IMPROVEMENT SERVICE COMPANY

Company registration number SC287978

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

COMPANY INFORMATION

Directors	Sarah Gadsden Angela Leitch Joyce White OBE Keith Winter Steven Grimmond Councillor Alison Evison Councillor Graham Houston Councillor Malcolm Bell Councillor Neil Benny
Registered number	SC287978
Registered office	I Hub Quarrywood Court Livingston Village Livingston Scotland EH54 6AZ
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IMPROVEMENT SERVICE COMPANY
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STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019

Introduction

The directors present their strategic report for Improvement Service Company ("the Improvement Service" or "IS") for the year ended 31 March 2019.

Principal Business Activity

Improvement Service Company is the national improvement organisation for Local Government in Scotland and a company limited by guarantee. It's purpose is to help and support Councils and their partners to improve and deliver high quality, efficient local services by providing improvement support and a range of products and services.

Review of Business

The net loss for the year was £948,599 (2018: net profit £2,145).

As a not for profit organisation and consistent with all previous financial years, at an operational level the company broke even. However, the deficit for the year arises from the combined impact of FRS 102 pension costs of £792,000, the use of designated change reserves of £180,000 and bank interest received of £23,401.

The overall pension liability has increased from £1.165M in 2017/18 to a net pension liability of £2.251M in 2018/19. The balance on the pension fund will change annually according to the economic conditions.

2018/19 marked another very successful year for the Improvement Service. We continued to deliver on our priorities as set out in the IS Strategic Framework 2016/21:

- Support a step change in productivity and efficiency
- Support the delivery of improved outcomes
- Support thinking about future resilience and sustainability

Our main achievements against these priorities for the year are set out below.

- We continued to **grow our funding base** in support of Local Government priorities and exceeded our 2018/19 target of £1.2M for bringing in additional resources to the sector. £3.431M of additional funding was brought in to support collaborative and partnership working, of which £1.441M was brought in from out with the Local Government sector. Our overall income profile shows for every £1 of core grant invested in the Improvement Service we bring in an additional £4.50.

- Across our range of products and services our **annual customer satisfaction indicator** increased from 75% in 2017/18 to 81% in 2018/19. In response to the feedback annual improvement actions plans were implemented for each product and service as part of our continuous improvement journey.

- We have continued to support Councils in preparations for their **Best Value Assurance** Reports (BVAR). The support includes input from a number of Improvement Service programmes and is tailored to meet the needs of each individual council. To support the work, we have undertaken research on the findings from each BVAR report published to date and made this available to all Councils via the Knowledge Hub. This offer of support has also resulted in Councils seeking further Improvement Service support on a longer term engagement basis in areas such as planning skills, elected member development and self-assessment.

- We continued to **provide a range of support to Councils, SOLACE and COSLA** in their work **to improve outcomes for children, young people and their families.** We are part of the recently reorganised Delivery Assurance Team providing support and constructive challenge to Councils as they implement their Early Learning and Childcare (ELC) Expansion Plans. We prepared the ELC Expansion Delivery Progress Reports which were submitted to the Scottish Government and COSLA Joint Delivery Board. We also secured further funding of £459,958 across the next 3 years to provide Knowledge Management and Business Analysis support. We are a credible support partner, highlighted in Scottish

Government's Realising Change Funding circular awarding £4M to Councils across two years, as a key source of support for individual Councils as well as regional groupings.

- We published the **Equally Safe Quality Standards and Performance Framework** in partnership with the Scottish Government and COSLA. The framework supports multi-agency Violence Against Women (VAW) Partnerships to measure their progress and performance in implementing Equally Safe: Scotland's Strategy for preventing and eradicating violence against women and girls at a local level, and to identify any areas for improvement. We have supported Local Authorities across Scotland to use the framework to collect data on the activities they are undertaking to implement Equally Safe and the impact this work is having on the lives of women and children affected by violence and abuse in local communities. We have also produced a series of performance reports to inform local and national partners' future work in this area and have facilitated development sessions with a number of multi-agency VAW Partnerships to help them to develop strategies and action plans to drive forward improvements.

- We successfully launched a renewed offer of **transformation support** to Councils. Our offer is based on four themes: Outcome Focused Service Redesign; Leadership, People and Culture; Place and Empowerment; Data and Business Intelligence. We commenced work to co-design our support offer with Local Authorities. We also joined forces with Scotland Excel and successfully launched an established qualification in project management. The course is focussed on the practical application of key project management skills in a Local Government context. 5 cohorts commenced in 2018/19, involving 55 people from 11 different Councils. The Professional Development Award (PDA) in Project Management will offer a SCQF level 8 qualification.

- We continued to develop our **change management framework** adding a range of additional tools and resources to the online repository. As part of our drive for continuous improvement we consulted users on the strengths and weaknesses of the current framework and have established plans in place to act on the feedback. The Improvement Service facilitated Change Managers' Network has grown to 655 members over the last year (by mid-Feb 2019), representing around 103 organisations, including all 32 Scottish Local Authorities. We embedded further change management resources in East Lothian Council and a new programme management resource in Clackmannanshire Council, to support both Councils with the delivery of their transformation programmes.

- The **myaccount** service continues to grow: subscriber numbers now exceed 700,000 (and set to break through to 750,000 by March 2019); authentication requests have risen, averaging 500,000 per month, up from 350,000 per month 12 months previously, an increase of 43%. Onboarded organisations (Councils, health boards and others) have grown to reach 24; with a further 4 organisations sitting within our current pipeline. Adoption and usage of the Data Hub, our online data matching and cleansing tool also continues to grow. Twelve organisations are live, and a further 7 are in the current pipeline. Since February 2018, almost 7 million records have been uploaded to the Data Hub by organisations for data matching and cleansing purposes.

- We concluded successfully the appointment of four technology partners to further develop myaccount and its platform for digital public services without any disruption to service delivery. Designed to help myaccount maintain current services, these **new contracts** are also aimed at helping the Improvement Service to develop new technologies and introduce innovations to help meet emerging and future needs. Foundations have now been laid that will see new capabilities introduced now and into 2019/20 in response to customer demand.

- The breadth of products in our **Digital Public Services Portfolio** has expanded further with two new products launched: parentsportal.scot – enabling a digital relationship between parents, pupils and schools - and IS Secure, a secure file-sharing system to help information-sharing across organisational boundaries. Meanwhile, we are on course to conclude the final developments of Young Scot's new Customer Experience and Rewards Platform in time for a Q1 2019/20 launch. Formal partnerships underpinned by Memorandum Of Understandings - between the Improvement Service and SEEMiS and Young Scot - have characterised these developments and their progress, all of which are expected to contribute positively to maintain and sustain growth across the portfolio.

- The Improvement Service has continued to manage, develop and train users on the **Knowledge Hub** (Khub), a powerful digital platform for public servants to collaborate, communicate and connect. The Scottish Public Services Network (SPSN) enables its 25,000 members to drive significant efficiencies and tackle important social issues. 15,000 members are based in Local Authorities and 5,000 in the Scottish Government. Members come from all job roles, for example, senior managers, teachers, engineers, social workers, analysts, policy officers, technicians, environmental health officers, elected members and more. There are around 800 communities covering a variety of subjects, including business transformation, organisational benchmarking, performance, sustainability and climate change, reducing re-offending and delivering excellent childcare and education. The Digital Office for Local Government have received direct support and guidance to establish their active group on the platform and have claimed savings of over £1M through their use of the platform.

- We are successfully running the **Spatial Hub**, set up as a shared capacity initiative to collectively manage a range of spatial data sets on behalf of Scottish Local Government, underpinned by individual partnership agreements with all 32 Local Authorities. The key aim of the Spatial Hub is to improve access to this valuable information resource, maintain and improve the quality of the data and in doing so generate revenue to be used to sustain and improve the asset going forward. In our first year's operation, a reimbursement of £250,000 was apportioned amongst Local Authorities, in respect of data quality improvements. It is expected that that this sum will grow in future years as the quality of data improves, the number of dataset available increases, and demand increases as the service matures.

- 2018/19 was another successful year for the **Elected Member Development** programme comprising a CPD Framework for Elected Members, workshops, webinars, guidance, a briefing note series on key issues affecting Local Government, a dedicated local councillor twitter account and the delivery of support tailored to the needs of individual Councils.

- We continued to successfully deliver the **Local Government Benchmarking Framework (LGBF)** to help Councils better understand their current performance levels, to build understanding of where and why council performance varies and to help identify and share good practice across Councils. This includes delivering a programme of benchmarking events bringing together colleagues from across all 32 Councils to share learning in family groups to drive improvement. These generate invaluable practice examples which were shared widely across all Councils. This year there were a number of improvements to enhance the relevance and impact of the framework. This included improving the timeliness of the data, a strengthened suite of Economic Development measures, and the first of a series of Thematic Reports focussing on Children and Young People's services. LGBF Thematic reports provide a 'drill down' into key policy areas to re-emphasise the 'can opener' nature of the LGBF information and to encourage a more diagnostic use of the data, particularly within family groups.

- We completed the **Economic Outcomes Programme,** delivering a bespoke 'Economic Footprint Report' for all 32 Councils, in addition to a national Overview Report.

- We developed and managed the **Partners in Planning website** (launched in September 2018), which provide people working in the planning system with a single point of access to the skills and knowledge that enable behaviour change. The website provides a single co-ordination point to share information, intelligence, good practice, news, events and training opportunities on planning and place-making.

- There are now 35 public service organisations using the **PSIF model** and the Improvement Service's other self-assessment tools. In the past year a considerable amount of self-assessment activity has been centred on health and social care, with self-assessments undertaken with Integration Joint Boards (IJBs) and Health and Social Care Partnerships (HSCPs). Partnership working is underway between the Improvement Service, Care Inspectorate and Scottish Care, with a pilot underway to test self-assessment within care homes in Scotland. Working in partnership with other improvement agencies, the PSIF team are participating in a series of events across the country showcasing improvement activity available to support Chief Officers/ Chief Social Work Officers of IJBs/ HSCPs.

Business Streams and Investment
Our financial statements set out income and spending for the year.

Key financials:
The Improvement Service core funding grant of £1.656M continued in 2018/19, secured as part of the Local Government Finance Settlement. We also agreed funding of £4.24M with Scottish Government to manage and deliver the Customer First initiative, underpinned by a refreshed Memorandum of Understanding which included sufficient contractual and staff liability protection.

We carried forward a balance of £1.3M from last financial year with full approval from funding organisations.

In a tough financial climate, we continued to develop our funding base and exceeded our 2018/19 target of £1.2M for bringing in additional resources to the sector. £3.431M was brought in to support collaborative and partnership working, of which £1.44M was brought in from out with the sector.

An overview of 2018/19 turnover is provided below:

On the face of the IS published accounts turnover has decreased by 8.7% on last year. However this is primarily due to the use of the designated change reserves. In 2018 funds of £416,900 were transferred into the designated change reserve which had a positive impact on turnover and profit. Whereas in 2019, with full IS Board approval for spending on Local Government priorities, £180,000 of funds were transferred out of the designated change reserve, which had a negative impact on turnover and profit, as the analysis below shows:

Turnover Analysis	**2019**	**2018**
	£	**£**
Core Management	1,634,730	1,641,654
Customer First	4,343,438	4,862,362
Commercial	227,990	236,610
Other Specific Grants	1,088,676	874,739
Partnership Funding	1,435,025	1,336,353
	8,729,859	**8,951,718**
Use of designated change reserves	(180,000)	416,900
	8,549,859	**9,368,618**

The turnover position prior to the use of reserves is the appropriate figure to be used for comparison purposes. The table below shows the true reduction in income between 2018 and 2019 of £221,859, explained by the Scottish Government imposed budget reduction for the Customer First programme, partly offset by increases in other specific grant and partnership funding. As noted above £1.44M was brought in from out with the sector to support Local Government priorities, the highest amount since the company started in 2005.

Turnover Analysis	**2019**	**2018**	**Movement**	**Movement**
	£	**£**	**£**	**%**
Core Management	1,634,730	1,641,654	(6,924)	
Customer First	4,343,438	4,862,362	(518,924)	
Commercial	227,990	236,610	(8,620)	
Other Specific Grants	1,088,676	874,739	213,937	
Partnership Funding	1,435,025	1,336,353	98,672	
	8,729,859	**8,951,718**	**(221,859)**	**(2.5)**

Although income reduced compared to last year, employee costs increased. This is because employee numbers were maintained in the Customer First programme despite a material reduction in funding, with efficiencies being made in contract costs and development areas. At the same time additional employees were recruited to deliver on specific grants and partnerships, as required by individual funding agreements. The Local Government Digital Office also recruited more employees in 2019 compared to 2018. The average staff numbers of each year are shown in note 6 to the accounts - 82 compared to 65.

As many of these programmes are of several years' duration and others we received in quarter 4, we carried forward a balance of £2.110M with full approval from all funding partners.

Next Year Financials:
We will receive £1.656M Revenue Support Grant to fund our core programmes for 2019/20 similar to last year. £3.66M has been secured for the Customer First programme, underpinned by a 3 year MOU (2018/21). This represents a further reduction on top of last year's reduction meaning the available budget for the Customer First portfolio has been reduced by 12% in cash terms (equivalent to £550,000) over the last two years. However the implementation of significant innovations and operational efficiencies means priorities can continue to be met within this reduced budget allocation. To date, we have also secured other funding of £3.014M.

Key Performance Indicators

IS key performance indicators for 2018/19 are noted below:

2018/19	**Target**	**Actual**
Additional Resources into the Sector	£1.2M	£1.392M
Programme Performance	96%	99.1%
Staff Satisfaction Indicator	75%	78%
Customer Satisfaction Indicator	75%	81%
Sickness absence Indicator	1.5%	0.8%

The Forward Context, Risks and Challenges

Context for Change
The IS Board established a review of the organisation in April 2018 to identify options for the future in the context of significant changes to its operating environment since it was established in 2005.

The IS Board decided it was an opportune time to identify options for the future leadership, governance, and direction of the IS. Sarah Gadsden, the then Director of Strategic Development and Collaboration within the IS, was chosen by the Board and appointed as Interim Chief Executive on 2 April 2018, for a minimum 8 month period, to support the delivery of current priorities and to work with the Board to review future options.

At its meeting in June 2018, the IS Board agreed to take forward three options to the strategic options appraisal stage, using option 1 as the baseline:

- Option 1 - Stand Alone Improvement Service Model, the 'status quo' as a baseline.
- Option 2 - Enhanced IS stand-alone model, underpinned by a formal and structured partnership with COSLA.
- Option 3 - Merger of the Improvement Service into COSLA with the IS company status retained.

The IS Board also came to the view that a review of the IS should not be carried out in isolation and without the participation of COSLA, given the potential impact on both organisations. COSLA agreed this approach and a steering group with representation from both organisations was set up to establish the scope of the strategic options appraisal and oversee and manage its delivery. Both the IS Board and COSLA Leaders also agreed to jointly appoint and co-fund the work of an Independent Adviser to undertake the strategic options appraisal. The Independent Advisors report was considered in March 2019 and it was agreed that both Options 2 and 3 should proceed to full business case.

A refreshed Project Board consisting of members of COSLA and the IS Board was established with the role of driving forward the development of the business cases, chaired by Alison Evison in her capacity as the Chair of the IS Board and the COSLA President. The Project Board met in August 2019 and agreed that the two management teams from the Improvement Service and COSLA should meet to define the scope of options 2 and 3, prior to the commencement of the development of full business cases for each option.

Following a joint management team workshop to set out the scope of both options the Joint Project Board, at its October meeting, agreed the scope, confirmed the Terms of Reference for the Review and agreed to seek direction on the funding available to support the development of the business cases. The scope allows for two versions of Option 2 to be considered; firstly a partnership with a joint management team whereby IS and COSLA management teams would meet regularly and work together and secondly a partnership with a single management team. Funding of £50,000 split between the two organisations was agreed by the IS Board and COSLA Leaders to allow the work to commence, including a requirement to seek full legal advice.

Since then further constructive discussions have taken place in the context of the overall improvement landscape and the currently evolving governance context of Local Government. This led to consideration of whether a quicker and more effective approach could be taken to deliver the criteria set for the review, given the time and resources required to develop the full business cases.

It is recognised that the time and staff resource invested to date in the review has been considerable. The following key points have also been reflected upon:

- Staff time and limited resources would be best spent delivering the aims and ambitions of the review rather than developing business cases;
- Staff time would be better spent building effective working relationships;
- Confirmation from the IS lawyer that legal advice would be required for each organisation throughout every stage of the development of the full business cases, until such time as a final decision has been made on them, and that independent legal advice would be required thereafter which would incur additional legal costs and add legal complexities;
- The need to focus on wider public sector improvement and not simply focus on Local Government improvement, so as to better support the delivery of the National Performance Framework and the development of pilots under the Local Governance Review

As a result a recommendation to progress a formal partnership arrangement was approved by COSLA Leaders on the 29th November 2019 and the IS Board on 6th December 2019. This option offers systematic joint working, planning, prioritisation and programming. It will help develop and nurture a culture which focuses on shared vision/values and on ultimately driving additional value for our Local Government and their communities in a critical time of change. The Partnership is based on the ability to deliver:

- A shared vision that delivers a core set of objectives for Local Government framed on the National Performance Framework;
- More effective member support to offer bespoke services based on local needs including elected member development opportunities;
- Efficiencies and economies of scale for organisational functions such as finance, payroll, IT, procurement, communication as well as multi-skilling and sharing of staff to create and build resilience;
- Improved use/maximisation of Scottish Government funding to deliver for members needs in key service areas;
- Improved shared working with professional associations; and
- An overall collaborative gain for all 32 Scottish Local Authorities.

In this option both COSLA and IS will retain their existing separate statuses, their own management, and the IS will retain its independent status as a 'company limited by guarantee'.

The formal partnership will be underpinned by effective governance, using agreements such as Memorandums of Understanding that will clearly define roles, responsibilities and deliverables.

Current Priorities:
Business as usual continues in 2019/20 and we will continue to routinely agree Core and Customer First grant funding for future years as part of ongoing discussions with Local Government and Scottish Government.

The operating context of Local Government continues to be challenging and it is evolving at pace. The challenges include extensive policy and legislative developments, increasing demand for services and diminishing resources, a drive for continuous improvement and transformation and changes to structures and the wider framework of local democracy. The emerging challenges from the UK's withdrawal from the European Union also look set to drive further changes and challenges for Local Government over the forthcoming period.

As well as developing a formal partnership with COSLA, the Improvement Service will continue to work with other partners on new, practical and creative approaches in key priority areas to help support Councils through testing times.

Our detailed business plan for 2019/20 contains a range of established programmes, products and services which are continually being developed and refined to support Councils as they face challenge and change. As part of the 2018/19 business plan we made progress in key priority areas that continue to be of significance. Our major developments for 2019/20 build on this and have been prioritised in areas where the Improvement Service is positioned to add value and deliver impact in an increasingly complex landscape.

Economic Development and Inclusive Growth
We will work with SOLACE, COSLA and SLAED to explore how the Local Government sector can maximise inclusive growth objectives via regional approaches to economic development and to develop a practical improvement and development agenda that can result in enhanced inclusive growth across Scotland.

Children and Young People
We will continue to support Scottish Government and COSLA with Early Learning and Childcare Expansion, which will include providing a range of support to Councils as they evolve and deliver their Early Learning and Childcare Expansion Plans. We will work with local and national partners to support the development and delivery of effective local child poverty action reports and develop networks to identify and share good practice in relation to tackling child poverty. We will work with SEEMiS to continue to develop and roll-out the parentsportal.scot across Councils and with Young Scot to launch the rewards platform as part of the Young Scot portal.

Health and Social Care
We will support Scottish Government and COSLA with the delivery of the proposals in the review of progress with integration of Health and Social Care, undertaken by the Ministerial Strategic Group for Health and Community Care. This will include working with other national improvement bodies to deliver collaborative improvement support to Health and Social Care Partnerships to make integration work. We will work with the Scottish Local Government Digital Office to ensure relevant linkages are made where appropriate and possible, to support the delivery of the Digital Health and Social Care Strategy.

Public Health Reform
We will continue to support Scottish Government and COSLA with the delivery of public health reform. This will include working with partners across the public, private and third sector to collectively develop a whole system approach to improving the public's health and reducing health inequalities, to develop the public health workforce and to use current and emerging data and intelligence in different ways to focus services on preventing ill health and early intervention.

Fairer Scotland Duty
We will provide support for the implementation of the Fairer Scotland Duty across Scotland, working with the listed agencies to identify and share best practice, develop practical guidance for officers and elected members, and create an online resource.

Advice Services
We will seek to work with the Scottish Government in its anticipated review of Advice Services. This will seek to ensure that there is an opportunity for Local Government to input its knowledge, experience and expertise of

designing and delivering advice services and help shape future thinking concerning the Scottish Government's newly enhanced role in this area.

Best Value
We will harness the support we can provide to Councils from across the Improvement Service as they prepare for Best Value Assurance audits, including the sharing of good practice. We will support individual Councils who request our input as they implement the recommendations in their Best Value Assurance Reports.

Data Services for Improved Outcomes
We will collaborate with key partners to exploit our data management expertise, tools and capacity and leverage their expertise and assets, to support Councils, CPPs and Health and Social Care Partnerships to improve local outcomes. The Improvement Service offers several products and services to help Councils make the best use of their data. These can be combined with external data sources to produce intelligence which can assist with the targeting of preventative work to redesign public services for the future. We will continue to offer practical support to Councils and their partners, helping them extract knowledge and insight from their own data, mixed with access to other datasets and support building sustainable capacity for data services.

Support for Transformation
We will work with Councils and partners to co-design our refocused offer of support for transformation, which is organised around four themes: outcome focused service redesign; leadership, people and culture; place and empowerment; data and business intelligence. This joint approach will facilitate the sharing of skills, capacity, knowledge, expertise and support economies of scale. We will deliver a range of support based on Councils' priority needs and recommendations from Councils' Best Value Assurance Reports and other audit and inspection work. This will include undertaking research, developing business cases for initiatives of interest to Councils (e.g. the development of a community lottery), providing business analysis and change management support and working with Scotland Excel to deliver our joint PDA in Project Management and to develop and deliver a Business Analysis qualification.

Shared Services and Collaborative Capacity Development
We will work with Councils to better understand their experiences, opportunities and challenges of collaborative and shared services. We will adopt a phased approach to understand the current landscape within Scotland, to build a better awareness and understanding of the relative drivers, value, opportunities, barriers and risks to greater shared capacity and services. We will explore and identify practical approaches to shared services and collaboration that could be implemented by Councils, in some cases working with partners.

Community Planning Partnership Support
We will provide tailored support to Community Planning Partnerships to help them deliver their statutory duties as defined in the Community Empowerment (Scotland) Act 2015. This will include continuing to work in real-time to build more effective collaborative leadership to tackle complex systemic issues through the Enabling Collaborative Leadership programme in conjunction with Scottish Government and other public service partners.

Place Based Approaches
We will continue to facilitate and develop place based working through cross-sector, co-ordinated promotion of the Place Principle. We will continue to work with partners to support and promote the effective use of the Place Standard Tool as an enabler of Place Principle application.

Political Leadership
We will deliver a wide range of support to Elected Members drawing on resources from across the organisation, including briefing notes, notebooks, workshops, webinars, and the CPD Framework for Elected Members, encouraging Local Authorities not already using the Framework to sign up. We will work with partners to expand the development opportunities, with some targeted at Council Leaders and senior Elected Members, including coaching and frameworks to help members focus on how they are working together and with officers. We will also work with COSLA to ensure elected member development continues to be fully aligned with emerging policy priorities, with a particular focus on the impact of the Local Governance Review on the roles and responsibilities of elected members.

Knowledge Management
We will continue to grow the number of active Knowledge Hub users and groups across Scotland's public services. We will educate and support leaders to understand the potential of the Knowledge Hub in terms of achieving efficiencies and developing a repository of knowledge, expertise and skills which all public services can draw upon and benefit from. We will concentrate effort on developing and growing key priority group in priority policy areas such as public health, early learning and childcare expansion, Brexit, health and social care etc.

Managing and Improving Spatial Information
Over the last three years, we have invested in a collaborative approach to managing and improving spatial information across Local Government, resulting in the potential for long term efficiency gains and cost savings. We have exploited demand and created value in the collective intellectual property created by this approach. Development of the service and disbursing receipts generated from collective intellectual property back to Councils for reinvestment will continue in 2019/20. In 2018/19 £250,000 was generated for return to Councils, with a target of £300,000 in place for 2019/20.

myaccount
We will continue to grow the use of myaccount within Local Government and Health, expanding the number of authentication requests, distinct users, returning visitors and multiple users, expanding the number of adopting organisations to 35 and growing account subscriber numbers to 1,000,000. We will deliver our agreed strategy and roadmap for maintaining and evolving myaccount business with a focus on online proofing, attribute exchange, mobile/app, and a working, civic blockchain, testing out opportunities and applications for blockchain technology in the delivery of public services applied against a range of use cases. We will work with the Scottish Government Digital Directorate on the Online Identity Assurance Programme.

Resourcing Models
We will continue to identify value added partnership arrangements across key priority areas and actively pursue additional funding and income sources. We will pro-actively pursue additional grant funding in key priority areas and seek to combine our own resources with other public-service partners, including national improvement agencies. In a challenging financial climate, we will seek to deliver a target of bringing in an additional £1.2M from out with the Local Government sector.

Account Management
We will continue to strengthen our account management service between the Improvement Service and council Corporate Management Teams and invest in building relationships and developing a responsive service for each individual council. We will also continue to embed our communications strategy to help ensure all stakeholders have a firm understanding of our improvement support, how to access that support and the impact it has and to effectively communicate and demonstrate good practice; the difference Councils are making to their local communities and the supporting role the Improvement Service has played.

More detail on existing products and services and our approach can be viewed in IS Business Plan 2019.20.

This report was approved by the Board on........6\12\19..................................and signed on its behalf by

Alison Evison

Alison Evison
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The directors present their report and the financial statements for the year ended 31 March 2019.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors

The directors who served during the year were:

Sarah Gadsden (interim Chief Executive, appointed 1 April 2018)
Angela Leitch
Joyce White OBE
Keith Winter
Steven Grimmond
Sally Louden (resigned 31 March 2019)
Councillor Alison Evison
Councillor Graham Houston (appointed 1 April 2019)
Councillor Malcolm Bell
Councillor Neil Benny

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 6\12\19 and signed on its behalf.

Alison Evison
Director

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2019

Role and Responsibilities

The Audit Committee is responsible for assisting the Board in discharging its responsibilities in relation to the financial affairs of the Improvement Service, the arrangements for accounting, financial reporting and regulatory compliance, the standards and effectiveness of internal control, the arrangements for identifying, evaluating and managing the significant risks faced by the Improvement Service and the arrangements for external audit. The Audit Committee meets regularly throughout the accounting year and, in addition, it meets the external auditor privately.

Composition

Members of the Audit Committee for the financial year were:

- Councillor Kevin Keenan – Dundee City Council – representing Cosla
- Sally Loudon – Chief Executive, Cosla and IS Board Member
- Rory Mair CBE – Independent Member
- Derek Yule – Director of Finance, Highland Council representing Solace

In the year ended 31 March 2019, there were 5 meetings of the Audit Committee. The Board is satisfied that the Committee membership has relevant financial and business experience.

Meetings were conducted via teleconference and copies of the minutes of all meetings are available from Loraine Higgins at the Improvement Service.

Telephone: 01506 282012
email: loraine.higgins@improvementservice.org.uk.

Responsibilities and Review of the External Auditor

During the year the principal activities of the Audit Committee included:

- considering and recommending to the Board for approval the Annual Financial Statements and reviewing the external auditor's report thereon;
- reviewing the scope, execution, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing and approving the external auditor's plan for the financial year, with a focus on the identification of areas of audit risk, and consideration of the appropriateness of the level of audit materiality adopted;
- reviewing the efficiency of the external audit process and the independence and quality of the audit engagement partner and the audit team;
- reviewing the appropriateness of the Improvement Service's accounting policies; and
- ensuring the adequacy of the internal control systems and standards.

In addition, a standing item on the Audit Committee Agenda was the Quarterly Finance and Operations Report which included:

- A comprehensive budget monitoring report;
- A report on HR activity monitoring establishment numbers to ensure these are aligned with available funding;
- A progress report on delivery of the Business Plan; and
- An update on the corporate risk register.

REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2019

In the course of the year the Audit Committee also:

- Reviewed the Financial Regulations and Scheme of Delegation;
- Approved the 2018/19 Internal Audit Work Programme and considered a report on the Economic Outcomes Programme Best Value Review;
- Considered and recommended Board approval of the 2017/18 Financial Statements and External Auditor's report thereon;
- Undertook a high-level examination of internal control systems;
- Reviewed the Treasury Management Policy;
- Considered and recommended Board approval of the 2019/20 interim budget and business plan;
- Established arrangements to oversee the operation of the Digital Office; and
- Monitored and reported to the Board on the risks and potential impacts for the Improvement Service, concerning both the process and outcome of the strategic review of the Improvement service which was initiated by the Board in late 2017.

All of the above matters were reported on a regular basis to the IS Board and it is pleasing to note that the Financial Statements for 2018/19 reflect a sound financial position and are supported by a positive report from our external auditors once again.

However arising out of the Audit Committee's consideration of the IS Strategic Review it was necessary on 25 March 2019 to formally report to the IS Board, the Audit Committee's concerns regarding:

(a) The Board's consideration of the Strategic Options Appraisal exercise: and
(b) The working relationship between the Audit Committee and Board.

Looking ahead the Audit Committee will continue to keep under review the effectiveness of the Improvement Service's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks.

In closing, I would wish to place on record my sincere thanks to members of the Audit Committee, officers of the Improvement Service, our external auditors Scott Moncrieff and West Lothian Council Internal Audit for their valued contributions and support during 2018/19.

Gavin Whitefield

Gavin Whitefield CBE DL CPFA DPA
Independent Chair of the Improvement Service Audit Committee

Date: 6\12\19

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE IMPROVEMENT SERVICE COMPANY

Opinion

We have audited the financial statements of Improvement Service Company for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. The description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE IMPROVEMENT SERVICE COMPANY

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Bernadette Higgins (Senior statutory auditor)
for and on behalf of
Scott-Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: ......16\12\19...

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £	2018 £
Turnover	4	8,549,859	9,368,618
Gross profit		8,549,859	9,368,618
Administrative expenses		(9,480,859)	(9,330,718)
Operating (loss)/profit	5	(931,000)	37,900
Interest receivable and similar income		23,401	15,245
Other finance income	8	(41,000)	(51,000)
(Loss)/profit before tax		(948,599)	2,145
(Loss)/profit for the financial year		(948,599)	2,145
Other comprehensive income for the year			
Actuarial (losses)/gains on defined benefit pension scheme		(294,000)	950,000
Other comprehensive (expenditure)/income for the year		(294,000)	950,000
Total comprehensive (expenditure)/income for the year		(1,242,599)	952,145

None of the Company's activities were acquired or discontinued during the above two years.

The notes on pages 21 to 34 form part of these financial statements.

As a not for profit organisation and consistent with all previous financial years, at an operational level the company broke even. However, the deficit for the year arises from the combined impact of FRS 102 pension costs of £792,000, the use of designated change reserves of £180,000 and bank interest received of £23,401.

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)
REGISTERED NUMBER:SC287978

BALANCE SHEET
AS AT 31 MARCH 2019

	Note		2019 £		2018 £
Fixed assets					
Tangible assets	9		61,573		67,195
Current assets					
Debtors: amounts falling due within one year	10	448,750		238,194	
Cash at bank and in hand	11	5,248,301		4,769,849	
		5,697,051		5,008,043	
Creditors: amounts falling due within one year	12	(5,093,179)		(4,253,194)	
Net current assets			603,872		754,849
Total assets less current liabilities			665,445		822,044
Defined benefit pension scheme liability	15		(2,251,000)		(1,165,000)
Net liabilities			**(1,585,555)**		**(342,956)**
Capital and reserves					
Profit and loss account	14		(1,585,555)		(342,956)
			(1,585,555)		**(342,956)**

The financial statements were approved and authorised for issue by the board and were signed on its behalf on.........6\12\19........................

Alison Evison
Director

The notes on pages 21 to 34 form part of these financial statements.

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Total equity
	£
At 1 April 2018	**(342,956)**
Comprehensive income/(expenditure) for the year	
Loss for the year	(948,599)
Other comprehensive income for the year	
Actuarial losses on pension scheme	(294,000)
Total comprehensive income/(expenditure) for the year	(1,242,599)
At 31 March 2019	**(1,585,555)**

	Total equity
	£
At 1 April 2017	(1,295,101)
Comprehensive income/(expenditure) for the year	
Profit for the year	2,145
Other comprehensive income for the year	
Actuarial gains on pension scheme	950,000
Total comprehensive income/(expenditure) for the year	952,145
Transfer between reserves	-
At 31 March 2018	**(342,956)**

The notes on pages 21 to 34 form part of these financial statements.

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	2019 £	2018 £
Cash flows from operating activities		
Profit/(loss) for the financial year	**(948,599)**	2,145
Adjustments for:		
Depreciation of tangible assets	**25,501**	21,885
Interest received	**(23,401)**	(15,245)
Decrease/(increase) in debtors	**(210,556)**	179,540
(Decrease)/increase in creditors	**839,985**	(510,399)
Retirement benefit scheme	**792,000**	430,000
Net cash generated from operating activities	**474,930**	107,926
Cash flows from investing activities		
Purchase of tangible fixed assets	**(19,879)**	(18,772)
Interest received	**23,401**	15,245
Net cash from investing activities	**3,522**	(3,527)
Net increase in cash and cash equivalents	**478,452**	104,399
Cash and cash equivalents at beginning of year	**4,769,849**	4,665,450
Cash and cash equivalents at the end of year	**5,248,301**	4,769,849
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	**5,248,301**	4,769,849
	5,248,301	4,769,849

The notes on pages 21 to 34 form part of these financial statements.

1. General information

The principal activity of the Improvement Service Company in the year under review was that of supporting Councils and their partners to improve and deliver high quality, efficient local services by providing improvement support and a range of products and services.

The Company is a United Kingdom private company limited by guarantee. It is both incorporated and domiciled in Scotland. The address of its registered office is I Hub Quarrywood Court, Livingston Village, Livingston, Scotland, EH54 6AZ.

These financial statements are presented in Pound Sterling (GBP), as that is the currency in which the Company's transactions are denominated. They comprise the financial statements of the Company drawn up for the year ended 31 March 2019.

2. Accounting policies

2.1 Basis of preparation of financial statements

These financial statements are prepared under historical cost convention as modified by the valuation of pension assets and liabilities and in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and the Companies Act 2006. The principal accounting policies are summarised below and have been applied consistently through the current and preceding year, unless otherwise stated.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied in the preparation of these financial statements. These policies have been consistently applies to the years presented, unless otherwise stated:

2.2 Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future.

The Improvement Service participates in a defined benefit retirement scheme. COSLA, on behalf of Scottish local authorities, has guaranteed to accept liability for any unfunded costs which may arise with regard to the Improvement Service relating to their membership of the Lothian Pension Fund should they cease to exist. Excluding this scheme, the Company reported reserves of £665,445.

The IS Board established a review of the organisation in April 2018 to identify options for the future in the context of significant changes to its operating environment since it was established in 2005. At its meeting in June 2018, the IS Board agreed to take forward three options to the strategic options appraisal stage, using option 1 as the baseline:

- Option 1 - Stand Alone Improvement Service Model, the 'status quo' as a baseline.
- Option 2 - Enhanced stand-alone model, underpinned by a formal and structured partnership with COSLA.
- Option 3 - Merger of Improvement Service Company into COSLA with the IS company status retained.

An Independent Advisors report was considered in March 2019 and it was agreed that both Options 2 and 3 should proceed to full business case.

2. Accounting policies (continued)

Since then further consideration has been given as to whether a quicker and more effective approach could be taken to deliver the criteria set for the review, given the time and resources required to develop the full business cases. As a result a recommendation to progress a formal partnership arrangement was approved by COSLA Leaders on the 29th November 2019 and the IS Board on 6th December 2019. In this option both COSLA and IS will retain their existing separate statuses, their own management, and the IS will retain its independent status as a 'company limited by guarantee'.

As the strategic review has concluded the IS will maintain its status as a company limited by guarantee, at the time of approving the financial statements, the directors have an expectation that the Improvement Service Company will continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis of accounting in preparing the financial statements.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Government grants

Grants are accounted under the accruals model permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation of the assets to which the grant relates. The deferred element of the grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.4 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

2. Accounting policies (continued)

The estimated useful lives range as follows:

Fixtures and fittings	- 3 - 10 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.5 Operating leases: Lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

2.8 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the

2. Accounting policies (continued)

asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, of when the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.10 Pensions

Defined benefit pension plan

The Company participates in a defined benefit scheme in respect of its employees. The assets of the scheme are held in external funds managed by professional investment managers.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses arising from experience adjustments and changes in assumptions are recognised immediately in the Statement of Comprehensive Income. All costs related to the defined benefit scheme are recognised in the Statement of Comprehensive Income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Any asset resulting from the calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

2.11 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.12 Taxation

The Company is exempt from taxation under section 984(2) of the Corporation Tax Act 2010.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The items in the financial statements where these judgements and estimates have been made include:

Depreciation - accounting estimation applied to useful life of assets.
The rates used are deemed to be appropriate for the individual class of assets.

Defined benefit pension and other post-employment benefits
The present value of the defined benefit pension and other post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pension and other post-employment benefits include the discount rate. Any changes in these assumptions will have an effect on the carrying amount of pension and other post-employment benefits.

After taking appropriate professional advice, management determines the appropriate discount rate at the end of each reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, consideration is given to the interest rates of high-quality corporate bonds that are denominated in the currency which the benefits are to be paid and that have terms to maturity approximating the terms of the related pension liability.

In January 2018, the UK Government published its response to the indexation and equalisation of Guaranteed Minimum Pension (GMP) in public sector pension schemes. The UK Government has concluded that there should be an extension to the current interim solution so that it applies to those who reach State Pension age on or before 5 April 2021. There remains uncertainty around the long term solution, and in the event that any additional liability arises in due course, it would be expected that this will be treated as a past service cost and included in the actuarial assessment of the pension scheme liabilities.

On 27 June 2019 the Supreme Court denied the government permission to appeal the Court of Appeal's judgement (McCloud judgement) that the transitional provisions introduced to the reformed judges and firefighters pension schemes in 2015 gave rise to unlawful age discrimination. Specifically, the Supreme Court found that those too far away from retirement age to qualify for 'transitional protection' have been unfairly discriminated against.

This means that the government has accepted that there will be a potential increase in scheme liabilities, and this will be informed in due course by the Employment Tribunal consideration of remedies. There is an expectation that the effect of this judgement will apply across public sector pension schemes. The Supreme Court decision is viewed as a post balance sheet event that requires recognition, and appropriate adjustment.

Consequently, the Company obtained actuarial estimates for the potential effect of this ruling, and these have now been included within the overall pension scheme liabilities.

4. Turnover

An analysis of turnover by class of business is as follows:

	2019	2018
	£	£
Core management	**1,634,730**	1,641,654
Customer first	**4,343,438**	4,862,362
Commercial	**227,990**	236,610
Other specific grants	**908,676**	1,291,639
Partnership funding	**1,435,025**	1,336,353
	8,549,859	9,368,618

5. Operating profit/(loss)

This is stated after charging:

	2019	2018
	£	£
Depreciation of tangible fixed assets	**25,501**	21,885
Auditor's remuneration - audit fee	**10,000**	10,000
Auditor's remuneration - fees for non-audit services	**3,095**	2,500

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2019	**2018**
	£	**£**
Wages and salaries	**2,976,510**	2,744,433
Social security costs	**325,326**	299,500
Other pension costs	**1,302,365**	842,460
	4,604,201	3,886,393

The company consider key management personnel to be the senior management team, which include:

- Chief Executive (interim)
- Director of Shared Services and Customer First
- Head of Corporate & Business Services
- Head of Transformation, Performance and Improvement
- Head of Change and Partnership Delivery (interim)

Total remuneration paid to the key management personnel was £525,524 (2018: £563,119)

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Corporate	**12**	10
Transformation Performance and Improvement	**53**	34
Digital strategy	**9**	2
Customer first	**6**	19
Shared services	**2**	-
	82	65

7. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	**99,351**	123,229
Company contributions to pension scheme	**17,020**	22,099
	116,371	145,328

The Chief Executive is the only member of the Board to receive any remuneration.

8. Other finance costs

	2019 £	2018 £
Interest income on pension scheme assets	**357,000**	319,000
Net interest on net defined benefit liability	**(398,000)**	(370,000)
	(41,000)	(51,000)

9. Tangible fixed assets

	Fixtures and fittings £
Cost	
At 1 April 2018	143,759
Additions	19,879
At 31 March 2019	163,638
Depreciation	
At 1 April 2018	76,564
Charge for the year on owned assets	25,501
Disposals	-
At 31 March 2019	102,065
Net book value	
At 31 March 2019	61,573
At 31 March 2018	67,195

10. Debtors

	2019 £	2018 £
Other debtors	448,750	238,194
	448,750	238,194

11. Cash and cash equivalents

	2019 £	2018 £
Bank and cash balances	5,248,301	2,769,849
Notice deposits	-	2,000,000
	5,248,301	4,769,849

12. Creditors: Amounts falling due within one year

	2019	2018
	£	£
Amounts owed to West Lothian Council	**194,809**	567,973
Trade creditors	**1,594,694**	1,588,005
Other taxation and social security	**118,138**	36,020
Other creditors	**4,590**	8,631
Deferred income	**3,180,948**	2,052,565
	5,093,179	4,253,194

13. Financial instruments

	2019	2018
	£	£
Financial assets		
Financial assets measured at amortised cost	**5,634,903**	4,939,427
Financial liabilities		
Financial liabilities measured at amortised cost	**(1,794,093)**	(2,164,609)

Financial assets measured at amortised cost comprise debtors (excluding prepayments) and cash at bank and in hand.

Financial liabilities measured at amortised cost comprise creditors (excluding tax and social security and deferred income).

14. Reserves

Profit and loss account

The profit and loss account includes all current and prior period retained profits and losses.

A designated reserve of £200,000 has been created to provide a reserve to meet the Company's unanticipated needs over future years. This will cover the need to meet unforeseen contingencies, the wish to invest in future developments and the risks associated with a potential pension scheme deficit.

Designated reserves also include £465,445 as a change fund.

	Profit and Loss Account		
	Designated reserve	**Undesignated reserve**	**Total**
	£	**£**	**£**
At 1 April 2018	**822,044**	**(1,165,000)**	**(342,956)**
Comprehensive income/(expenditure) for the year			
Loss for the year	(156,599)	(792,000)	(948,599)
Other comprehensive income for the year			
Actuarial losses on pension scheme	-	(294,000)	(294,000)
Total comprehensive income/(expenditure) for the year	(156,599)	(1,086,000)	(1,242,599)
At 31 March 2019	**665,445**	**(2,251,000)**	**(1,585,555)**

Prior year	Profit and Loss Account		
	Designated reserve	**Undesignated reserve**	**Total**
	£	**£**	**£**
At 1 April 2017	200,000	(1,495,101)	(1,295,101)
Comprehensive income/(expenditure) for the year			
Profit for the year	432,145	(430,000)	2,145
Other comprehensive income for the year			
Actuarial gains on pension scheme	-	950,000	950,000
Total comprehensive income/(expenditure) for the year	432,145	520,000	952,145
Transfer between reserves	189,899	(189,899)	-
At 31 March 2018	**822,044**	**(1,165,000)**	**(342,956)**

15. Pension commitments

The company is an admitted body of Lothian Pension Fund. The Superannuation Fund is a defined benefit scheme into which employee' and employer's contributions, and interest and dividends from investments are paid and from which pensions, lump sums and superannuation benefits are paid out. Employees' contributions are tiered and employer's basic contributions are assessed every three years by an actuary and are fixed to ensure the fund remains solvent and in a position to meet its future liabilities. The actuarial method used is known as Projected Unit Credit Method. The last actuarial valuation was at 31 March 2017. Following this valuation, minimum employer's contribution rates were set at 17.2% plus £27,200 for the years ending 31 March 2019, 2020 and 2021 respectively.

The movement in the defined benefit obligation over the year is as follows:

	31 March 2019 £'000	31 March 2018 £'000
Opening defined benefit obligation	**14,069**	13,334
Current Service Cost	**1,037**	854
Past Service Cost	**252**	-
Interest Cost	**398**	370
Contributions by Members	**221**	202
Actuarial losses/(gains)	**1,185**	(375)
Estimated Benefits Paid	**(120)**	(316)
Closing defined benefit obligation	**17,042**	14,069

The movement in the fair value of plan assets in the year is as follows:

	31 March 2019 £'000	31 March 2018 £'000
Opening fair value of scheme assets	**12,904**	11,649
Interest income	**357**	319
Contribution by members	**221**	202
Contributions by the employer	**538**	475
Actuarial gains	**891**	575
Estimated Benefits paid	**(120)**	(316)
Closing fair value of plan assets	**14,791**	12,904

Amounts recognised in Statement of comprehensive income:

	31 March 2019 £'000	31 March 2018 £'000
Current service cost	**(1,037)**	(854)
Past service cost	**(252)**	-
Total service cost	**(1,289)**	(854)
Net interest		
Interest income on plan assets	**357**	319
Interest cost on defined benefit obligation	**(398)**	(370)
Total net interest	**(41)**	(51)
Total defined benefit cost recognised in Statement of comprehensive income	**(1,330)**	(905)

The major categories of plan assets as a % of the total plan assets are as follows:

	31 March 2019 %	31 March 2018 %
Equities	74	76
Bonds	12	11
Property	7	7
Cash	7	6

The estimated employer contributions for the year to 31 March 2020 are £538,000.

The principal actuarial assumptions used in the calculations are:

	31 March 2019 % per annum	31 March 2018 % per annum
Pension Increase Rate	2.4	2.3
Salary Increase Rate	4.1	4.0
Discount Rate	2.5	2.7

Mortality

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI2016 model with an allowance for smoothing of recent mortality experience and long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.7 years	24.3 years
Future Pensioners	24.7 years	27.5 years

16. Commitments under operating leases

At 31 March 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	**67,655**	67,655
Later than 1 year and not later than 5 years	**28,189**	95,845
	95,844	163,500

During the year the company recognised an expense of £68,209 (2018: £67,555) in relation to operating leases.

17. Related party transactions

Due to the nature of the Company's operations and the composition of its board of directors, being from public sector organisations, it is inevitable that transactions will take place with companies and organisations in which a director of Improvement Service Company has an interest. The Company works with many public funded bodies with whom transactions have been undertaken during the year. The following directors held official positions in these organisations:

Director	Public Body	Position held
Sarah Gadsden	Improvement Service Company	Chief Executive (interim)
Angela Leitch	East Lothian Council	Chief Executive
Joyce White OBE	West Dunbartonshire Council	Chief Executive
Keith Winter	Fife Council	Executive Director
Steven Grimmond	Fife Council	Chief Executive
Sally Louden	The Convention of Scottish Local Authorities	Chief Executive
Cllr Alison Evison	Aberdeenshire Council/The Convention of Scottish Local Authorities	Councillor/President
Cllr Graham Houston	Stirling Council	Councillor
Cllr Malcolm Bell	Shetland Islands Council	Councillor
Cllr Neil Benny	Stirling Council	Councillor

None of the directors have significant control over the company or the related organisations. On this basis the details and amounts of the transactions have not been disclosed.

The appointment for each director was made by the following nominating bodies:

Director	Nominating body
Sarah Gadsden	
Angela Leitch	Society of Local Authority Chief Executives (SOLACE)
Keith Winter	Society of Local Authority Chief Executives (SOLACE)
Joyce White OBE	Society of Local Authority Chief Executives (SOLACE)
Steven Grimmond	Society of Local Authority Chief Executives (SOLACE)
Sally Louden	The Convention of Scottish Local Authorities (COSLA
Cllr Alison Evison	The Convention of Scottish Local Authorities (COSLA)
Cllr Graham Houston	The Convention of Scottish Local Authorities (COSLA)
Cllr Malcolm Bell	The Convention of Scottish Local Authorities (COSLA)
Cllr Neil Benny	The Convention of Scottish Local Authorities (COSLA)

Funding is received from the Scottish Government. For the year under review total funding receivable was £7,030,043 (2018: £6,642,722). Payments totalling £580,042 (2018: £590,578) were made to the Scottish Government. At the balance sheet date £Nil (2018: £72) was included within debtors.

Included within the total funding receivable figure is £1,663,333 (2018: £1,655,800) which relates to core income receivable from the Scottish Government.

During the year £127,699 (2018: £140,761) was payable to West Lothian Council in relation to transaction processing and income received of £7,901 (2018: £28,745). £194,809 was owed to West Lothian Council (2018: £567,973) at the balance sheet date.

Other related party transactions include:

Public Body	Payable to £		Receivable from £	
	2018/19	**2017/18**	**2018/19**	**2017/18**
Aberdeenshire Council	280	-	59,050	15,211
East Lothian Council	-	4,893	120,591	92,594
Fife Council	210	600	14,631	69,387
North Ayrshire Council	34	877	35,892	25,105
Shetland Islands Council	-	-	14,211	4,334
Stirling Council	358	-	7,731	20,045
West Dunbartonshire Council	-	-	7,796	20,970

Other transactions with related parties include £378 (2018: £313) of income receivable from, and £19,054 (2018: £27,430) of expenses payable to the Convention of Scottish Local Authorities (COSLA). £13,200 (2018: £13,200) is included in creditors at the balance sheet date.

18. Post balance sheet events

As set out in note 2.2 the company has been subject to an ongoing strategic review. As a result of this review, a formal partnership arrangement was approved by COSLA Leaders on the 29th November 2019and the IS Board on the 6th December 2019.

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2019

	2019 £	2018 £
Turnover	**8,549,859**	9,368,618
	8,549,859	9,368,618
Deduct: expenses		
Administration	**(9,354,490)**	(9,200,900)
Establishment	**(126,369)**	(129,818)
Operating (loss)/profit	**(931,000)**	37,900
Interest receivable	**23,401**	15,245
Other finance expenses	**(41,000)**	(51,000)
(Loss)/profit for the year	**(948,599)**	2,145

	2019	2018
	£	£
Turnover		
Core Management	**1,634,730**	1,641,654
Customer First	**4,343,438**	4,862,362
Commercial	**227,990**	236,610
Other specific grants	**1,088,676**	874,739
Use of designated change reserves	**(180,000)**	416,900
Partnership funding	**1,435,025**	1,336,353
	8,549,859	9,368,618

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2019

	2019 £	2018 £
Administration		
Emoluments for services as directors	99,059	123,229
Company contributions to defined benefit pension schemes for directors	18,604	22,099
Office salaries	2,877,451	2,621,204
Employer's NI	325,326	299,500
Employer's pension costs	532,761	441,361
Lothian Pension Fund adjustment	751,000	379,000
Other staff costs	63,887	52,281
Management training (non employee)	44,013	18,659
Agency Staff	-	25,300
Staff training	28,871	16,108
Telephone	13,444	12,756
Printing, postage and stationery	6,522	5,537
Advertising	3,586	6,650
Subscriptions	9,756	16,148
Computer consumables	96,863	150,777
Sundry expenses	12,763	20,073
Catering	23,288	-
Travelling	5,810	6,306
Bad debt provision	(3,243)	3,627
Bad debt written off	2,989	-
Amounts paid to other Public Sector organisations	229,557	80,983
Sponsorship	12,000	19,614
Audit fees	17,425	14,809
Other fees paid to auditor	3,095	2,500
Customer First Programme costs	2,146,850	2,839,679
Customer First grant payments	1,169,495	1,324,500
Legal fees	39.840	5,150
Consultancy fees	5.036	2,223
External room hire	13,094	23,397
Secondees	312,390	247,832
Corporate events	49,810	66,922
Recruitment costs	11,781	11,505
Irrecoverable VAT	142,361	99,629
Private contractors	286,618	239,379
Central support	-	500
Release of deferred government grant	(25,501)	(21,885)
Bank charges	2,388	1,663
Depreciation	25,501	21,885
	9,354,490	9,200,900

	2019 £	2018 £
Establishment		
Rent	68,209	67,655
Rates	32,305	33,771
Light and heat	5,146	7,855
Insurance	4,736	5,362
Cleaning	14,201	13,086
Repairs and maintenance	1,772	2,089
	126,369	129,818

IMPROVEMENT SERVICE COMPANY
(A company limited by guarantee)

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2019

	2019	2018
	£	£
Interest receivable		
Bank interest receivable	**23,401**	15,245
	23,401	15,245

	2019	2018
	£	£
Other finance income		
Interest income on pension scheme assets	**357,000**	319,000
Interest on pension scheme liabilities	**(398,000)**	(370,000)
	(41,000)	(51,000)