to help ensure that services can restart and are reshaped to meet the new needs of the local area, to address the harm caused by the pandemic, to support economic recovery, to empower communities, to address inequalities, and to tackle key priorities including climate change, growing poverty, and the long-standing need for public service reform.

8. We have structured this report around three main themes on which progress towards recovery and renewal depends. Leaders need to consider how well their council is:

Responding to the external environment:

climate change, reform, financial pressures, Brexit, demographic change

Organising the council:

leadership, resources, workforce

Meeting local needs:

inequality

Shaped by engaging with communities and collaboration



Responding to the external environment

As councils continue to plan their recovery from Covid-19 and renewal they need to tackle key priorities including climate change, poverty, and the long-standing need for public service reform.

Councils have to respond to a large and complex programme of reform and the impacts of departure from the EU

Social care reform

9. The Accounts Commission together with the Auditor General for Scotland recently reported on the huge challenges that face the social care sector in Scotland in their [Social care briefing](#). Increasing demand, severe workforce pressures and limited progress in service improvement and reform are affecting the sustainability of services. Action is needed now to address these issues.

10. Scottish Government proposals for a new National Care Service are still at an early stage but will have a substantial impact on local authorities' responsibilities. Such a significant programme of reform brings challenges and risks. Reform in other areas of the public sector has shown that expected benefits are not always clearly defined, and even when they are, they are not always delivered.¹ Focusing on such a major transformation will also risk a diversion from tackling the immediate challenges within the social care sector. For local government there is uncertainty about the destination of the policy, and concern over a loss to local empowerment and funding for councils.

Brexit

11. The UK's departure from the European Union is exacerbating the challenges councils face. The Trade and Customs Agreement (TCA) between the United Kingdom and the European Union has imposed new tariff and non-tariff barriers in stages from 1 January 2021. This represents a further supply shock to the United Kingdom's economy in addition to Covid-19 and the rise in global energy prices. Councils are facing higher prices and shortages of key resources, for example construction materials and labour shortages particularly in the construction and care sectors. There is also uncertainty around the loss of EU structural funds and their replacement. There is a reported lack of understanding about how the Shared Prosperity Fund, due to launch in 2022, will work for councils, and what its relationship will be to the Community Renewal Fund and the Levelling-Up Fund.²

12. It is difficult to untangle the combined impacts of Brexit and Covid-19. Councils remain uncertain about the long-term effect of EU departure and are continuing to monitor impacts on the labour market including staff shortages, access to funding, and on business.

Climate change

13. Councils recognise that climate change is an urgent issue. They have committed to taking action to achieve net zero, but clearer plans are needed to achieve it.



Climate change – policy spotlight

Around two-thirds of councils have formally declared a climate emergency, and COSLA's Blueprint for Local Government states that climate change is a 'greater threat than COVID'.³ However, there is no universally shared understanding of what declaring a climate emergency means in practice and there is variation in policy and practice across councils. The Scottish Government has recently published guidance on public sector leadership on the global climate emergency to help public bodies in leading climate action.⁴

Councils' ambitions for how and when they will achieve net zero or other emissions reductions targets are varied, but all are either on or before the Scottish Government's national target year of 2045. Council recovery plans have climate change as a theme with commitments such as providing active travel routes in communities, installing electric car charging infrastructure, and pushing forward plans for low-emission zones.

Source: Audit Scotland

We, together with the Auditor General, set out our joint approach to auditing climate change in October 2021 in [Auditing climate change: An update \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/auditing-climate-change-an-update). It reported that while public bodies, including councils, have declared a climate emergency, there are questions around definitions of net zero and the robustness of plans. It also highlighted the importance for bodies in tackling adaptation and resilience to reduce the impact of climate change that has already taken place, the need for investment to achieve net zero, the critical role for the public, and the need for strong partnership working and public sector leadership.

Addressing the climate emergency and setting actions to achieve net zero will need to be a key element of councils' recovery and renewal from the pandemic. We will be reporting on the approach that councils are taking to meet their climate change ambitions in late summer 2022.

The impact of the pandemic sits against a backdrop of long-standing and growing demographic pressures and a growing cost of living crisis that will affect demand for council services

14. The overall population is projected to fall over the next 25 years.⁵ The trend is towards an ageing population and the proportion of those aged over 65 will increase. The latest data shows that overall life expectancy has fallen as has healthy life expectancy. Deprivation has a big impact on both.^{6 7}

15. Poverty rates have been rising in recent years, with the highest rates among children. The proportion of children living in poverty (after housing costs) has increased from 21.6 to 24.3 per cent since 2013/14, including a 1 percentage point increase in the most recent year in which data is available.⁸ This trend is seen across all 32 councils but in recent years poverty rates have increased at a faster rate in councils with lower levels of deprivation.

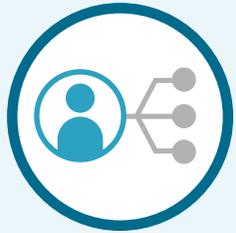
16. Increasing financial hardship is expected as the cost of living rises rapidly, with the greatest effects felt by those already experiencing poverty. Energy Action Scotland estimate that in 12 council areas over 40 per cent of households will live in fuel poverty after April's energy price rises. Eileanan Siar is forecast to be the worst affected area with an estimated 57 per cent of households living in fuel poverty.⁹

Challenges for councils

17. Planning to respond to these longer-term issues is difficult. Funding levels continue to be uncertain because of short-term funding cycles, ring-fenced funding and uncertainty over how long Covid-19 funds will remain in place.

18. It will be challenging for councils to find the capacity and resources to respond to, influence and shape this programme to their own contexts particularly while continuing to respond to Covid-19 and deal with service backlogs and increased demand and harms arising from the pandemic. This uncertain and challenging context needs effective strategic thinking, decision-making and collaborative working from local government leaders. It also needs a resilient workforce, and a culture that promotes collaboration, innovation and wellbeing.

19. Councils can learn from how they responded to the pandemic – through strong partnership working, engaging with communities and focusing on vulnerabilities.



Organising the council: leading recovery and renewal

Leaders in local government face a challenging context. As they plan for recovery and renewal it will be important that they collaborate with their partners and communities. This will need skilled leadership, learning lessons from the pandemic and working to make the best use of resources to improve outcomes.

Councils prepared recovery plans in response to the pandemic, and leaders are now starting to plan and set out their vision and strategy as their councils navigate the uncertainties and challenges they face

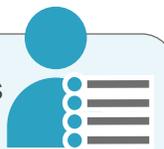
20. Local government leaders are operating in a complex, uncertain and volatile environment, and external pressures make it difficult to plan and deliver councils' recovery from the pandemic. These include:

- uncertainty about the course the pandemic will take and its impact on operations, pivoting between response and recovery
- the impact of major public service reforms, including the proposed National Care Service
- a lack of longer-term financial settlement and limited flexibility because of ring-fenced funding.

21. Councils have prepared recovery plans that vary in their approach from high-level strategic statements to more detailed short-term operational plans. They have been a helpful tool for managing the early recovery phase and reinforcing the need for councils to remain flexible in a changing and volatile environment. We expect that councils will continue to refresh and refine their plans to set out more clearly how they will address inequalities, mitigate the harm caused by the pandemic, improve outcomes and monitor progress.

22. Recovery plans include a focus on partnership working, but leaders have an opportunity to collaborate more widely with their communities in planning for the future. This could lead to more sustainable, community-focused renewal and innovative ways of delivering services in communities.

By **leaders** we mean elected members, chief executives and the senior management team.



Case study 1

City of Edinburgh Council



In response to the pandemic, the council quickly developed and implemented their Adaptation and Renewal Plan.

It realised that pre-pandemic working practices could not continue and might never return. It created the Now, Near, Far & Beyond programme linked to national guidance but with the ability to respond to any changes. The plan was regularly updated and aligned with the agreed City Vision 2050. Updates included a Covid-19 dashboard containing a range of public health, Covid-19 response and economic data, as well as details of decisions made at committee meetings. These were made available online to the public, via the council website, providing transparency of the council's decision-making and governance process.

Source: Audit Scotland using information from City of Edinburgh Council

23. Some councils have integrated their recovery plans into refreshed strategic plans, including Local Outcomes Improvement Plans, recognising the impact of the pandemic, lessons learned from the response, and the need to realign priorities. This can help councils move from response to renewal and set a roadmap for the future. Common themes in recovery plans that are being reflected in wider strategic plans include:

- New ways of working – digital technology, the workforce
- Addressing growing inequalities
- School education recovery
- Focus on health and wellbeing both in the community and workforce
- Economic recovery
- Climate emergency.

24. The Scottish Government published a national recovery plan in October 2021.¹⁰ While most councils' recovery plans were published before this, councils will have an opportunity to consider the priorities set out in the national recovery plan as they refresh their own plans. There is also an opportunity to consider the wider public service reform agenda and how to incorporate the principles of people, prevention, performance, and partnership into their plans.¹¹

Current recovery plans emphasise the negative effect that Covid-19 has had on inequalities but are not clear on how planned recovery actions will improve outcomes for those most affected

25. As outlined in [paragraph 77](#), there is a lack of data on the scale of service backlogs and increased demand, and evidence of the harm caused is still emerging.

26. Councils have struggled in the past to bring about the level of change that is needed to deliver public service reform, sustainable local government, and better outcomes. Transformation programmes have been disrupted by Covid-19 at the same time as new operating models and service delivery approaches have been presented.

27. There is a risk that councils are unable to deliver the level of recovery and transformation needed with their existing resources and will have to make difficult decisions about prioritising services.

There are good examples of councils showing leadership in tackling long-standing structural issues through new place-based initiatives such as community wealth building

28. Following successes in England, North Ayrshire was the first council in Scotland to create a community wealth building strategy, in which the council, other public bodies and key organisations work with communities to support local economic development and tackle poverty.¹² Community wealth building has now been adopted by a number of councils and is part of the programme for government.

Collaborative leadership skills have been important during the response phase and need to be maintained to meet the complex challenges ahead

29. Collaborative leadership enabled the response to the pandemic as councils worked with partners, communities and across departments. [Exhibit 1. \(page 18\)](#) outlines key leadership principles that have been important in the response phase and could further support recovery and renewal. Recent Best Value Assurance Reports have shown that not all councils have the collaborative leadership needed to drive change, and so it is particularly important that they develop the leadership skills needed in this complex and uncertain environment.

Case study 2

Renfrewshire Council



Renfrewshire Council worked with partners to carry out a community impact assessment to gather information on how the pandemic has affected people in Renfrewshire.

This included analysis of all available data, a programme of community meetings and surveys, and engagement with local partnerships on key issues affecting local communities. The findings were used to develop a social renewal plan which sets out the work the council will do with other public sector and voluntary sector partners to tackle inequality and poverty and to support families and communities in the wake of the pandemic.

Source: Audit Scotland using information from Renfrewshire Council

Exhibit 1.

Principles of leadership that enabled the response to Covid-19



Communicative – being available, engaging, honest and open. The pandemic created uncertainty that demanded more frequent communication with staff, partners, and communities. This provides assurance, uncovers issues, and enables decision-making. The shift to remote and hybrid working also demands more frequent communication.



Collaborative – working with and empowering others. This was critical to the pandemic response and harnessing the resources of the community and partners. Complex problems need a ‘whole systems approach’ that works across organisational and functional boundaries and aligns objectives and outcomes.



Emotionally intelligent – showing empathy, understanding and dealing with the ‘whole person’. The impacts on the health and wellbeing of the workforce and communities demands greater emotional intelligence from leaders.



Data driven – using data and information to plan, make decisions, direct resources and monitor progress, as well as to learn from looking back. Data has been a vital tool, and leaders’ ability to use data will be important as we move into the future.



Agile and flexible – making decisions and working quickly to respond to emerging issues. Having a clear vision and purpose is important, but also being agile and flexible in an uncertain environment.



Culture focused – being open and honest, inspiring trust and respect, and having empathy are all important, as are encouraging learning, improvement, innovation and collaboration. Leaders need to focus on creating the right organisational culture.



Enables community empowerment – supports communities to take more control, builds effective relationships with communities, and shows strong public sector leadership on community empowerment. These can help improve outcomes and reduce inequalities.

Source: Audit Scotland

Changes and turnover in senior officer and political leadership present a risk to councils' capacity to maintain momentum and drive forward recovery

30. Turnover of senior officers has been high recently with half of all council chief executives coming into post within the past four years as well as other changes to senior leadership teams in some councils over the past year. Some councils are experiencing difficulties in filling vacant senior management positions. The pandemic is reported to have led to a surge in resignations, as senior leaders and management consider their work/life balance and overall position, potentially leading to further change in the sector. The local council elections may also bring in a new cohort of elected members and changes in political leadership in councils.

31. This turnover in officials and elected members could bring new ideas and energy to the challenges of recovery, but it could also risk a loss of momentum, organisational knowledge and capacity and disrupt decision-making. At this time, it is important that councils establish stability in their leadership to provide strong support and guide recovery and renewal. Effective succession planning arrangements are needed so that the skills required at a senior level are developed in new and emerging leaders.



Our [‘Questions for elected members’](#) checklist has been developed to help elected members in their scrutiny and decision-making roles and in working with council executives. The Improvement Service has also worked with councils to prepare induction materials that will be available for the new cohort of elected members which will help them take up their role in leading and scrutinising recovery.

As governance structures are re-established, better information is needed on service recovery to support scrutiny and inform decision-making

32. Councils put in place emergency governance arrangements in the initial months of the pandemic. They have since re-established their full committee structures, albeit via online, virtual and hybrid meetings.

33. Public accessibility and therefore participation has changed following the shift to online and virtual meetings. All councils provide public access via either live streaming or a recording of council and committee meetings, and most councils offer both. As restrictions continue to be lifted, councils should review how their approach can best meet the needs of their citizens and make sure that no one is excluded.

34. Councils have taken a range of approaches to the governance of recovery and renewal, with some having recovery boards and other structures that can involve both elected members and senior managers.

35. It is not clear whether sufficient information on the status of, and changes in, council services is available to support scrutiny and inform decision-making. It is difficult to find update papers that clearly set out councils' progress on recovery and renewal, what demand and backlogs exist, and what changes to services are planned. Greater transparency is needed to provide assurance that proper scrutiny is in place.

Councils recognise that they have an opportunity to learn lessons from the new ways of working and approaches to service delivery that have been put in place in response to the pandemic

36. Leaders need to do more to learn the lessons from the pandemic response and use this to drive longer-term recovery and renewal. Key lessons learned include the benefits of:

- collaborative working with partners and communities to respond and reshape services
- having access to and making better use of data to understand needs and plan services
- the rapid use of digital technology in service redesign
- focusing on vulnerability and inequality, including taking a ‘whole systems’ and holistic approach
- new ways of working for staff
- focusing on physical and mental wellbeing – for communities and the workforce
- promoting shared values and a caring culture (kindness)
- the opportunity to reconfigure the estate
- adopting place-based approaches.

37. The Improvement Service is supporting councils by updating the Public Service Improvement Framework (PSIF) to capture learning from the Covid-19 response.¹³ It has developed several checklists and self-assessment tools that councils are starting to use.

38. South Lanarkshire Council pioneered the new PSIF checklists, resulting in its ‘New Ways of Working’ plan, which includes technology, maintaining the new networks and new volunteers, ‘agile’ working, and maintaining its work with partner organisations on information sharing.

Data has been important in guiding the response to the pandemic. But improvements are needed in data availability, tools and skills to support performance monitoring, strategic decision-making and planning service improvements

39. Council performance reporting has been affected by the pandemic and, while councils continue to report regularly, there have been delays and inconsistencies. Comparing performance over time is difficult given the disruption to council services during the pandemic.

40. The Local Government Benchmarking Framework (LGBF) 2020/21 shows increasing variation in performance across councils and a level of complexity that needs careful interpretation but offers councils a rich source of intelligence to evaluate how local factors (ie, different local restrictions, patterns of demand and need, and local response and solutions) affected their performance.¹⁴

41. Early in the pandemic the Improvement Service developed a Covid-19 data dashboard to provide councils with up-to-date council- and Scotland-level data across 22 measures. This helps councils to monitor key aspects of their Covid-19 response and supports more immediate data-driven decision-making. Alongside the Local Government Digital Office, the Improvement Service is working to create a local government data portal.

42. Research by the Urban Big Data Centre found that since the beginning of the pandemic councils have experienced a rapid increase in demand for 'on the ground' information to understand their local communities.¹⁵ But this is hampered by challenges including access to data, a lack of joined-up data, issues with data quality and a lack of analysts to generate intelligence from it.

43. The pandemic has introduced additional complexity into existing data sets, with data gaps and disruption of data collection, as well as the impact of service disruptions on data trends, making it more challenging to interpret the data. We know that councils were reporting data skills shortages before the pandemic.¹⁶ It will be important for leaders to collectively drive improvements in data, in terms of not only data quality and timeliness but also building data skills within councils. This will support councils to put a performance monitoring framework in place that allows them to make strategic decisions and to plan improvements, recovery, and renewal.



Organising the council: managing resources

Councils' finances have been significantly affected by Covid-19. The long-term funding position remains uncertain, with significant challenges ahead as councils continue to manage and respond to the impact of the pandemic on their services, finances, and communities.

Covid-19 significantly impacted on many aspects of councils' finances in 2020/21

44. Our report [Local government in Scotland: Financial overview 2020/21](#) is the first to capture the full year effect of Covid-19 on councils' finances and explains how the pandemic and the associated lockdowns have created significant financial challenges and uncertainty.

45. Councils experienced significant additional costs, loss of income and unrealised savings as a result of the pandemic. For example, councils experienced a drop in the income generated from customer and client receipts of approximately £0.5 billion in 2020/21, from the disruption of key income streams such as cultural and community activities, car parking, school meals and trade waste disposal.

46. In 2020/21, the Scottish Government increased funding to councils by £1.5 billion to support them to deal with the impacts of the pandemic.

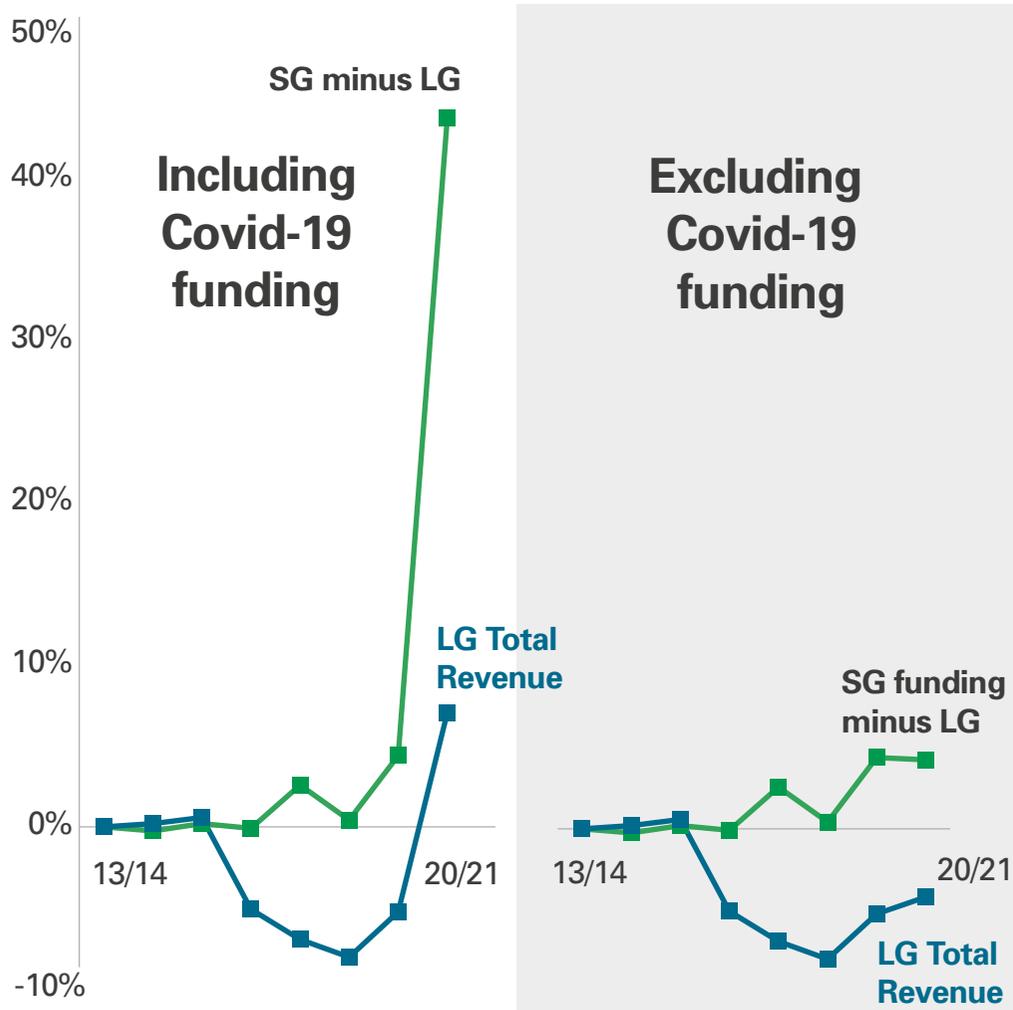
47. All councils reported surpluses in 2020/21, largely because of the additional funding received. Total usable reserves across Scotland increased significantly, from £2.6 billion in 2019/20 to £3.8 billion in 2020/21. However, this has artificially inflated the position. Councils are unlikely to have flexibility in how large elements of reserves can be used.

Funding to local government has been reduced in real terms since 2013/14. The rest of the Scottish Government budget has seen an increase in funding over the same period

48. Funding from the Scottish Government to local government increased by 7.0 per cent in real terms between 2013/14 and 2020/21. However, this was because of significant additional Covid-19 funding. When this additional funding is excluded, councils' underlying cumulative funding has fallen by 4.2 per cent in real terms since 2013/14. This is in contrast to an increase of 4.3 per cent in Scottish Government funding of other areas of the budget over the same period [Exhibit 2. \(page 23\)](#).

Exhibit 2.

A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)



Source: Finance Circular 5/2021 and Scottish Government budget documents

The ongoing absence of a multi-year financial settlement creates uncertainty for councils at a time when effective and robust financial management is crucial

49. The Scottish Government continues to fund councils on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium and longer term, and work with partners to develop long-term plans to deliver better outcomes and address inequalities.

50. Managing reserves and having in place robust medium- and longer-term financial plans will continue to be key to maintaining financial sustainability.

51. The Scottish Government has indicated that a longer-term funding settlement for councils may be possible, however multi-year allocations were not included in the 2022/23 budget.

52. The Scottish Government and COSLA are currently developing a fiscal framework to determine future funding of local government. Work on the Local Governance Review also continues. These may result in additional spending powers for local government, giving communities and places greater control over the decisions that affect them most.¹⁷

Councils now need to review longer-term financial plans as Covid-19 uncertainty diminishes. They should ensure that financial plans are clearly linked to overarching recovery strategies

53. Auditors have reported greater uncertainty in current financial planning arrangements at councils because of Covid-19. Analysis of a sample of 22 councils found 15 with a long-term plan in place. However, many of these now need to be updated to reflect current circumstances.

54. As the uncertainty created by Covid-19 diminishes, councils should update their longer-term financial plans and take account of their overarching recovery strategies to ensure a cohesive approach to recovery and renewal of services, finances and communities.

As Covid-19 funding ends, councils will need to adapt and make difficult decisions to maintain financial sustainability

55. COSLA expect that councils will need to restart change programmes that have stalled, deliver savings and bring forward proposals to reduce costs. Transformation programmes will be important for councils in helping identify resources for priority areas.

56. Responding to the programme of reform outlined in [paragraph 10](#) further exacerbates this challenge. In addition, councils' financial outlook challenges are heightened by increasing inflation – data from the Office for National Statistics shows that this has risen to a level higher than has been seen for many years.¹⁸

While COSLA and the Scottish Government continue to discuss the extent of ring-fencing in the local government budget, it is clear that spending on priority areas have increased while other areas of the local government budget have faced spending cuts

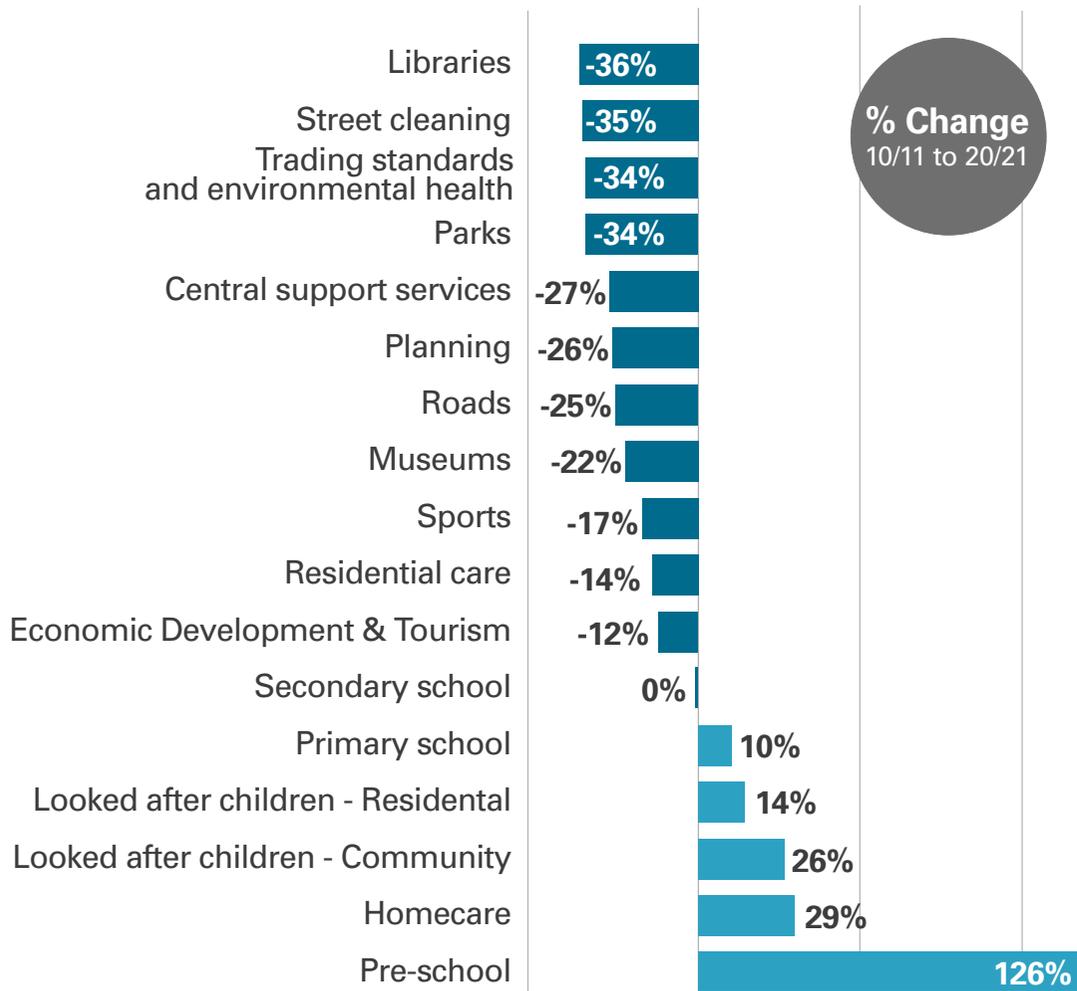
57. There is a significant difference between the view of COSLA and that of the Scottish Government on the extent of ring-fencing in local authority budgets.

58. While ring-fenced funding helps support delivery of key Scottish Government policies, such as expanding early learning and childcare services, it can constrain a proportion of the total funding and resources available to councils and removes local discretion over how these funds can be used.

59. [Exhibit 3. \(page 25\)](#) shows the change in revenue expenditure over the longer term 2010/11 to 2020/21 for protected and unprotected service areas. These longer-term spending reductions on areas including environmental services, culture and leisure, and corporate services, have placed these services under pressure as councils respond and recover from Covid-19.

Exhibit 3.

Percentage change in expenditure (real terms) by service from 2010/11 to 2020/21



Source: LGBF 2020/21 data, using Audit Scotland Covid-19 adjusted methodology for calculating real terms (page 7, [Local government in Scotland: Financial overview 2020/21](#) for further detail)

Covid-19 has impacted on capital projects and volatility in capital funding allocations could affect councils' recovery and investment plans

60. Auditors reported that Covid-19 had a significant impact on the delivery of capital projects in 2020/21. Capital project costs increased owing to increases in the cost of raw materials, supply chain delays and inflation associated with delayed contracts. CIPFA Local Government Directors of Finance Section notes that these cost increases have not been matched by an increase in the capital grant received.

61. At the same time most councils, 26 in total, reported reduced capital expenditure in 2020/21, with Covid-19 restrictions disrupting construction activity in many instances.

62. Capital investment is likely to play a key role in councils' recovery from Covid-19 and in particular address the impact of climate change. The local government estate, comprising buildings and vehicles, will need some modernising to deliver councils' carbon reduction targets and wider investment needed to mitigate and adapt to the impacts of climate change. Funding will need to be in place to support this.

63. Our [Local government in Scotland: Financial overview 2020/21](#) report notes that the local government capital settlement in 2021/22 decreased from £0.8 billion in 2020/21 to £0.6 billion, and capital funding received in recent years has been very volatile. Lack of longer-term funding settlements will again impact on councils' investment plans.

Organising the council: managing the workforce

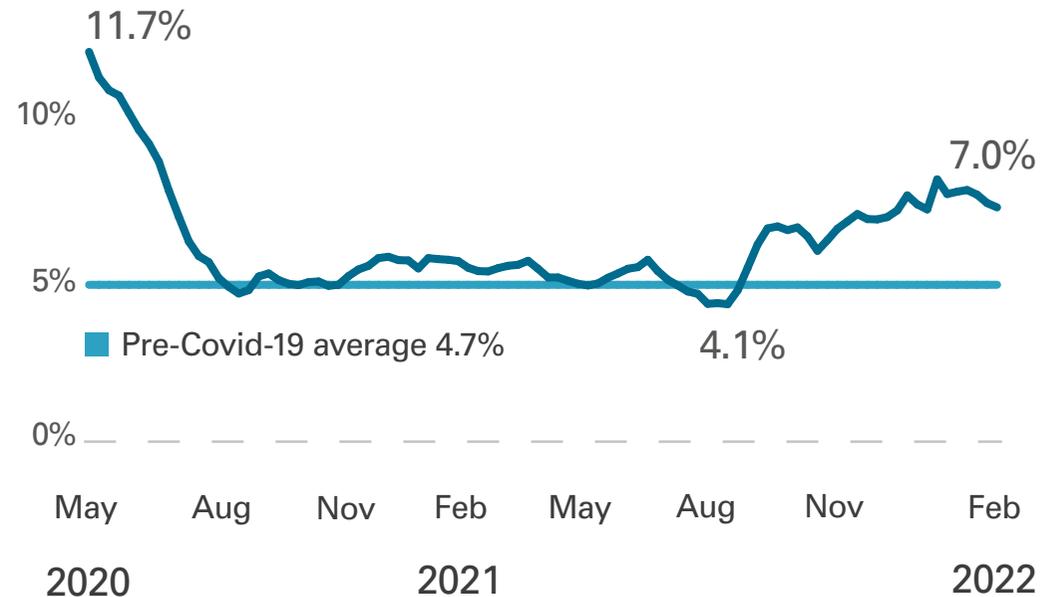
Pressure on the local government workforce continues, with high absence levels, impacts on wellbeing, particularly for front-line workers, and skills shortages in key areas. A resilient workforce is critical to the ongoing response to Covid-19 and the recovery of services. Councils will need to update workforce plans, learn lessons from new ways of working put in place, and provide wellbeing support for their staff.

The second year of the pandemic continues to have a negative impact on the workforce and staff wellbeing

64. Council services are facing high demand, high staff absence levels from new waves of the pandemic and staff burnout from the prolonged response and recovery phase. These impacts have been felt across the workforce but particularly so in front-line community-facing roles. [Exhibit 4. and Exhibit 5. \(page 27\)](#) show that teaching and education staff absence levels peaked in December 2021 and wider staff absences also rose in the last quarter of 2021.

Exhibit 4.

Average percentage of council staff absent during the pandemic

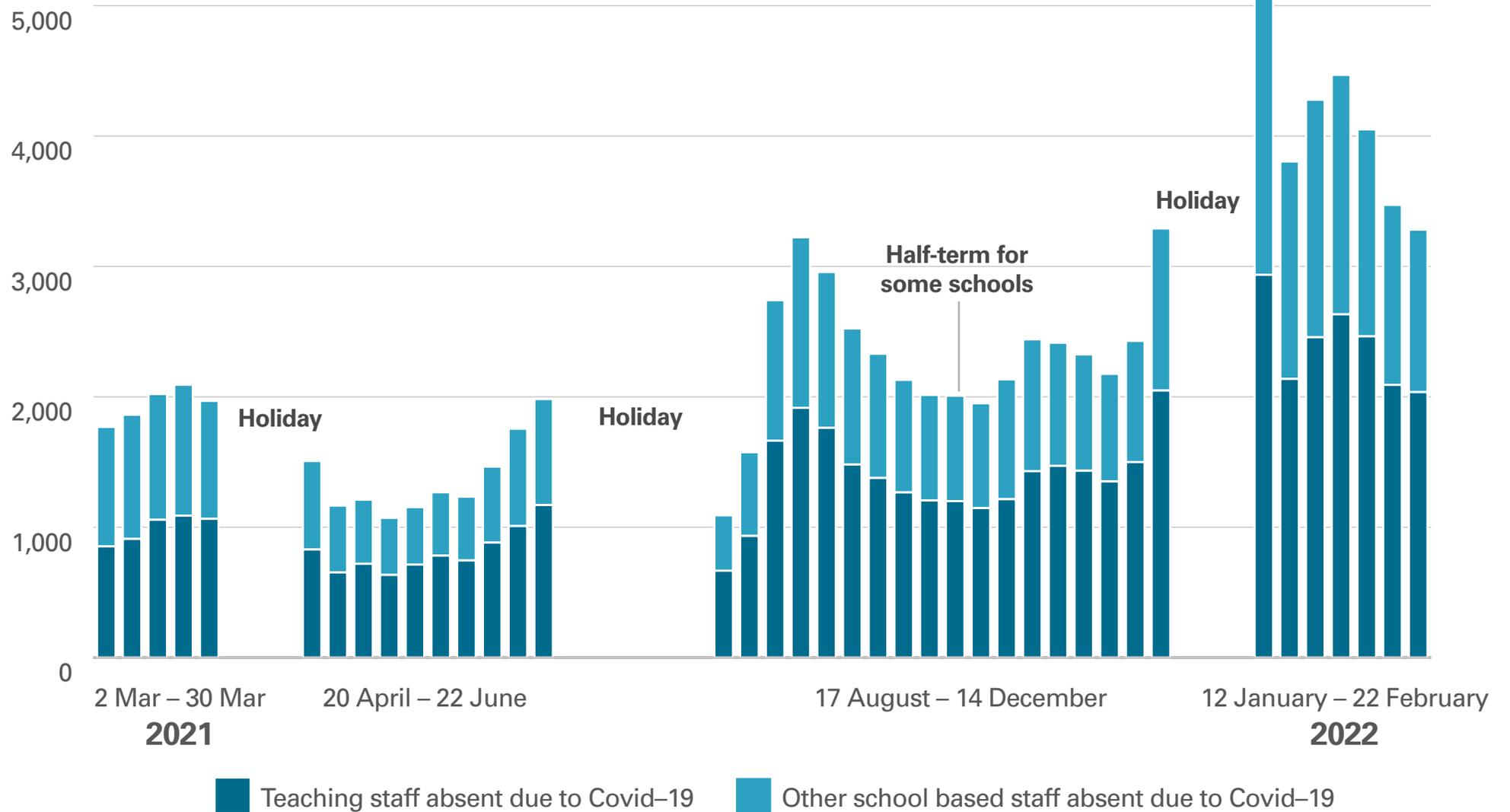


Note: Pre-Covid-19 average is based on 2018/19 data.

Source: Improvement Service

Exhibit 5.

Number of school staff absent March 2021 to February 2022



Source: Scottish Government Education Analytical Services

65. Staff wellbeing, both physical and mental, has been a prominent theme within recovery plans. Councils are making efforts to understand these issues through staff surveys and other methods, provide confidential support services, and incorporate training for stress and mental health into council training programmes ([Exhibit 6.](#))

Exhibit 6.

Examples of council wellbeing initiatives



Dundee City Council launched a new wellbeing support service and also gives staff access to the intranet on their own devices.



Clackmannanshire Council integrated training on stress and mental health into its corporate training calendar to increase awareness.



Argyll and Bute Council launched 'Wellbeing Wednesday'.

Source: Audit Scotland using information from councils

Councils are facing skills shortages and recruitment difficulties in key areas

66. Covid-19, combined with Brexit, is exacerbating skills shortages, many of which were pre-existing ([Exhibit 7., page 29](#)). Covid-19 has had a particular impact on facilities management services because of the increased need for cleaners and a tighter labour market. HGV (Heavy Goods Vehicle) driver shortages have been affected by Brexit, as councils are unable to compete with private sector wages.

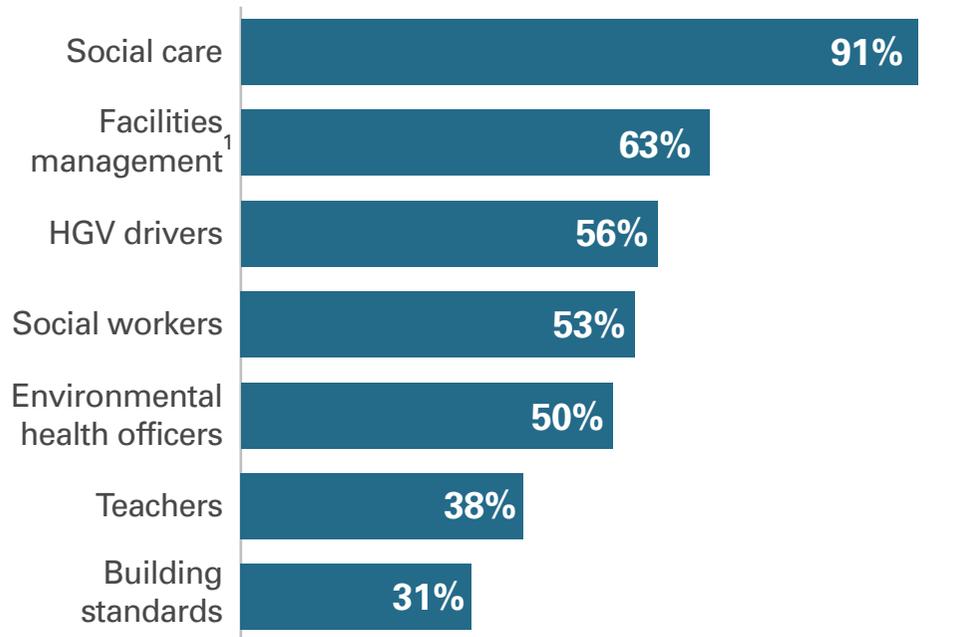
67. Social care faces the greatest skills shortages. Our [Social Care briefing](#) highlighted the considerable vacancy and recruitment problems facing the sector, with poor terms and conditions contributing to these issues. See [Exhibit 9. \(page 35\)](#) for further details.

68. Councils are changing their recruitment strategies in the face of these shortages, with more marketing, use of social media and local employability initiatives. The Scottish Government established a Fair Work in Social Care Group, in partnership with COSLA, which includes representation from local government, private sector provider groups, third sector, and trade unions. Since summer 2020 the group has been working to develop and implement recommendations regarding improving pay, terms and conditions, and effective employee voice for the social care workforce.

69. Councils are also seeing an increase in retirement and flexible working contributing to the skills shortage. Fifty-six per cent of councils report difficulties in recruiting to senior posts and leadership positions. Succession planning is important in this context.¹⁹

Exhibit 7.

Percentage of councils reporting skills shortage by occupation



Note: Facilities management includes catering and cleaning

Source: Society of Personnel and Development Scotland

Councils have adopted new ways of working

70. Councils have shown considerable flexibility in redeploying staff to areas of greatest priority and demand and in adopting remote and hybrid working. The shift to home working brought about by the pandemic is likely to have a longer-term impact on how councils work. Wider evidence shows that it can bring benefits for both employers and staff, but individual circumstances should be considered.²⁰

71. Councils are considering how hybrid working can support their ambitions for a more flexible and adaptable workforce in future. For it to work well, councils need to provide staff with a wide range of support, including health and wellbeing support, a supportive workplace and management culture, and appropriate technology and equipment. The diverse roles in councils mean that not all staff can work remotely. It will be important for councils to continue to consult and engage with their employees, learn lessons from what has been done to date, and test new models of working as they move forward.

Case study 3

City of Edinburgh Council



The City of Edinburgh Council developed a new work strategy after receiving feedback from 6,400 employees via two surveys conducted in 2020. The surveys asked employees how the pandemic has changed the way they work and how they would like to work in the future. The responses made it clear that staff want to retain a more flexible approach to work in future.

'Our Future Work Strategy' outlines three trials to explore new ways of working. Two of the trials are about adapting current office space to best fit a future of hybrid working. The third trial is of a longer-term plan to develop local offices that would enable staff to work close to where they live, reducing the need for commuting. The council believes that investing in local working and following the principle of '20-minute neighbourhoods' will contribute to reducing emissions locally, and so help Edinburgh achieve its target of becoming a net-zero city by 2030.

Source: Audit Scotland using information from City of Edinburgh Council

The pandemic has made workforce planning both more difficult and more necessary

72. Workforce planning is developing in councils. Some have plans that are linked to wider strategic plans as well as individual service plans, while other councils' workforce plans are more limited.

73. As a result of the pandemic, councils have had to respond to short-term pressures, but they need to plan for longer-term resilience in the workforce. Some councils have started to update their plans to reflect more flexible and remote ways of working and to focus on wellbeing.

74. There are common recruitment pressures across councils, as detailed above, but these are changing more frequently as the pandemic affects the wider labour market. Some councils are 'growing their own talent' by improving modern apprentice programmes and creating new internal recruitment and movement of staff across the council or new talent programmes.

75. Councils report that they lack resources to support workforce planning and are collaborating and sharing practice to make improvements.²¹ Joint working through the Improvement Service and the Society for Personnel and Development Scotland is allowing common challenges and practice to be shared. The Improvement Service has provided tools for councils to develop workforce plans.²² It is vital for councils to share lessons learned and to use them to inform their revised plans.

Organising the council: recommendations



Actions for leadership

- **Councils together with their partners and communities should revise their strategic plans, including Local Outcomes Improvement Plans to realign priorities and provide a roadmap for recovery and renewal. They should also consider how this contributes to the national recovery strategy set out by the Scottish Government.**
- **Elected members and senior managers need to work together to drive change, make decisions and deliver recovery and renewal.**
- **Councils should consider the leadership skills needed for now and in future. This includes clear succession planning arrangements and a structured programme of induction for new elected members.**
- **Councils' governance arrangements should ensure that their elected members have sufficient information to support the scrutiny and decision-making needed for recovery and renewal.**
- **Councils need to clearly set out how they are evaluating new service models and learning lessons from the response to Covid-19.**
- **Councils should have a clear plan for developing the use of data in their councils, this includes data skills, data standards and data tools.**
- **Councils must ensure that financial plans and overarching recovery strategies and actions are clearly aligned, including funding to deliver on their duty to address inequalities.**
- **Councils must have clear plans for management of reserves.**
- **Councils should update their workforce plans to build on lessons learned, address skills gaps and build a resilient workforce for the future. This will include monitoring the wellbeing of the workforce, and the effectiveness of health and wellbeing initiatives.**



Meeting local needs: impact of Covid-19 on services and inequality

Covid-19 continues to disrupt council services, and those already experiencing inequality have felt the impacts of both the pandemic and service disruption most strongly. As councils focus their efforts on addressing these unequal harms, they need better local data and community engagement.

The Covid-19 pandemic continues to affect council service delivery, but a lack of clarity on demand, unmet need, and service backlogs makes the full extent of the effect unclear

76. Councils are still early in recovery, having moved on from the initial emergency response and operating under lockdowns. They report that the second year of the pandemic has been more difficult than the first. Ongoing restrictions, Covid-19-related staff absences and the non-linear nature and uncertainty of the pandemic, for example the emergence of the Omicron variant, mean that councils still need to adapt service provision and many services are disrupted.

77. The picture of service disruption is incomplete. A lack of up-to-date publicly available data makes it difficult to assess the extent to which council activities have returned to pre-pandemic levels, the level of demand for services and levels of unmet need.

78. Disruption has continued in those services we reported as most affected last year: education, social care, and culture and leisure. [Exhibits 8, 9](#) and [10 \(pages 34-36\)](#) provide more detail.

79. Alongside continued disruption, councils are also having to manage new pressures across services:

- from backlogs due to paused activity in the first year of the pandemic, such as repairs to roads and housing
- from an increase in demand, for example administering support grants, assisting with testing and vaccinations and in environmental health and trading standards. Increased levels of financial hardship are driving an increase in applications for discretionary housing payments and other support grants.

An inability to clear backlogs and meet new demands is a risk to wider recovery.

80. Public tolerance of service disruption and backlogs is declining, and communities have expressed their frustration in some cases. Councils are having to balance a growing expectation that services should be back to normal while still adhering to Covid-19 guidelines and facing absences that limit their capacity to deliver.

Councils have worked hard and adapted to maintain delivery of key services. Digital delivery has expanded but brings with it the risk – for some – of increased digital exclusion

81. As we found in our [Digital progress in local government report](#), the pandemic has brought about a change in the way in which many council services are delivered. Councils have expanded their digital service provision, to replace temporarily unavailable services, to respond to new needs, or to provide an alternative means of accessing services. Councils have introduced online booking systems for services such as recycling, created online learning hubs for parents and carers to support children’s learning, and developed more digital resources from libraries and leisure services.

82. The rapid shift to digital delivery allowed services to be delivered rather than stopped. It also highlighted how unequal access to the internet, devices and skills leaves those most disadvantaged without the same opportunities to learn, access services and remain socially connected as others.²³

The extent to which councils have assessed and can evidence the impact that Covid-19 related service changes and disruption have had on different groups and citizens in their local areas is unclear

83. Changes in service provision have offered an opportunity to learn lessons about how services are delivered in the future. But it is not clear that councils have carried out equality impact assessments or community consultation where they have made changes or plan to continue changes made to service delivery during the pandemic.

Exhibit 8.

Education services continued to be disrupted throughout the second year of the pandemic

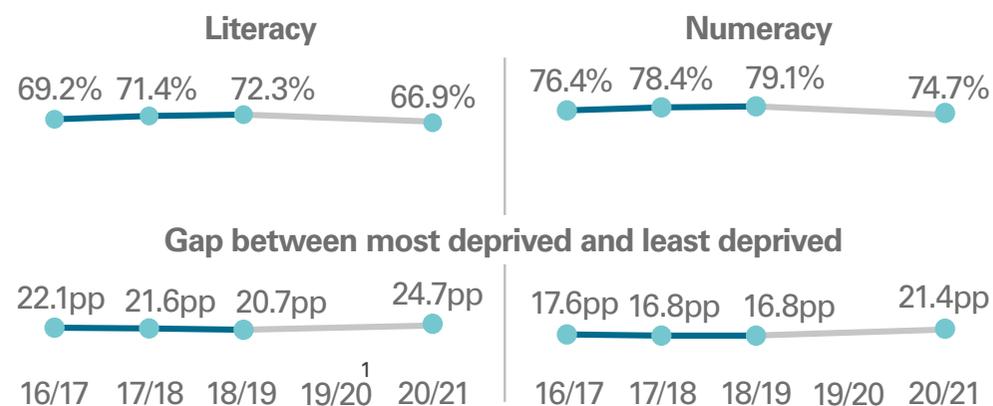
Disruption included:

- infection control measures in place, including masks, increased ventilation, 'bubbles' to limit contact and restrictions on school visitors
- the cancellation of S4-6 exams, which were again replaced by teacher assessment
- high levels of Covid-19-related pupil and staff absences ([Exhibit 5., page 27](#)) which made it hard for schools to offer continuity and stability to pupils.

Emerging data is now evidencing the adverse effect the pandemic has had on children and young people:

Educational attainment data is only available for primary school pupils. Attainment has fallen in both literacy and numeracy and more so for those pupils in the most deprived areas, meaning that the attainment gap has widened. For example, the attainment gap in literacy has increased from 22.1 to 24.7 percentage points.

Percentage of pupils (P1, P4, P7 combined) achieving the expected Curriculum for Excellence level in:



We talk more about the negative impact the pandemic has had on children and young people's social and wellbeing, including on their mental health, in [paragraph 86](#).

Risks and challenges

The pandemic has affected the comparability of education data for 2019/20 and 2020/21 when S4-6 exams were replaced with teacher assessed grades. Our joint report, [Improving outcomes for young people through school education](#), noted the difficulties and risk this could cause for councils in assessing and acting on the poverty related attainment gap.

Restrictions on school visitors have limited access for vital voluntary sector support services, including preventative youth work: 34 per cent of organisations that want access to school facilities do not have it. This has a particular impact on those with additional support needs, who need alternative supportive environments outside school.

Note 1. No data available for 2019/20

Source: See endnote [24](#)

Exhibit 9.

The pandemic has exacerbated ongoing challenges in social care

Our [Social care briefing](#) outlined the immense pressure the social care sector is facing. The pandemic has exacerbated the long-standing staffing challenges, compounded by Brexit. This has increased workloads, leading to staff burnout and high sickness absence levels, and risks limiting the capacity to provide good quality, consistent care to citizens.

There is evidence of ongoing disruption with:

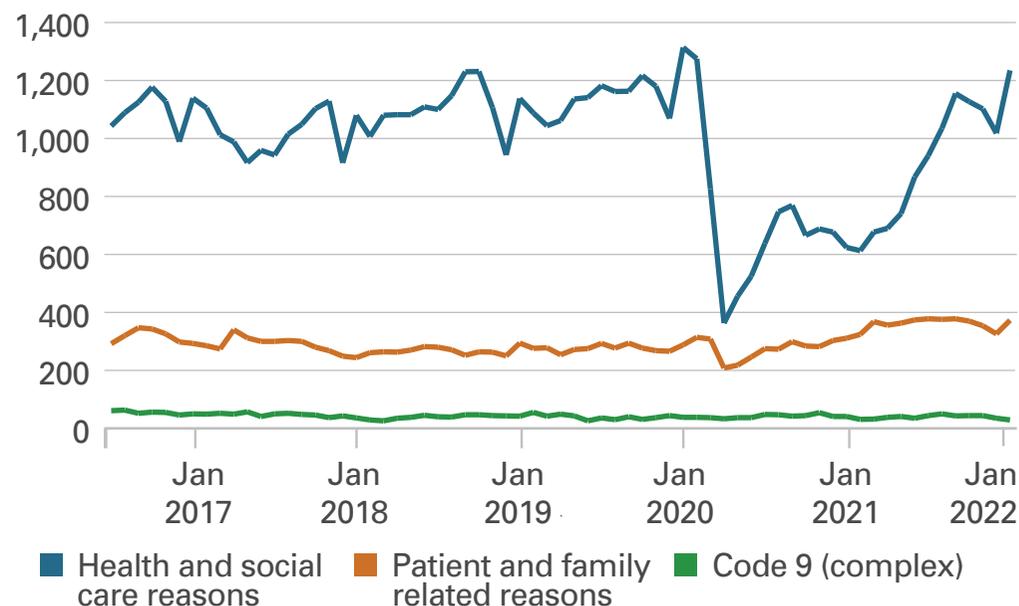
- reductions in home care packages because of staff shortages and tighter eligibility criteria for accessing care being applied to manage demand
- many day centres and respite services still closed.

Unmet demand puts additional pressure on unpaid carers, who are reporting increased feelings of anxiety, depression, and mental exhaustion.

Delayed discharges dropped significantly early in the pandemic, because of a marked reduction in non-Covid-19 related admissions along with a focused effort to get people out of hospital as quickly as possible. Delayed discharges returned to pre-pandemic levels in September 2021 and remain high reflecting the continued pressure in the system.

During strict restrictions, a rapid shift to digital tools allowed some staff to work in more flexible ways and to provide some services remotely including some online assessments and triage, and support and wellbeing check-ins through technology enabled care.

Delayed discharge Census by Delay Reason



Risks and challenges

The Scottish Government is planning significant reform of social care over the next five years ([paragraph 10](#)) but, as we state in our social care briefing, action is needed now to address critical issues and better meet the needs of people relying on care and support.

The ongoing disruption means that unmet demand continues, and older people, and adults and children with disabilities face a reduction in or

complete withdrawal of care and support in the home. The Scottish Human Rights Commission has expressed significant concern that this affects the human rights of these individuals. It highlighted the need to invest in a social care system, based on human rights, that meets people's needs and improves outcomes.

Source: See endnote²⁵

Exhibit 10.

Public library services continue to be disrupted following Covid-19 restrictions

Libraries could fully reopen in April 2021 with some social distancing measures in place. However, most library services were still operating a reduced service in early 2022, compared to pre-pandemic. During lockdown many councils adapted and found innovative ways to deliver library services to continue to support their communities. Librarians across councils shared ideas.



Examples of innovative service adaptations include:

- enhanced digital offer; click and collect and home delivery services; bespoke book selection; digital story-telling; online book groups and contact calls to socially isolated elderly users.



Research found that engagement with library services had a positive impact on wellbeing and building community connectedness.

Not all councils give reasons for continued reduced hours. Those that do cite:

- staffing issues including high sickness absence or redeployment
- access issues such as the building being used for covid-19 testing, restricted access arising from sharing space with schools or buildings undergoing refurbishment.

Change in total library opening hours, pre-covid-19 and at end Feb 2022

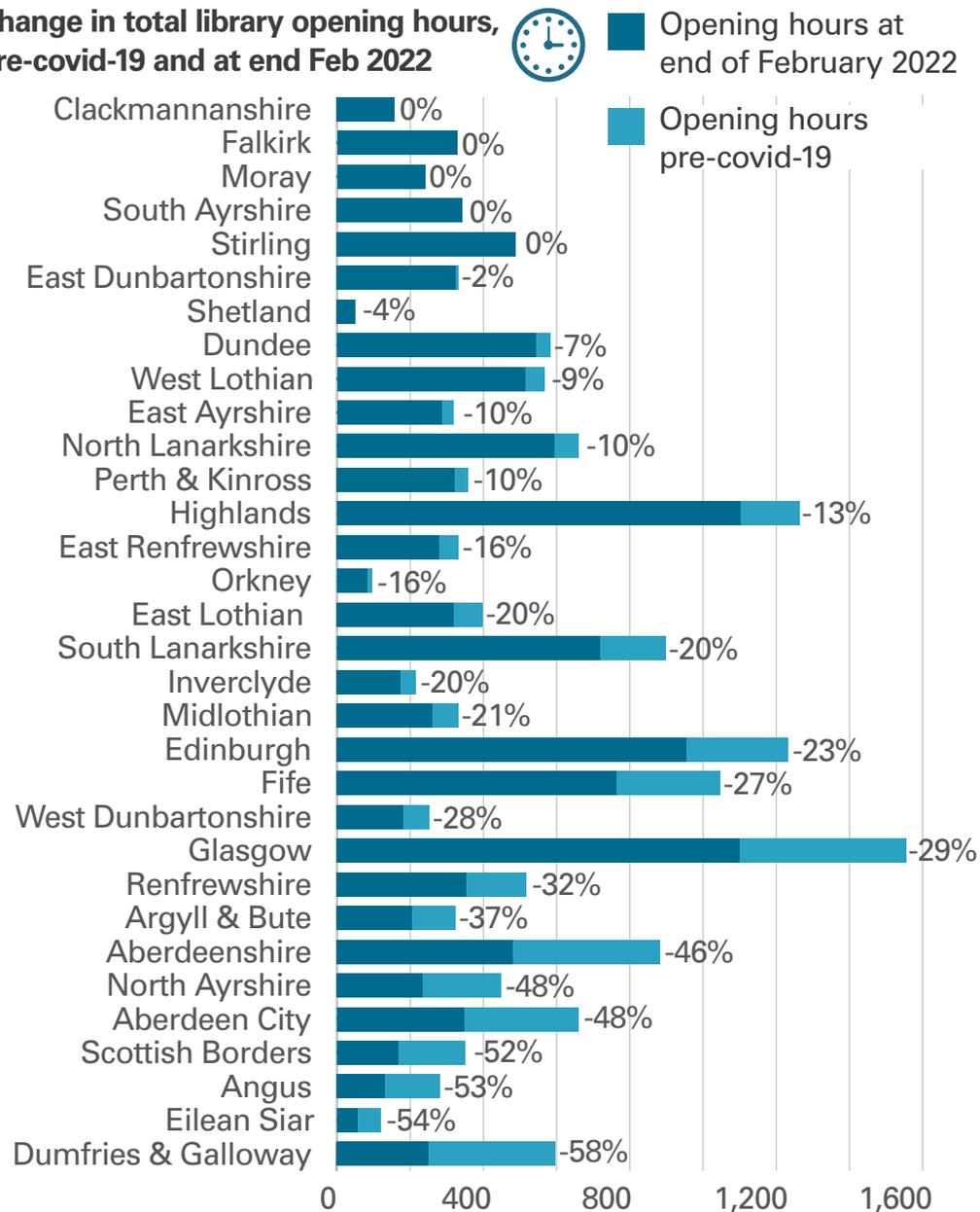


Exhibit 10. (continued)

Risks and challenges

Library services have faced declining investment. The ten years since 2010/11 saw a 29 per cent reduction in spend, yet the same period saw a 42 per cent growth in visit numbers (physical and virtual visits).

Some councils have plans to increase opening hours further. Other councils were already reducing hours and the level of service before the pandemic, and they have faced the most significant issues in recovering.

Library closures have shone a light on the extent of digital exclusion. It is not clear that councils have fully assessed the impacts of closures and reduced hours on communities and groups. And while the digital offer will shape the future of library services, research shows the buildings are vital as a safe, accessible, free, trusted and communal space in communities.

Source: See endnote²⁶

The impact of the pandemic and service disruption has been felt most strongly by those communities and citizens already experiencing inequalities

84. A substantial and growing body of evidence, mostly from research at a national level on the ‘four harms of Covid-19’ – the direct impacts of Covid-19, other health impacts, societal impacts and economic impacts – shows that particular groups have been most affected. For example:

- People with disabilities have faced increased clinical risk from Covid-19 as well as disruption to care services and social connections.
- Minority ethnic communities have faced high clinical risk from Covid-19 and increased risk of social and economic harm as a result of pre-existing inequalities in employment, income and opportunity.
- Those on low incomes and living in the most deprived communities have faced worsening social and economic inequalities, including digital exclusion, lower educational attainment and increased financial hardship.
- Older people have faced increased clinical risk from Covid-19 and are more likely to have experienced disruption to care services and social connections.

- Women have been disproportionately affected both economically and socially because of the increased childcare burden and because they are more likely to be front-line workers and have lower pay and insecure jobs.

85. For some, inequalities have worsened. Others are experiencing inequalities for the first time. Those with intersectional characteristics, that is people who fall into more than one group, and therefore experience several disadvantages at the same time, have suffered the most severe impacts. Councils’ recovery and renewal efforts need to take account of worsening, new and overlapping disadvantage.

86. Mounting evidence suggests that the pandemic has had severe social and wellbeing impacts on children and young people. This includes developmental delays seen in the very youngest because of increased social isolation, worsening mental health, a fall in educational attainment, and young people’s increasing concerns about their job prospects. Evidence also suggests that more children are presenting with additional support needs or behavioural issues and that these children are not always able to access services and get the support they need because of a lack of staff capacity. The impacts are greatest for children and young people in vulnerable groups and living in poverty.

87. Ongoing disruption to council services has meant that those most in need of support are still experiencing that unequal impact.

While councils recognise the disproportionate impact the pandemic has had on different groups, they need to learn lessons from taking early action and assess the impact of service disruption to address longer-term impacts

88. Early in the pandemic there was a huge collective effort to support the most vulnerable, with more collaborative working at a local level, a coordinated response with the voluntary sector and more place-based and holistic approaches. As we highlighted in our 2021 report, councils targeted their responses to support the most vulnerable. This included supporting families and children living in poverty through the provision of free school meals, distribution of digital devices, community food initiatives, fuel poverty and period poverty initiatives, action to prevent homelessness and eliminate rough sleeping, and online events and programmes to support mental health and wellbeing.

89. As we move into the recovery phase, some evidence suggests that councils are putting in place services to mitigate the impacts of the pandemic on the groups most affected by:

- supporting employment and improving economic prospects for women, minority ethnic groups and disabled people
- improving routes to employment and training for young people
- doing more to address the social isolation of older people and people with disabilities.

Some councils are using lessons learned from the pandemic to improve how they tackle vulnerability and inequality

90. The collaborative place-based approaches, cross-council working and community engagement that enabled the early response is informing

new ways of tackling poverty and vulnerability. Several councils have since adopted or adapted these service models to put in place a more holistic approach to tackling inequality. ([Case study 4](#))

Case study 4

Dumfries and Galloway Council



In response to the pandemic four locality hubs were established in Dumfries and Galloway to coordinate partner and volunteer activity at the local level. Since then, the four hubs have developed to become the recognised model for local community planning in Dumfries and Galloway.

Another model that evolved from the council's pandemic response is the 'single access to services' model, known as the single access point. This brings together different council services and partner agencies in one multi-agency team to ensure an efficient, clear and streamlined approach to assist those who are vulnerable. The single access point model will continue to evolve and the council is reviewing other opportunities to develop this approach.

Source: Audit Scotland using information from Dumfries and Galloway Council

Data is a key tool in tackling inequality but there are gaps in equality data, particularly at a local level

91. While councils recognise the disproportionate impact of the pandemic on different groups, it is less clear how councils have assessed how their changes in the way services are delivered, and the pandemic more widely, have affected those most in need in their area.

92. There is still a lack of data and evidence at local level that would allow councils to fully understand the adverse impacts of the pandemic on different groups within their area and inform local plans. Most council recovery plans and reports on mainstreaming equality cite national report findings or increases in measures such as housing applications, unemployment or complex case work, rather than local equality data.

93. This problem is not unique to local government, and the Scottish Government's Equality Data Improvement Programme is working to improve equality data, in particular data on overlapping inequalities, ie intersectionality.

94. Some councils have used data well to understand the impacts of the pandemic on specific groups and the emerging needs.

[\(Case study 5\)](#)

Case study 5

Glasgow City Council



Before the pandemic Glasgow City Council had been gathering detailed data to enable it to better understand the extent of child poverty in the city. The Council's Centre for Civic Innovation (CCI) took a 'deep dive' into the data the council holds on recipients of Housing Benefit and Council Tax reductions, as well data on kinship care and education benefits. This work meant that the council was able to measure the levels of relative child poverty before the pandemic and in the middle of it.

The research found that in December 2020 at least 26 per cent of children in Glasgow were living in relative poverty compared with 24 per cent in February 2020. This equates to at least 2,510 more children living in poverty and 27,995 children overall. This data profiling and analysis is unique to Glasgow, and it provides a detailed 'snapshot' of families that will help the council to map and understand the impact of interventions to reduce child poverty.

Source: Audit Scotland using information from Glasgow City Council



Meeting local needs: collaboration and communities

The early response phase showed what could be achieved by working closely with communities and the voluntary sector. This momentum may be lost if they are not involved in shaping recovery.

Collaboration has enabled new relationships and more effective ways of working but communities and local partners need to be more involved in recovery

95. Our report [Local government in Scotland: Overview 2021](#) showed how communities and the voluntary sector were a vital asset in the response phase. Collaborative working enabled vulnerable citizens most in need to be speedily supported through initiatives such as community hubs.

96. In October 2021, Audit Scotland published [Community empowerment: Covid-19 update](#), bringing together the learning points from the community response to the pandemic to help public bodies develop their longer-term approaches to supporting and empowering communities. The briefing outlines key learning points under the five principles for community empowerment: community control, leadership on community empowerment, effective relationships, improving outcomes and accountability.

97. Assistance was most effectively provided in areas where local engagement and collaboration with local groups was already established before the pandemic. Greater flexibility, trusting relationships, relaxation of bureaucracy and autonomy in decision making enabled the public sector to work with communities and voluntary organisations and deploy support quickly. ([Case study 6](#))

Case study 6

Fife Council



Fife Council introduced multi-disciplinary teams to respond to the pandemic. Teams composed of council staff and partners worked well together to respond quickly and effectively to meet the needs of Fife residents. The council is focused on learning from the success of these groups as it aims to 'build back better' and renew its public services. Reforming how it works collaboratively with partners and communities and focusing on people and place is seen as critical to sustaining the sense of common purpose brought about by the pandemic.

As part of the Plan for Fife, the council has established People and Place Leadership Groups across its seven areas. The council sees these groups as an initial step forward from the team working that evolved during the pandemic response. The council sees these groups as a fundamental part of driving community wealth building as the council aims to create a fairer, more socially just economy.

Source: Audit Scotland using information from Fife Council

There is limited evidence of direct community input driving recovery actions and more needs to be done

98. Some councils are seeking the views and experiences of citizens and communities to inform recovery and learn from their experiences ([Case study 2, page 17](#)) ([Case study 7](#)). But there is limited evidence of direct community input driving recovery actions or meaningfully reshaping services.

99. Councils need dialogue and involvement of communities and the voluntary sector in planning service priorities and delivering support to vulnerable groups. More flexible governance and decision-making structures will be needed to make community participation easier.

100. Some councils have set up models of co-production. There are examples of joint work with youth councils to develop services for young people.

Voluntary sector organisations are facing pressures that could threaten their ability to deliver services to vulnerable people who rely on them

101. Throughout the pandemic voluntary sector organisations have lost income, while demand for their services has increased. A Scottish Council for Voluntary Organisations (SCVO) report found that 57 per cent of surveyed organisations saw increased demand for their services while almost half faced financial issues, as uncertainty over annual funding makes it difficult to plan for the future.²⁷

Case study 7

Aberdeenshire Council



Aberdeenshire Council carried out a community impact assessment (CIA) in the summer of 2020. The CIA included an online survey of the local community asking about the impact of the pandemic and the council's response during its early stages. On reporting the findings, the council acknowledged that there was a need for further engagement and feedback from harder-to-reach, more vulnerable groups.

The council then engaged with several groups and individuals most likely to be affected negatively by existing inequalities. The final report, *Aberdeenshire Voices on the Pandemic: Same storm, different boats*, includes insight from low-income households, care home residents, the recovery community and New Scots and volunteers.

The themes covered in the report include digital exclusion, access to food, home-schooling challenges and impacts on mental wellbeing. Local voices from Aberdeenshire have also been included in the national report *If Not Now, When?*, published by the Social Renewal Advisory Board in January 2021.

Source: Audit Scotland using information from Aberdeenshire Council

102. Organisations providing support to children and young people, from early years to youth work services, are also facing barriers to delivering their services.²⁸ A lack of staff capacity, increased demand, and lack of access to premises to deliver services (of those voluntary sector organisations wishing to access local authority premises 65 per cent say they have no access) is affecting delivery of a range of services.

103. A collaborative, place-based approach has been essential in supporting communities during the pandemic and mitigating the harm caused. Voluntary sector organisations have been a vital component of this, and councils and the Scottish Government need to do more to make sure they can continue to deliver services to those that need them.

Councils worked well with their community planning partners in the response phase, but they need clearer plans for the future

104. Councils worked with their partners in planning, sharing data and information, and coordinating the response to the pandemic. Some of this joint working is continuing with community planning partnerships working together to revise their Local Outcomes Improvement Plans to take account of recovery, and this collaborative working should continue.

Case study 8

South Ayrshire Council



South Ayrshire Council worked with partners to provide support to vulnerable communities during the pandemic by creating the Ayrshire Resilience Partnership.

This group included the Ayrshire councils' chief executives, along with representatives from health, police, and fire services. It established close working relationships with business and local voluntary groups to deliver a range of services and support.

Source: Audit Scotland using information from South Ayrshire Council

Meeting local needs: recommendations



Actions for leadership

- While some progress has been made in improving the use of data in decision-making, councils need to have a clear sense of where increased demand and service backlogs exist so that they can identify areas of high risk and direct resources accordingly. This information also needs to be more transparent and publicly available.
- A key priority for councils' recovery and renewal is assessing the impact of the pandemic and service disruption on the most vulnerable and learning from this to inform how they support those most affected and address inequalities. This will need better local data to improve understanding.
- Where councils plan to continue with the changes made to services during the pandemic, they need to conduct impact assessments and consult the community. With the expansion of digital services, councils need to assess and mitigate the impacts of digital exclusion.
- Councils need to ensure that partnership working forged in the pandemic with their communities, partners and the voluntary sector remains in place. They also need to learn what made it work and harness this to transform future engagement. The momentum and energy from communities may be lost if public bodies don't capitalise on what has been achieved.

Endnotes

- 1 [Consultation response: A National Care Service for Scotland](#), Audit Scotland, Nov 2021
- 2 [What is happening with the new Shared Prosperity Fund? – SPICe Spotlight](#), Jun 2021
- 3 [Blueprint for Scottish Local Government](#), COSLA, Sep 2020
- 4 [Public sector leadership on the global climate emergency: guidance](#), Scottish Government, Oct 2021
- 5 [Projected Population of Scotland \(Interim\) 2020-based](#), National Records of Scotland, Jan 2022
- 6 [Life Expectancy in Scotland, 2018-2020: Infographic Summary](#), National Records of Scotland, Sep 2021
- 7 [Healthy Life Expectancy 2018-2020, Infographic Summary](#), National Records of Scotland, Feb 2022
- 8 [LGBF Benchmarking Overview Report 2020-21](#), Improvement Service, Mar 2022
- 9 [Energy Action Scotland news release](#), Mar 2022
- 10 [Covid Recovery Strategy: for a fairer future](#), Scottish Government, Oct 2021
- 11 [Audit Scotland blog: Christie - it really is now or never](#), Oct 2021
- 12 [Elected Member Briefing Note: Community Wealth Building](#), Improvement Service, Sep 2020
- 13 [Improvement Service - Public Service Improvement Framework](#)
- 14 [LGBF Benchmarking Overview Report 2020-21](#), Improvement Service, Mar 2022
- 15 [Scottish local government during Covid-19: Data needs, capabilities, and uses](#), UBDC, May 2021
- 16 [Digital progress in local government](#), Audit Scotland, Jan 2021
- 17 [Fiscal Framework and Local Government letter](#), LGHP committee, Scottish Parliament, Dec 2021
- 18 [Consumer price inflation, UK: Jan 2022](#), Office for National Statistics, Feb 2022
- 19 Society of Personnel and Development Scotland
- 20 [The longer-term shift to hybrid working: Implications for local government](#), LGIU, Oct 2021
- 21 Society of Personnel and Development Scotland
- 22 [Workforce Planning, Improvement Service](#)
- 23 [Report on the impact of the Covid-19 pandemic on equalities and human rights](#), Scottish Parliament, Mar 2021

Endnotes

- 24 Audit Scotland using information from [Achievement of Curriculum for Excellence Levels 2020-21](#); the Improvement Service, [Minutes from the Coronavirus \(COVID 19\): Advisory Sub-Group on Education and Children’s Issues](#) and [Cross Party Group: Children and young people pandemic survey 2022](#), Scottish Parliament, Feb 2022
- 25 Audit Scotland using information from: [PHS delayed discharges census table, January 2022](#); [Briefing: Learning from changes to social care during the Covid-19 pandemic, The Alliance](#); [Covid-19, Social Care and Human Rights, SHRC Monitoring Report](#); [State of Caring report, Carers Scotland news release, Oct 2021](#); [BBC research, February 2022](#); [Health and Sport Committee evidence session, November 2021](#).
- 26 Audit Scotland using information from SLIC and additional data from councils; [LGBF Benchmarking Overview Report 2020-21](#), Improvement Service, Mar 2022 [Libraries in lockdown: Scottish public libraries and their role in community cohesion and resilience during lockdown](#)
- 27 [The Scottish Third Sector Tracker](#), SCVO, Nov 2021
- 28 [Cross Party Group: Children and young people pandemic survey 2022](#), Scottish Parliament, Feb 2022

Local government in Scotland

Overview 2022

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South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 7 December 2022**

**Subject: Corporate Fraud Team – Activity Report and Update on
2022/23 National Fraud Initiative**

1. Purpose

- 1.1 The purpose of this report is to advise Members of the Corporate Fraud Team's (CFT) activity from 1 April 2022 to 30 September 2022 and to provide an update to Members on the progress of the 2022/23 National Fraud Initiative (NFI) exercise.

2. Recommendation

2.1 It is recommended that the Panel

2.1.1 considers the CFT activity for the six month period to 30 September 2022; and

2.1.2 notes the update on the 2022/23 National Fraud Initiative .

3. Background

- 3.1 Update reports on the work of the CFT are submitted to the Audit and Governance Panel six monthly. The last six monthly report was submitted to Panel on 22 June 2022 and covered the year to 31 March 2022. This report includes the six month period to 30 September 2022.

- 3.2 The CFT is a specialist investigative unit with responsibility for proactively and reactively investigating all types of corporate fraud against the Council, including:

- Council Tax Reduction/ Exemptions/ Discounts;
- Business Rates;
- Scottish Welfare Fund;
- Housing Tenancy;
- Employee Fraud;
- Procurement; and,
- Blue Badge Misuse.

4. Proposals

4.1 **Corporate Fraud Activity 1 April 2022 to 30 September 2022**

4.1.1 The table at [Appendix 1](#) shows a summary of the activity of the CFT from 1 April 2022 to 30 September 2022, with an explanation of each below.

- Council tax investigations comprise of cases where there has been a failure to declare changes in income, residency or changes that may affect discounts and exemptions.
- The CFT receive individual complaints and carry out checks on properties in receipt of Non-Domestic Rates empty property relief as well as the small business bonus scheme.
- Tenancy fraud is identified where the tenant is not residing in the property or is sub-letting.
- Housing Tenant debt arises where a local authority tenant has left/absconded from a tenancy with outstanding rent arrears. CFT carry out checks to locate and trace the former tenants on behalf of Housing Services to allow them to put arrangements in place to recover debt.
- Employee investigations arise where allegations have been made relating to Council employees. This investigations can be carried out in conjunction with Internal Audit.
- Blue Badge investigations arise where an allegation has been received about misuse.
- Covid Business Support Grants were managed by Local Authorities on behalf of the Scottish Government and aimed at helping to keep small and medium sized companies in business during the Covid crisis. Two investigations into potentially fraudulent applications for Strategic Framework Business Grants passed to the Procurator Fiscal are awaiting a court date.

4.2 **National Fraud Initiative**

4.2.1 The NFI is a counter-fraud exercise whereby data is taken from Councils, other public bodies and Companies House and cross matched to identify the potential for fraud. Audit Scotland has responsibility for co-ordinating the exercise across Scotland. Internal Audit and Corporate Fraud is responsible for co-ordinating the exercise within South Ayrshire Council and the CFT also contributes to the completion of investigations resulting from the exercise.

4.2.2 The 2022/23 NFI exercise has commenced and data sets as at 30 September 2022 were uploaded to the NFI website by the due date. Full details of the areas included in the 2022/23 exercise and the purpose of the matches are in [Appendix 2](#) and include:

- payroll;
- housing tenants and waiting lists;
- blue badges;
- trade creditors;
- taxi drivers;
- council tax single person's discount;
- electoral register;
- council tax reduction scheme; and
- Small Business Rate Relief recipients.

4.2.3 Councils will be informed of the matches resulting from the data match by the end of January 2023 and are responsible for investigating a proportion of these matches using a risk based approach.

4.2.4 Progress against the 2022/23 NFI exercise will be reported to the Audit and Governance Panel through the six-monthly Corporate Fraud update reports. A Members Information Bulletin will also be issued at the conclusion of the exercise, after Audit Scotland publish their final report which is likely to be July 2024.

5. Legal and Procurement Implications

5.1 The processing of data by Audit Scotland in the NFI data matching exercise is carried out under the powers in Part 2A of the Public Finance and Accountability (Scotland) Act 2000 which allows them to carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders (the 'permitted purposes'). It does not require the consent of the individuals concerned under the Data Protection Act 2018. South Ayrshire Council sets out how we use and share personal information in our Privacy Policy.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Recovery of the amounts due is in progress. In Council Tax Reduction, Discounts and Non-Domestic Rates cases the debtor is rebilled reflecting the amount due. The savings identified of £42,203.77 represents the amount that would have been lost to the Public Purse had the fraud/error/debt remained undetected by the Council's CFT.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 **Risk Implications of Rejecting the Recommendations**

- 8.2.1 Rejecting the recommendation increases the risk that ongoing fraud is not identified and stopped and that potential savings to the Council are not recovered.

9. **Equalities**

- 9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached at [Appendix 3](#).

10. **Sustainable Development Implications**

- 10.1 **Considering Strategic Environmental Assessment (SEA)** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. **Options Appraisal**

- 11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. **Link to Council Plan**

- 12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

13. **Results of Consultation**

- 13.1 There has been no public consultation on the contents of this paper.
- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers [Report to Audit and Governance Panel of 22 June 2022 - Corporate Fraud Team - Activity Report 6 months to 31 March 2022](#)

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Date: 24 November 2022

Corporate Fraud Activity 1 April 2022 – 30 September 2022

Appendix 1

Fraud/Error Type	Cases b/f from previous report	New referrals in period	Total referrals	Closed Cases	Current Live Cases	Non-Financial Benefit/ Outcome	Financial Savings (£)
Council Tax (Reduction, Exemptions and Discounts, Arrears)	4	31	35	25	10	-	£15,640.73
Non Domestic Rates Cases (Empty Property Relief checks)	0	64	64	62	2	-	£25,490.31
Employee investigations	0	1	1	0	1	-	-
Tenancy Fraud	1	4	5	2	3	1 tenancy removed 1 Homeless Application rejected 1 case at Procurator Fiscal	-
Housing Tenant Debt Locate & Trace checks	2	46	48	36	12	-	£1,072.73
Blue Badge Investigation	1	5	6	4	2	2 Investigations closed with no further action 2 Badges removed	-
Covid-19 Business Grants	2	0	2	0	2	2 Cases at Procurator Fiscal	-
Total 1/04/22 to 30/09/22							£42,203.77

National Fraud Initiative match areas 2022-23

Match area	Match between	Purpose of Match/Fraud risk
Housing Benefits (HB) <i>(HB Datasets provided by DWP)</i>	HB to Student Loans	To identify individuals claiming benefits, whose student loan eligibility results in them being ineligible for those benefits.
	HB to HB (within SAC and between other authorities)	To identify an individual that is claiming housing benefit from more than one local authority at the same time.
	HB to Rents(within SAC and between other authorities)	To identify possible tenancy fraud and/or housing benefit fraud where an individual appears to be resident at two different addresses.
	HB to taxi drivers (within SAC and between bodies)	To identify where housing benefit claimants have failed to declare income that may remove entitlement to benefit or reduce benefit payable.
	HB to CTRS	To identify anyone claiming housing benefit and council tax reduction from one or more local authority at the same time.
	HB to Waiting List	To identify where an individual appears to be resident at two different addresses as the address on the waiting list application is different to the address on the benefit system
Council Tax Reduction Scheme (CTRS)	CTRS to Payroll (within SAC and between other bodies)	To identify where CTRS claimants have failed to declare income that may remove entitlement to benefit or reduce benefit payable.
	CTRS to pensions	To identify where CTRS claimants have failed to declare pension income that might remove entitlement to benefit or reduce benefit payable.
	CTRS to CTRS (within SAC and between other authorities)	To identify an individual claiming CTRS from one or more local authority.
	CTRS to HB (within SAC and between other authorities)	To identify where an individual is in receipt of council tax reduction and housing benefit from one or more local authority simultaneously that may remove or reduce entitlement to the reduction.
	CTRS to Housing Tenants (within SAC and between other authorities)	To identify possible cases of tenancy fraud and/or CTRS fraud where an individual appears to be resident at two different addresses.
	CTRS to taxi drivers(within SAC and between bodies)	To identify where CTRS claimants have failed to declare income that may remove entitlement to benefit or reduce benefit payable.
	CTR Scheme to DWP deceased	To identify where a person has passed away but may be in receipt of CTR after the date of death

Match area	Match between	Purpose of Match/Fraud risk
Payroll	Payroll to payroll (within SAC and between bodies)	To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time. To identify leavers who are continuing to be paid
	Payroll to Creditors	To identify employees who are also creditors where there may be a conflict of interests or corruption.
	Payroll to Pensions	To identify employees who have gone back into employment after drawing a pension that could result in an abatement of pension.
Housing Tenants (HT)	HT (within SAC and between bodies)	To identify where an individual appears to be resident at two different addresses suggesting possible cases of subletting or dual tenancies.
	HT to HB	To identify possible cases of tenancy fraud and/or housing benefit fraud, where an individual appears to be resident at two different addresses.
	HT to CTR Scheme	To identify possible causes of tenancy fraud and/or incorrect claims for CTR where an individual appears to be resident at two different addresses.
	HT to State Benefits	To identify possible cases of tenancy fraud against the organisation i.e. where an individual appears to be resident at two different addresses.
	HT to DWP Deceased	To Identify where the tenant has died, but the DWP has not been informed.
	Housing Tenants to Waiting Lists	To identify where an individual appears to be resident at two different addresses as the address on the waiting list application is different to the address on the rents system
Waiting Lists	Housing Waiting Lists to Housing Tenants (within SAC and between bodies)	To identify where an individual appears to have registered on the waiting list using a different address to the one on the housing rents system suggesting possible undisclosed changes in circumstances or that false information has been provided.
	Housing Waiting List to Housing Waiting List (within SAC and between bodies)	To identify where an individual appears to have registered on the waiting list using two different addresses.
	Housing Waiting Lists to Housing Benefit Claimants (within SAC and between bodies)	To identify where an individual appears to have registered on the waiting list using a different address to the one on the housing benefit system.
	Waiting List to DWP deceased	To identify an applicant who has died but is still shown on the waiting list
Blue Badges	Blue badge to blue badge	To identify individuals who hold more than one Blue Badge
	Blue badge to DWP deceased person	To identify cases where a badge holder has died, but the local authority may not have been notified so the badge has not been cancelled.

Match area	Match between	Purpose of Match/Fraud risk
Procurement	Procurement – payroll to Companies House (Director)	To identify potential undeclared interests that have given a pecuniary advantage.
Creditors	Duplicate creditors by Duplicate creditor payments and details	To identify instances where the same supplier has been recorded against more than one reference number on the system thus increasing the potential for creditors to obscure fraudulent activity. To identify potential duplicate payments.
	VAT overpaid	To identify instances where VAT may have been overpaid.
Council Tax Single Person Discount (<i>Note 1</i>)	Council Tax to Electoral register	To identify individuals who have declared they are living alone but have not declared they are living with a partner or non- dependant in the household.
Non Domestic Rates (<i>Note 2</i>)	Small Business Rates Relief (SBRR) to Small Business Rates relief (within SAC and between bodies) and SBRR to data from Companies House	To identify those fraudulently in receipt of Small Business Rates Relief (SBRR) within and between authorities

Note 1: Single Person Discount and electoral register data upload takes place in the same year as the core NFI data but the upload of this data takes place after the other datasets. This data can be uploaded from 28th November 2022 for the current exercise.

Note 2: NDR data will be included in the 2022/23 NFI exercise However, due to the rating revaluation due to take place in Scotland in 2023, the NDR data will not be required until after that has taken place. Councils will be notified of the submission deadline which will be in Spring 2024.

**South Ayrshire Council
Equality Impact Assessment
Scoping Template**

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: <https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx>

Further guidance is available here: <https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/>

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. [FSD Guidance for Public Bodies](#) in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: <https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/>

1. Policy details

Policy Title	Approach to 2022/23 National Fraud Initiative exercise
Lead Officer (Name/Position/Email)	Cecilia McGhee, Chief Internal Auditor

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	No	No
Disability	No	No
Gender Reassignment (Trans/Transgender Identity)	No	No
Marriage or Civil Partnership	No	No
Pregnancy and Maternity	No	No
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	No	No
Religion or Belief (including lack of belief)	No	No
Sex – (issues specific to women & men or girls & boys)	No	No
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	No	No
Thematic Groups: Health, Human Rights & Children's Rights	No	No

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	Low	Low
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	Low	Low
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	Low	Low
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	Low	Low
Socio-economic Background – social class i.e. parent’s education, employment and income	Low	Low

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes Consider the ‘Three Key Needs’ of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
Eliminate unlawful discrimination, harassment and victimisation	No
Advance equality of opportunity between people who share a protected characteristic and those who do not	No
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	No
Increase participation of particular communities or groups in public life	No
Improve the health and wellbeing of particular communities or groups	No
Promote the human rights of particular communities or groups	No
Tackle deprivation faced by particular communities or groups	No

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as Medium and/or High)	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
Rationale for decision: The National Fraud Initiative is a counter-fraud exercise and participation is mandatory for Scottish Councils. This report is to provide Members with notice of the 2022/23 National Fraud Initiative exercise. Their decision on this has no specific equality implications.	
Signed : Cecilia McGhee, Chief Internal Auditor Date: 2 November 2022	

South Ayrshire Council

**Report by Head of Finance, ICT and Procurement
to Audit and Governance Panel
of 7 December 2022**

Subject: Treasury Management and Investment Strategy Mid-Year Report 2022/23

1. Purpose

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2022/23.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 scrutinises the contents of this report; and

2.1.2 remits the report to the Cabinet meeting of 17 January 2023 for approval.

3. Background

Treasury Management

3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned to meet expenditure commitments but also to invest surplus monies in low-risk counterparties (organisations with which the Council has a financial relationship in terms of borrowings or investments), providing adequate liquidity initially before considering optimising investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash will involve arranging long or short-term loans or using longer term cash flow surpluses. In addition, in certain interest rate environments debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

4. Proposals

4.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and provides an update on activity in [Appendix 1](#) and [Appendix 2](#) on the following:

4.1.1 [Appendix 1](#) – *Economic Update and Interest rates*

Section	Description
1	Economics and Interest Rates
2	Interest Rates Forecast and Commentary Borrowing Strategy for 2022/23;

4.1.2 [Appendix 2](#) – *Treasury Activity*

Section	Description
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1	Borrowing Strategy for 2022/23;
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2022/23;
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1 to 7.3	Other

4.2 The Panel is requested to scrutinise the contents of this report; and thereafter agree to remit the report to the Cabinet meeting of 17 January 2023 for approval, in accordance with the requirements of the CIPFA Code.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 *General Services*

6.1.1 **Interest on Revenue Balances** - the Council budgeted for investment income of £0.114m in 2022/23, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 0.50% on these balances.

At September 2022 (Qtr2) the full year budgeted income is projected at £0.573m, a surplus of £0.459m.

- 6.1.2 **Capital Financing Costs** - the budget for loan charges in 2022/23 is £12.748m, comprising £5.870m for loan principal, £6.700m for interest costs and £0.178m for loans fund expenses.

The current projection for loans charges to the General Fund is an over-spend of £0.366m in interest and expenses. This is due to Bank of England base rate increasing at a rate higher than originally forecast and as a result external borrowing has had to be taken at a higher rate than previously projected. Full advantage is being taken of any dips in the market to achieve borrowing at the best rate possible and this will be monitored as the year progresses. Note that the counter side of this is that investments are performing better than anticipated as shown in point 6.1.1.

6.2 **Housing Revenue Account (HRA)**

- 6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.050m in 2022/23, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 0.50% on these balances.

At September 2022 (Qtr2) the full year estimate for investment income earned is £0.128m resulting in a surplus of £0.078m.

- 6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2022/23 is £3.918m, comprising £1.356m for loan principal, £2.496m for interest costs and £0.066m for loans fund expenses.

The current projection for HRA loan charges is an under spend of £0.395m in interest and expenses.

7. **Human Resources Implications**

- 7.1 Not applicable.

8. **Risk**

8.1 ***Risk Implications of Adopting the Recommendations***

- 8.1.1 There are no risks associated with adopting the recommendations.

8.2 ***Risk Implications of Rejecting the Recommendations***

- 8.2.1 Should the recommendations be rejected, then the Council will not be in compliance with the CIPFA Code of Practice on Treasury Management.

9. **Equalities**

- 9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as [Appendix 3](#).

10. Sustainable Development Implications

- 10.1 **Considering Strategic Environmental Assessment (SEA)** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

- 11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

- 12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

13. Results of Consultation

- 13.1 There has been no public consultation on the contents of this report.
- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers **CIPFA Code of Practice for Treasury Management in the Public Services**

Report to South Ayrshire Council of 3 March 2022 – [Treasury and Investment Strategy 2022-23](#)

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Date: 24 November 2022

1. Economic and Interest Rates

1. Economic Update and commentary

- The second quarter of 2022/23 saw:
 - GDP (Gross Domestic Product) revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being.
 - Signs of economic activity losing momentum as production fell due to rising energy prices.
 - CPI (Consumer price Index) inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term.
 - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply.
 - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come.
 - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September (with further change to Chancellor on 14th October).
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a reduction in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During 2022, there has been a change of both Prime Minister and Chancellor. The new Prime Minister and Chancellor (Liz Truss and Kwasi Kwarteng) made steps to change government policy. The government's huge fiscal loosening from its proposed significant tax cuts would add to existing domestic inflationary pressures and would potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although with Chancellor Kwasi Kwarteng being replaced by Jeremy Hunt these announcements have already been reversed. With the further resignation of Liz Truss as Prime Minister and the appointment of Rishi Sunak the market has settled slightly but the forecast still holds a number of economic challenges.
- Fears that the government had no fiscal anchor on the back of the announcements by Liz Truss, meant the pound weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed (Federal Reserve) and ECB (European Central Bank) raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively low. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger drain on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point increases in February and

March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After an uncertain start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

2. Interest Rates Forecast and Commentary

- 2.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened

short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps).

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

1.1 *The Council's Capital Expenditure and Prudential Indicators*

- (1) The following section provides the information relating to the 2022/23 capital position and prudential indicators.
- The Council's capital expenditure plans.
 - How these plans are being financed.
 - The impact of the capital expenditure plans on the prudential indicators and the underlying need to borrow.
 - Compliance with the limits in place for borrowing activity.
- (2) The tables below draw together the main movement in terms of the capital expenditure plans compared to the original plan, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements for capital expenditure. The borrowing element of Table 1 for both General Services and HRA below revises the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

Table 1

	<i>2022/23 Original Estimate £'000</i>	<i>2022/23 Latest Estimate £'000</i>
Prudential Indicator – General Services		
Capital Expenditure	131,329	99,647
General Services - Financed By		
General and Specific Grant	9,000	9,371
Capital Receipts/Other	13,910	7,712
Borrowing	108,419	82,564
	131,329	99,647

Prudential Indicator – HRA		
Capital Expenditure	66,153	36,254
HRA - Financed By		
Borrowing	55,668	15,403
CFCR, Draw on surplus	8,905	11,606
Other Receipts/ Grants	1,580	9,245
	66,153	36,254

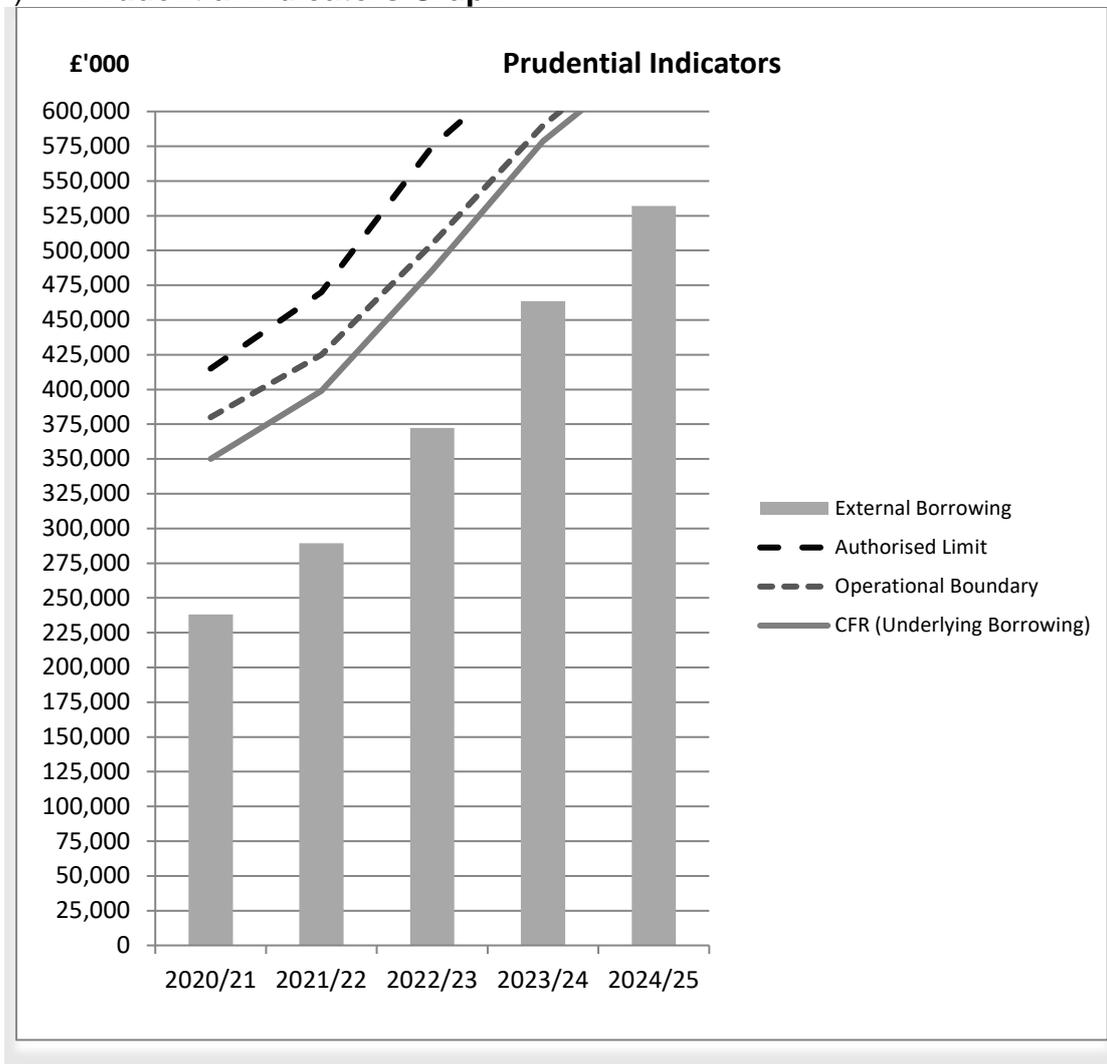
1.2 **Capital Financing Requirement, Debt Position and Operational Boundary Indicators**

(1) Table 2 shows the CFR, which is the underlying need to incur borrowing for a capital purpose.

Table 2

<i>Prudential Indicator – CFR</i>	<i>2022/23 Original Estimate £'000</i>	<i>2022/23 Updated Estimate £'000</i>
Capital Financing Requirement – GS	420,374	396,818
Capital Financing Requirement – HRA	130,155	88,978
Total Capital Financing Requirement	550,529	485,796

(2) **Prudential Indicators Graph**



1

The graph shown at (2) above shows estimated key prudential indicators in graph format:

1. **External Borrowing** – shows significant increase in the next two years as the Council utilises borrowing to fund capital investment
2. **Capital Financing Requirement** – shows increases in CFR in line with external debt. The Council ended 2021/22 in an under borrowed position (CFR compared with external debt) of £13,678m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the graph.
3. **Operational Boundary** – this indicator is higher than external debt and CFR as it includes provision for other long term financing liabilities such as PPP and Finance leases, and short term cash flow variations.
4. **Authorised Limit** – the limit which cannot be exceeded in terms of the Council’s debt position. This indicator is higher than the operational limit as provision is made for other cash flow variation and potential borrowing in advance.

Table 3

<i>Prudential Indicators – Debt</i>	<i>2022/23 Original £'000</i>	<i>2022/23 Updated £'000</i>
Authorised Limit	606,000	575,000
Operational Limit	564,000	505,000
External Debt	432,385	372,385

1. ***Borrowing Strategy 2022/23 (Update)***

- (1) The Council’s capital financing requirement (CFR) estimate for 2022/23 has been revised to £485,796 based on the revised capital spend projections, as shown at 1.1, (2) Table 1. The CFR denotes the Council’s underlying need to borrow for capital purposes. To fund the CFR the Council may borrow from the PWLB or the market (external borrowing) or fund from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and availability of internal cash resources.
- (2) The original borrowing requirement for 2022/23 was set at £164.08m but has been revised to £97.9m. This drop is attributed to supply shortages and rising costs caused by the current economic environment and War in Ukraine. This then resulted in the slippage in current year of the capital programme.
- (3) This has resulted in revising the external borrowing requirement from the original £147.0m to £85.0m which reflects the under-spend in loan charges outlined in the financial implications at Section 6 – Financial Implications.
- (4) The current strategy is to consider long term external borrowing in Qtr3 of £15.0m and Qtr. 4 of £40.0m of PWLB borrowing. To date in Qtr. 1 and 2 £20.0m long term borrowing has been taken from PWLB securing low interest rates being offered. A further £10.0m of medium to long term borrowing was secured in Qtr. 1 from the other local authority market, again taking advantage of low interest rates being offered.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as change in government personnel and new Prime Minister, war in Ukraine and interest rate fluctuations along with the pace of the spend in the Council's capital programme.

(5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 22 – Aug 22.

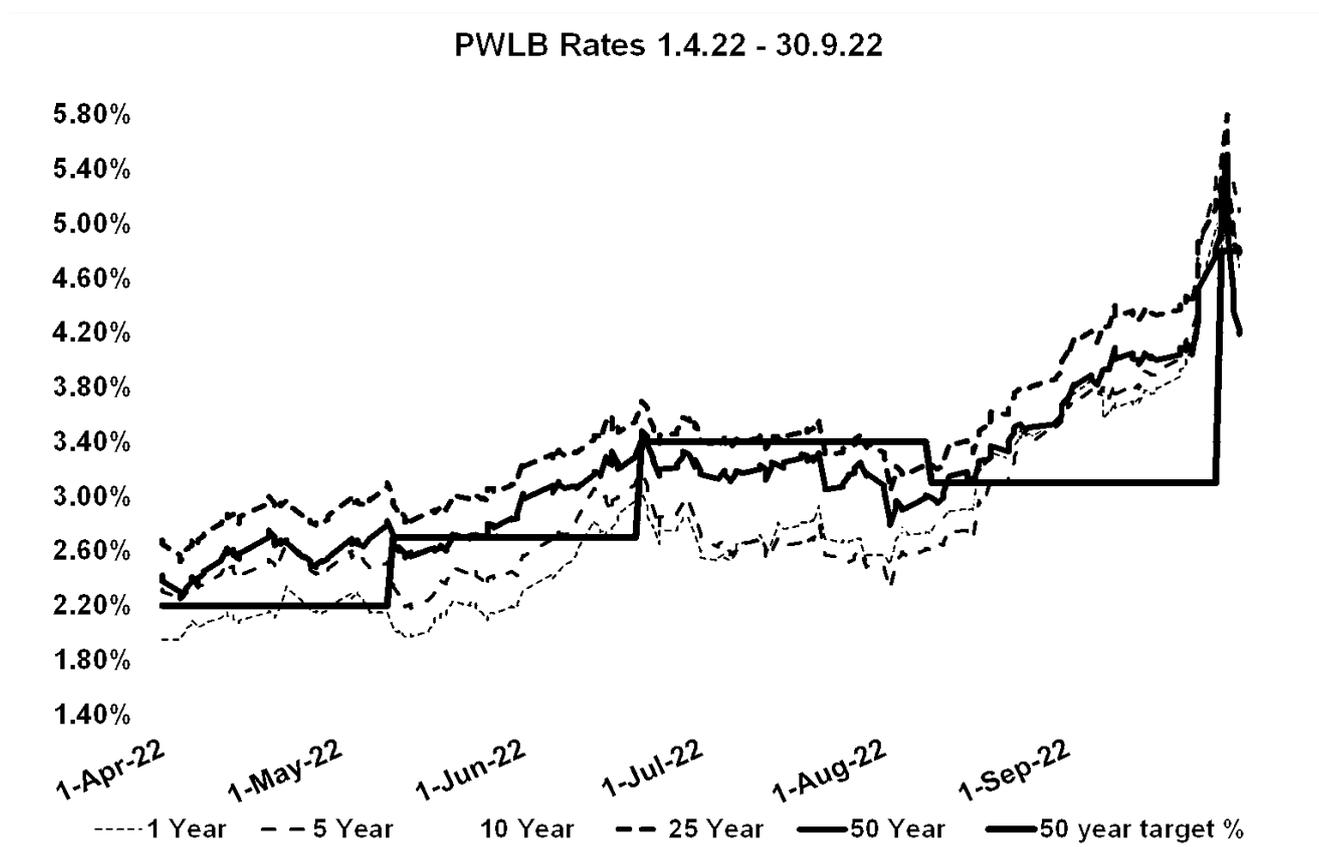
1. The current PWLB rates are set as margins over gilt yields as follows: -

1. **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
2. **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
3. **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

2.2.1 PWLB certainty rates 1 April 2022 to 30 September 2022

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

2.2.2 PWLB Interest Rates – Apr 22 – Sep 22



3.1 Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 3rd March 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- security of capital;
 - liquidity; and
 - yield
- (2) The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness.

3.2 Investment Performance 2022/23

- (1) The Council's average level of funds available for investment purposes in the first half of the year 2022/23 was **£76.3m**. These funds are available on a temporary basis and are dependent on several factors including cash flows, reserve balances, borrowing strategy, etc. As these funds are linked to Council reserves earmarked for specific purposes, they are not available to spend on additional services and represent the current 'cash' position.
- (2) LIBOR and LIBID rates ceased from the end of 2021. LIBOR has been replaced with a rate based on SONIA (Sterling Overnight Index Average). On advice received from the Council's consultants, Link Group, the replacement benchmark to be used is the 90-day backward SONIA compounded rate. Below table 5 shows the rates for quarter ended 30th September 2022.

Table 5

QUARTER ENDED 30/9/2022							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	2.25	2.19	2.19	1.82	1.55	1.22	0.73
High Date	22/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.28	1.22	1.19	1.11	0.91	0.67	0.37
Spread	1.50	1.50	1.50	1.26	1.16	0.99	0.58

- (3) The Council's average performance rate for Quarter ended 30th September 2022 was **0.955%**. This exceeds the benchmark average return of 0.91% as shown in above table, exceeds the low mark of 0.39% but does not quite exceed the high rate of 1.55%. Investments will continue to be monitored in the current climate of changing interest rates.
- (4) The Head of Finance and ICT confirms that the approved investment strategy was not breached in the first half of the financial year 2022/23.
- (5) The Council continues to lend to other local authorities in order to diversify

its investment portfolio and to provide the highest level of security in delivering the objectives of security, liquidity and yield in its investment portfolio. Interest rates in the recent climate are very volatile and after a long period of extremely low rates is rising at a quick pace. This makes borrowing more expensive but on the counter side the council is achieving a greater rate of interest on investments than previously forecast, because of this some forward planning has been undertaken to try and secure the best rates available. Also, to ensure some form of liquidity advantage has been taken of short-term investments (up to 6 months) with other banking authorities such as Lloyds Bank, Santander, and Standard Chartered Bank.

The following table summarises the Council's investments as of 30 September 2022.

Table 6

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on credit information)
Bank of Scotland	Liquidity	7,850	2.20%	N/a	Orange
Santander Bank Plc	Maturity	10,000	3.00%	20/03/2023	Red
Money Market Fund – Federated (Prime Rate Class3)	Liquidity	3,000	1.7297%	N/A	AAA
London Borough of Croydon	Maturity	5,000	2.30%	29/09/2023	N/A
Rotherham Metropolitan Borough Council	Maturity	5,000	0.90%	10/10/2022	N/A
Liverpool City Council	Maturity	5,000	0.25%	24/01/2023	N/A
Cornwall Council	Maturity	5,000	1.50%	14/11/2022	N/A
Thurrock Council	Maturity	5,000	0.75%	09/01/2023	N/A
Thurrock Council	Maturity	5,000	0.75%	31/01/2023	N/A
Slough Borough Council	Maturity	5,000	2.25%	29/08/2023	N/A
London Borough of Croydon	Maturity	5,000	2.30%	04/09/2023	N/A
Slough Borough Council	Maturity	5,000	2.20%	14/08/2023	N/A
Standard Chartered Bank	Maturity	5,000	1.46%	07/10/2022	Red
Standard Chartered Bank	Maturity	5,000	2.51%	09/02/2023	Red
Lloyds Bank Corporate Markets	Maturity	5,000	2.61%	09/02/2023	Red
Total Investment		80,850	1.8721%		

4.1 *Review of Compliance with Treasury and Prudential Limits for 2022/23*

1. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the

estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 7 below shows that the 2022/23-year end projected total debt position of £393,211 is below the projected CFR of £411,362 which indicates that external borrowing is only being used for capital purpose.

Table 7

	2021/22 Actual £'000	2022/23 Borrowing as @ 30/9/22 £'000	2022/23 Projection £'000
Long Term Borrowing – PWLB	178,234	197,429	251,185
Long Term Borrowing - LOBO	41,200	41,200	41,200
Long Term Borrowing - Market	8,000	18,000	18,000
Short Term Borrowing – Market	62,000	70,000	62,000
External Debt	289,434	326,629	372,385
Other Long-Term Liabilities	95,777	91,951	91,951
Total Debt	385,211	418,580	464,336
Capital Financing Requirement (CFR)	398,889	485,796	485,796
(Under) Over borrowed	(13,678)	(67,216)	(21,460)

- (2) A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government in Scotland Act 2003.

Table 8 below shows the authorised limit amended from the original 2022/23 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	2022/23 Original Indicator £'000	2022/23 Revised Indicator £'000
Borrowing	474,000	435,000
Other Long-Term Liabilities	132,000	140,000

Authorised Limit	606,000	575,000
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5.1 ***Borrowing in Advance of Need***

The Local Government Investment Regulations (Scotland) 2010 requires the Council to set out its strategy and approach to borrowing in advance of need, which is defined as any borrowing undertaken which will result in the total external debt exceeding the CFR for the following twelve-month period. The Council has not borrowed in advance of need during the six months to 30 September 2022.

6.1 ***Debt Rescheduling***

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

7.1 **Other Current Issues**

Sources of Borrowing – regarding ESG (Environmental, Social and Governance)

While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, environmental, social, and good governance (ESG), to support a policy of sustainability. For these considerations to work effectively any policy should be derived on a corporate level, at which point the finance team can implement for treasury investing. Most highly rated lenders will have an ESG policy in place, which can be reviewed periodically and form part of the counterparty selection process for treasury investments.

South Ayrshire Council Equality Impact Assessment Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: <https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx>

Further guidance is available here: <https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/>

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. [FSD Guidance for Public Bodies](#) in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: <https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/>

1. Policy details

Policy Title	Treasury Management and Investment Strategy Mid-year Report 2022/23
Lead Officer (Name/Position/Email)	Denise Love, Senior Accountant Treasury/ Capital – denise.love2@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-
Sex – (issues specific to women & men or girls & boys)	-	-

Community or Groups of People	Negative Impacts	Positive impacts
Sexual Orientation – person’s sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-
Thematic Groups: Health, Human Rights & Children’s Rights	-	-

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	-	-
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	-	-
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	-	-
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	-	-
Socio-economic Background – social class i.e. parent’s education, employment and income	-	-

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes Consider the ‘Three Key Needs’ of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
Eliminate unlawful discrimination, harassment and victimisation	Low
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as Medium and/or High)	YES NO
Rationale for decision: The strategy outlines the approach to be taken in managing the Council's cash flow and capital funding arrangements and is a mechanism for ensuring that budget targets are achieved: a full EQIA is, therefore, not required	
Signed : Tim Baulk	Head of Service
Date: 4 November 2022	