

**PERFORMANCE & AUDIT COMMITTEE MEETING
FRIDAY 6TH MARCH 2015
SESTRAN OFFICES, 130 EAST CLAREMONT STREET, EDINBURGH, EH7 4LB**

Tea and coffee will be served from 9.30am.

1. Order of Business
2. Apologies
3. Declarations of Interest

AGENDA A – POINTS FOR DECISION

- A1.** Minutes of the Performance & Audit Committee – 21st November 2014
 - A2.** Matters Arising
 - A3.** Audit Scotland Report – To Follow
 - A4.** Revenue Budget 2015/16
 - A5.** Annual Treasury Strategy Report
4. AOCB
 5. Date of Next Meeting
Friday 5th June 2015, Forth Room, SEStran Offices, 130 East Claremont Street, Edinburgh



PERFORMANCE & AUDIT COMMITTEE MEETING

**HELD IN THE SESTRAN OFFICES, 130 EAST CLAREMONT STREET, EDINBURGH
ON FRIDAY, 21 NOVEMBER, 2014
10.00 A.M. – 11.05 A.M.**

PRESENT:	<u>Name</u>	<u>Organisational Title</u>
	Councillor Gordon Edgar	Scottish Borders Council (Chair)
	Councillor Tony Boyle	West Lothian Council
	Councillor Jim Bryant	Midlothian Council
	John Jack	Non-Councillor Member
	Sandy Scotland	Non-Councillor Member (Vice-Chair)

IN ATTENDANCE:	<u>Name</u>	<u>Organisation Title</u>
	Joan Dalgleish	Audit Scotland
	Alex Macaulay	SEStran Partnership Director
	David Henderson	Fife Council (Acting Secretary)
	Craig Beattie	City of Edinburgh Council (Acting Treasurer)

APOLOGIES FOR ABSENCE:	<u>Name</u>	<u>Organisational Title</u>
	Councillor David Balsillie	Clackmannanshire Council
	Councillor Michael Veitch	East Lothian Council

It was noted too that Andrew Ferguson and Iain Shaw were otherwise committed, and represented by David Henderson and Craig Beattie respectively.

Action by

1. ORDER OF BUSINESS

The Chair confirmed that the order of business would be as per the agenda.

2. APOLOGIES

Apologies were received from Councillors Donald Balsillie, Clackmannanshire Council and Michael Veitch, East Lothian Council.

3. DECLARATIONS OF INTERESTS

None.

A1 MINUTES/

A1 MINUTES

Decision

The minute of the Performance and Audit Committee of 12th September, 2014 was noted and approved as a correct record, subject to the third decision reached under para A4 (Audit Scotland) being corrected to read as follows:-

“(iii) that a review be carried out of other E.U. Projects currently taking place to minimise as far as is possible the risk of similar E.U. partnership accounting errors happening and resulting possible financial exposure to SEStran, ...”

A2 MATTERS ARISING

None.

(Councillor Tony Boyle and Joan Dalgleish entered the meeting during consideration of the following item).

A3 FINANCIAL PLANNING 2015/16

The Committee considered a report by the Treasurer presenting an update on the financial planning being undertaken to present a revenue budget to the Partnership for approval in March 2015.

Decision

The Committee agreed:-

- (i) to note the summary of the key points from the draft Scottish Government budget for 2015/16 and the financial planning process and assumptions being progressed;
- (ii) to note that this report would be presented to the Partnership Board at its meeting on 5th December, 2014; and
- (iii) to note that the revenue budget for 2015/16 would be presented to Members for approval at the meeting of the Partnership in March, 2015.

The Committee also specifically commended officers in relation to the securing of funding of £1m for the Business Investment Fund.

A4 MID TERM TREASURY MANAGEMENT REPORT

The Committee considered a report by the Treasurer reviewing the investment activity undertaken on behalf of the Partnership during the first half of the 2014/15 Financial Year.

Decision/

Decision

The Committee agreed to note the investment activity which was undertaken on behalf of the Partnership. The Committee also specifically thanked City of Edinburgh Council for the support provided by maintaining the Partnership's bank account as part of the Council's group of bank accounts.

A5. RISK REPORT

The Committee considered a report by the Office Manager, regarding the Risk Register used by SEStran to record, report and evaluate risks within the organisation.

Decision

The Committee noted the contents of the report. The Committee also noted an assurance from Alex Macaulay, in reply to queries around a recent problem with the RTPI (Real Time Passenger Information) system, that he would arrange provision of an update on measures taken in response for the next Partnership Board meeting on 5th December, 2014.

Alex
Macaulay

4. ANY OTHER BUSINESS

The Chair drew attention to the success of SEStran in winning the Gold Award for Local Authority Bus Project of the Year at the UK Bus Awards, 2014.

Decision

The Committee commended the achievement of all who had contributed to the success of the "Bus Tracker" project.

5. DATE OF NEXT MEETING

A full timetable of meetings for 2015 was being prepared and would be circulated separately.

Angela
Chambers

Decision

The Committee noted that the next meeting would be held in the Forth Room, SEStran Offices, 130 East Claremont Street, Edinburgh on a date to be confirmed during the first quarter of 2015.

REVENUE BUDGET 2015/16

1. Introduction

1.1 This report presents to the Partnership, for approval, a revenue budget for 2015/16, together with the share of net expenses to be paid by each constituent council.

2. Proposed Revenue Budget 2015/16

2.1 Section 3 of the Transport (Scotland) Act requires the constituent councils of each Regional Transport Partnership to fund the Partnership's net expenses.

2.2 A financial planning report was considered by the Partnership Board on 5th December 2014. The Board noted the key points arising from the draft Scottish Government budget for 2015/16 and the financial planning process and assumptions being progressed.

2.3 The proposed revenue budget has been prepared on the basis of a range of estimates and assumptions and in consultation with the Partnership Director. Revenue budget lines have been updated to take account of known cost commitments and savings.

2.4 A council requisition of £200,000 in 2015/16 is proposed.

2.5 The proposed level of requisition was discussed at Chief Officers meeting on 24th February 2015. At that meeting, Chief Officers advised that constituent councils have approved budgets, which provide funding for the SEStran requisition at the same level as 2014/15.

2.6 Within the proposed revenue budget, provision is made to absorb the following costs:

- Employee cost increases of £22,000, including increments and pay award provision (1%);
- Loss of income of £133,000 through cessation of EU projects (Foodport, Lo Pinod, ITransfer, and Weastflows).

2.7 These cost increases are offset by:

- Re-alignment of Scottish Government grant of £84,000;
- Recharges to Bus Investment Fund of £50,000;
- Savings in premises, supplies and staff travel of £18,000;
- Reduction in interest charges of £3,000.

2.8 The proposed revenue budget is also re-aligned to take account of the loss of income of £48,000 from recharge of office accommodation to SESPLAN.

2.9 The proposed revenue budget assumes that SEStran will receive a grant of £782,000 from the Scottish Government in 2015/16, i.e. no change from the level received in 2014/15.

- 2.11 If approved, the Partnership will have operated at the same level of Scottish Government grant funding of £782,000 since 2011/12, with council requisitions fixed at £200,000 since 2012/13. Since 2009/10, council requisitions have reduced by 37%. During this same period, the level of budgeted external funding has increased from £102,000 to £2.169m, an increase by a factor of 21.25.
- 2.12 A detailed analysis of the proposed core revenue budget for 2015/16 is shown in Appendix 1, with the proposed projects budget detailed in Appendix 2.
- 2.13 At the Partnership Board meeting of 5th December 2014, Members requested identification of potential savings from the proposed revenue budget for 2015/16. To inform this, known cost commitments to be supported by the proposed core revenue and projects budget are identified in Appendices 1 and 2.

2.14 The following savings options have been identified:

Option 1 – remove funding for Routewise Hosting (£53,000)

- 2.15 The proposed core revenue budget includes provision of £53,000 for the provision and maintenance of Routewise and for the hosting of the public transport database.
- 2.16 Routewise is used by SEStran constituent councils for several purposes, including the provision of bus stop data to the National Public Transport Access Node (NAPTAN) database and to up-load bus service registration details.
- 2.17 Populating and updating these systems is not a statutory duty. In order to realise economies of scale, it was agreed that SEStran would provide the “Routewise” facility on a region-wide basis. This has now operated for 8 years.
- 2.18 It is estimated that, through economies of scale, SEStran’s provision of Routewise results in a saving of up to £50,000 per annum in total to participating constituent councils.
- 2.19 A saving of £53,000 (26.5%) in council requisitions could be achieved by cessation of the Routewise service. In the event that SEStran elects to cease this service and realise this saving, total costs in excess of £100,000 are likely to be incurred by the participating councils.
- 2.20 At this stage, the core revenue budget includes the provision of Routewise, but removal of the service remains an option.

Option 2 – remove funding for Equalities Action Forum (£10,000)

- 2.21 A budget for the Equalities Action Forum is included to fund a minimal level of actions identified by the Forum. Funding of £10,000 could be removed to reduce constituent council requisitions. This could be to the detriment of the disabled community and could compromise SEStran’s ability to discharge its equalities related statutory obligations.
- 2.22 The use of this fund has previously allowed SEStran to develop and promote the Thistle Card. The SEStran Thistle Assistance Card is designed to help

anyone who experiences difficulty in using public transport, by alerting bus drivers conveniently and discreetly to any factors that mean a passenger may need some assistance and consideration during a journey. This is now being adopted by other Regional Transport Partnerships and could become a national facility in future. SEStran itself has now distributed 50,000 cards within the region.

- 2.23 If Members of the Partnership approve this saving, a full Equalities Impact Assessment will require to be undertaken on this saving proposal.
- 2.24 At this stage, the proposed projects budget includes the provision of £10,000 for the Equalities Action Forum, but removal of this remains an option.
- 2.25 Risk and contingency planning have been considered as part of the budget development process. A risk assessment is included at Appendix 3.
- 2.26 SEStran's proposed projects budget for 2015/16 is £2.601m. This attracts £2.169m of external income to SEStran. Based on the proposed council requisition of £0.2m, this represents investment of £10.85 for every £1 invested by constituent councils.

3. Revenue Budget - 2016/17 and Later Years

- 3.1 The proposed revenue budget is for the financial year 2015/16 only. Based on recent forecasts by the Scottish Government on long-term budget projections, real-term reductions in the Scottish Block Grant of around 4% are forecast for 2016/17 with a similar level of reduction in 2017/18. A number of Scottish councils have commenced preparation of savings proposals, in anticipation of these funding reductions.
- 3.2 A revenue budget proposal for 2016/17 will be developed for consideration by the Partnership Board in the autumn of 2015.

4. Recommendations

It is recommended that the Partnership Board:-

- (i) approve the proposed core revenue and revenue projects budget for 2015/16, as detailed in Appendices 1 and 2, and agree that I be authorised to requisition the individual constituent authorities for amounts as follows:

Clackmannanshire	£ 6,664
East Lothian	£13,173
Edinburgh	£63,357
Falkirk	£20,422
Fife	£47,685
Midlothian	£11,008
Scottish Borders	£14,799
West Lothian	<u>£22,892</u>
	<u>£200,000</u>

- (ii) note that financial planning for 2016/17 will be developed for consideration by the Partnership Board in autumn 2015;

- (iii) note that the proposed budget is subject to a number of risks and that all income and expenditure of the Partnership will continue to be monitored closely with updates reported to each Partnership meeting.

HUGH DUNN
Treasurer

Appendices Appendix 1 – Proposed Core Revenue Budget 2015/16
Appendix 2 – Proposed Revenue Projects Budget 2015/16
Appendix 3 – Risk Assessment

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Proposed Core Revenue Budget 2015/16

Appendix 1

	Approved 2014/15	Proposed 2015/16	Proposed Cost Commitments
	£000	£000	
Employee Costs			
Salaries, National Insurance and Pension Fund	396	418	10 employees (2 fixed-term/1 part-time contract). Employees generate income from EU recharges (£20,000) and Bus Investment Fund (£100,000)
Premises Costs	41	40	Lease for East Claremont Street office and utilities costs. Lease expires February 2016. Lease subject to 6 months notice. Loss of rental income of £48,000 from SESPLAN absorbed
Staff Travel	10	9	
Supplies and Services			
Marketing	20	20	£10,000 Car Share/£10,000 general marketing and sustainable travel
Communications & Computing	31	31	
Hosted Service – Routewise	53	53	£50,000 saving per annum in total to participating constituent councils
Printing/Stationery/Supplies	18	10	
Insurance	4	4	Employer/employee liability insurance
Equipment/Furniture/Materials	3	1	
Training/Conferences	10	10	
Interview Expenses/Advertising	2	2	
Miscellaneous Expenses	20	11	

Proposed Core Revenue Budget 2015/16 (continued)

Appendix 1

	Approved 2014/15	Proposed 2015/16	Proposed Cost Commitments
	£'000	£'000	
Support Services			
Finance	25	25	Per Service Level Agreement with City of Edinburgh Council. Statutory financial statements, payroll, invoice payments, debt recovery, banking and cash management, budgeting, internal audit.
Legal Services / HR	7	7	Per Service Level Agreements with Fife Council and Falkirk Council
Corporate and Democratic			
Clerks Fees	15	15	Per Service Level Agreement with Fife Council
External Audit Fees	10	10	Per Audit Scotland Annual Audit Plan
Members Expenses	3	3	Non-Council Members expenses – Partnership meetings
Interest	4	1	Net cost of borrowing per Partnership's Treasury Management Strategy
Funding			
Recharges:			
• EU Projects	(153)	(20)	Recovery of employee costs - NWE and Chums project
• Bus Investment Fund	(50)	(100)	Recovery of employee costs – Bus Investment Fund
Scottish Government Grant	(269)	(350)	
Net Core Expenditure	200	200	To be Met by Constituent Councils

Proposed Project Budget 2015/16

Appendix 2

	Approved 2014/15	Proposed 2015/16	EU /Other Grant	Net Expenditure	Proposed Cost Commitments
	£'000	£'000	£'000	£'000	
EU Projects					
RTPI	286	230	(138)	92	Contractually committed
Foodport	78	-			Project ceased
Lo Pinod	143	-			Project ceased
I Transfer	38	-			Project ceased
Weastflows	43	-			Project ceased
NWE Ride	64	64	(34)	30	Contractually committed
Chums	68	68	(50)	18	Contractually committed
Social Car	-	47	(47)	0	EU grant funded project
Total	720	409	(269)	140	
Bus Investment Fund	346	1,000	(1,000)	0	100% externally funded
Sustainable Travel	111	130		130	Provision of match funding to constituent councils, universities and colleges, Police Scotland
Rail Stations Development	-	850	(800)	50	Proposals for stations at Reston and East Linton/ studies for Newburgh and Winchburgh stations
South Tay Park and Ride	-	35		35	Agreement now in place to purchase the land. Agreement with TACtran, Dundee and Fife Councils.
Rail/Bus Advice	20	35		35	Responses to consultation documents
SDP/LDP	20	20		20	RTP input to LDP's and SDP's
RTS Monitoring	5	5		5	Ensures the RTS is up to date with transport changes
Urban Cycle Networks	120	120	(100)	20	Contractually committed
Equalities Action Forum	10	10		10	Funding for the Equalities Action Forum is included to fund a minimal level of actions identified by the Forum.
One Ticket	(13)	(13)		(13)	
Total	1,339	2,601	(2,169)	432	

Risk Assessment

Risk Description	Existing Controls
Pay awards. The proposed budget assumes provision for a pay award of up to 1% in 2015/16. A 1% uplift in pay awards equates to an increase of approximately £3,785.	Alignment with Scottish Government Public Sector Pay Policy.
There is a risk that the proposed budget does not adequately cover price inflation and increasing demand for services.	Allowance has been made for specific price inflation and other budgets have been adjusted in line with current demand / forecasts. The proposed budget includes a small contingency.
There is a risk that the deficit on the staff pension fund could lead to increases in the employer's pension contribution.	Lothian Pension Fund has developed a contribution stability mechanism as part of the strategy to manage potential volatility in employer contribution rates arising from the 2014 actuarial review. For 2015/16, there will be no change to the current employer contribution rate, based on Lothian Pension Fund's stability of pension fund contributions mechanism.
Delays in payment of grant by the EU results in additional short-term borrowing costs.	SESTran grant claims for EU funded projects were submitted in compliance with requirements of EU First Level Control process to ensure minimal delay in payment of grants. Ongoing monitoring of cash flow will be undertaken to manage exposure to additional short-term borrowing costs.
There is a risk that current levels of staffing cannot be maintained due to funding constraints and that the Partnership will incur staff release costs.	The Partnership Director continues to seek additional sources of funding for activities aligned to the Partnership's objectives to supplement resources.

ANNUAL TREASURY STRATEGY

1 Purpose of report

- 1.1 The purpose of this report is to propose an Investment Strategy for 2015/16.

2 Annual Treasury Strategy

- 2.1 The Partnership currently maintains its bank account as part of the City of Edinburgh Council's group of bank accounts. Any cash balance is effectively lent to the Council, but is offset by expenditure undertaken by the City of Edinburgh Council on behalf of the Board. Interest is given on month end net indebtedness balances between the Council and the Board in accordance with the Local Authority (Scotland) Accounts Advisory Committee's (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). These arrangements were put in place given administration arrangements with the City of Edinburgh Council and the relatively small investment balances which the Board has. Although the investment return will be small, the Board will gain security from its counterparty exposure being to the City of Edinburgh Council.

3 Recommendations

- 3.1 It is recommended that the Board continues the current arrangement outlined in Appendix 1.

Hugh Dunn
Treasurer

Appendix Appendix 1 - Annual Treasury Strategy

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APPENDIX 1

Annual Treasury Strategy

(a) Treasury Management Policy Statement

1. The Partnership defines its Treasury Management activities as:

The management of the Partnership's investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. The Partnership regards the successful identification monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. The Partnership acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive measurement techniques, within the context of effective risk management.

Treasury Management is carried out on behalf of the Board by the City of Edinburgh Council. The Board therefore adopts the Treasury Management Practices of the City of Edinburgh Council. The Board's approach to investment is a low risk one, and its investment arrangements reflect this.

(b) Permitted Investments

The Partnership will maintain its banking arrangement with the City of Edinburgh Council's group of bank accounts. The Partnership has no Investment Properties and makes no loans to third parties. As such the Partnership's only investment / counterparty exposure is to the City of Edinburgh Council.

(c) Prudential Indicators

Whilst the Partnership has a Capital Programme this is funded by grant income therefore no long term borrowing is required. The indicators relating to debt are therefore not relevant for the Partnership. By virtue of the investment arrangements permitted in (b) above, all of the Partnership's investments are variable rate, and subject to movement in interest rates during the period of the investment.