

# Notice of Meeting and Agenda



## Audit Committee

**Venue:** Virtual Meeting,

**Date:** Tuesday, 07 December 2021

**Time:** 11:00

**Executive Director : Place**

**Contact:**

Clerk Name: Democratic Services  
Clerk Telephone:  
Clerk Email: [democratic.services@midlothian.gov.uk](mailto:democratic.services@midlothian.gov.uk)

**Further Information:**

This is a meeting which is open to members of the public.

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## **1 Welcome, Introductions and Apologies**

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## **2 Order of Business**

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Including notice of new business submitted as urgent for consideration at the end of the meeting.

## **3 Declaration of Interest**

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Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

## **4 Minute of Previous Meeting**

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**4.1** Audit minute 28 September 2021 submitted for approval 3 - 12

**4.2** Audit Action Log December 2021 13 - 14

## **5 Public Reports**

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**5.1** Treasury Management Mid-Year Review Report 2021/22 - Chief Officer Corporate Solutions 15 - 40

**5.2** CIPFA Financial Management Code - Chief Officer Corporate Solutions 41 - 114

**5.3** Internal Audit Work to October 2021 - Chief Internal Auditor 115 - 126

**5.4** Internal Audit Mid-Term Performance Report 2021-22 - Chief Internal Auditor 127 - 138

**5.5** Internal Audit Follow-up of Recommendations Progress Report 2021 - Chief Internal Auditor 139 - 144

**5.6** Risk Management Report Q2 Update 2021/22 - Chief Officer Place 145 - 182

**5.7** Draft Risk Management Strategy 2021 - Chief Officer Place 183 - 190

## **6 Private Reports**

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No items for discussion

## **7 Date of Next Meeting**

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The next meeting will be held on 25 January 2021 at 11 am

# Minute of Meeting

Audit Committee  
Tuesday 7 December 2021  
Item No: 4.1



Midlothian

## Audit Committee

Date	Time	Venue
Tuesday 28 September 2021	11.00am	MS Team – Virtual Meeting

### Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Hackett (Substitute)
Councillor Muirhead
Councillor Parry
Councillor Smail
Councillor Hardie
Mr de Vink (Independent Member)

### In attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal Services Manager/Monitoring Officer
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children , Young People and Partnerships
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer Place
David Gladwin	Financial Services Manager
Jill Stacey	Chief Internal Auditor
Myra Forsyth	Quality and Scrutiny Manager
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Janet R Ritchie	Democratic Services Officer

## **1. Welcome and Apologies**

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The Chair, Mike Ramsay, welcomed everyone to the meeting. Apologies were received from Councillor Milligan and it was noted that Councillor Hackett was substituting for Councillor Milligan.

## **2. Order of Business**

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Order of business as outlined in the Agenda.

## **3. Declarations of interest**

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No declarations of interest were received.

Cllr Hackett enquired due to his employment with Unison would this cause any issues. Mr Turpie confirmed that as it was not the point of the Audit Committee to look at actions of the Trade Union this raised no areas to cause an issue.

## **4. Minutes of Previous Meetings**

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- 4.1 The minute of the meeting of 17 August 2021 was submitted and approved as a correct record having been proposed by Councillor Muirhead seconded by Councillor Smaill.

There followed a discussion on the format of the Minute and that Standing Orders reference was to streamline the minutes in recording the decisions and although this was a very high level minute Mr Turpie confirmed this was still a valid minute. Discussion also took place on the lateness in issuing the Agenda and papers and during this discussion it was confirmed that the papers are normally issued one week in advance of the meeting and Mr Turpie confirmed that the statutory timescale is 3 days in advance of the meeting and Standing Orders is 7 working days and not less than 5 days prior to the meeting.

Mr Anderson apologised for the lateness and that this position was not to disrespect the Audit Committee and advised that the decision was taken not to issue the Agenda without the papers which were not available at that time. It was agreed that this would be monitored and if the Committee as a whole felt they did have time to give considerable consideration to the papers this would be raised.

- 4.2 The Action log was submitted and the following noted:

- 1) Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy - due December 2021
- 2) Financial Reports – Council Meeting 25 August 2020 - Ongoing
- 3) Internal Audit Recommendations - on Agenda

- 4) Report on reconciliation of Social Housing work in progress and completions – on Agenda
- 5) Property Maintenance – BTSG report – Commissioning work not completed - timescale December 2021 meeting following next scheduled Business Transformation Steering Group.

## 5. Public Reports

Report No.	Report Title	Presented by:
5.1	Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2021	EY, External Auditors
<b>Outline of report and summary of discussion</b>		
<p>Stephen Reid, External Auditor EY, advised that this report is presented in draft and once the Financial Statements are approved and signed this report will be updated and finalised and shared with Audit Scotland for publication on their website.</p> <p>Mr Reid in presenting this report advised that it falls into two key parts, the Financial Statements and the dealing with the wider scope dimensions of public audit. Mr Reid then confirmed that he intended to issue an unqualified opinion on the Financial Statements following conclusion of the audit and highlighted that there was no material changes to scope of the audit compared to that which was set out in the audit plan presented to a previous meeting of the Audit Committee. As a result of the audit there was two adjustments made to the Financial Statements and also two unadjusted differences and that there had been some discussions and revisions made. He further advised that the papers were of a good standard and demonstrated continuous improvement especially taking into account the other demands on Officers.</p> <p>Mr Reid then highlighted some of the key conclusions in response to the work on the wider scope dimension on Financial management; Financial sustainability; Governance and Transparency; and Value for Money and outlined the four recommendations detailed within the report. Mr Reid in summarising his presentation advised that good progress had been made and he expressed his thanks to Officers across the Council for supporting him and his team and enabling him to discharge his responsibilities in a timely basis with the current pressures across Scotland and the ability to produce Audited Financial Statements in line with 30 September 2021 is a very positive achievement.</p> <p>Thereafter Mr Reid in responding to a question regarding financial stability advised that the amber grading given was a consistent view given the external environment and the impact on local authorities given the nature of unknowns as well as the known factors would continue to impact for a number of years.</p> <p>Further discussion took place on governance, action logs, attendance and participation at the Audit Committee and Mr Reid confirmed it is appropriate to bring challenges to areas of short comings but it is how the engagement takes place that is important.</p>		

The discussion continued regarding the acceptable level of codes of conduct and having careful robust challenges. Mr Reid highlighted that the assessment recognises the work done to support Elected Members and the framework that is in place but Members need to fully engage in this framework to discharge their responsibilities.

There followed a debate on the Members of the Cabinet on the Audit Committee and the Chair highlighted that within recommendation 3 it notes the role of the Independent Members out way the risk involvement of experienced Cabinet members. Mr Turpie also highlighted that the membership of the Audit Committee is the full Council's remit to consider. It was agreed that this should be deferred to the new Council next year to review the membership and remit of the Committee. The Chief Internal Auditor also highlighted that once the External Audit Report was considered by the Audit Committee the actions are added to the Pentana system to enable officers to be sited on those. It was agreed a report would be brought back to the Committee in January 2022 on the EY actions implementation and progress.

The Chair thanked EY for their work and commented on the very helpful report and noted that the Accounts were to be published online within the normal timescale and not the extended timescale and expressed his thanks on behalf of the committee to all those involved in achieving this.

#### Decision

The Audit Committee noted the report and agreed that a progress report would be brought back to the committee in January 2022 on the implementation and progress of the EY recommendations.

#### Action

Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.2	Annual Accounts for the year ended 31 March 2021	Chief Officer Corporate Solutions

#### Outline of report and summary of discussion

The Chief Officer Corporate Solutions, Mr Fairley, presented the Annual Accounts for the year ended 31 March 2021 advising that the Audit Committee is recommended to approve the 2020/21 audited accounts for signature. He further advised that the unaudited annual accounts had been submitted before the standard date 30 June 2021 and they were considered at the Audit Committee on 17 August 2021.

Mr Fairley advised that the regulations are set out in the report and the requirement for the committee today was to consider whether the Accounts should be signed, having regard to any report made on the accounts and any advice given by the proper officer or the auditor. He also advised that the protocol for signing of the accounts is set out within the report if the committee approves the Accounts today and that the Auditor's report would then be presented to the October 2021 Council.

Having highlighting some of the main points contained within the report Mr Fairley then invited the Audit Committee members to congratulate the Finance Team and Officers in the preparation of the accounts and also expressed his gratitude to EY colleagues for the work to conclude the audit.

The Chair endorsed Mr Fairley's comment highlighting that the team has worked hard to bring forward the accounts in a timely basis. Councillor Smail also added his congratulations on the improved presentation of the accounts.

In responding to a question raised by Councillor Smail with regards to Lothian Buses pension deficit Mr Reid provided some clarity on this and suggested if there is an area which could be enhanced with additional narrative disclosure at this stage in the process that might be the way forward to explain the basis of the derivation of the investment value.

Mr Fairley in responding to a further question raised by Councillor Smail with regards to Millerhill residual waste and the difference in figures from the unaudited accounts to these accounts explained that when the unaudited accounts were brought forward it was noted to the committee that there was still work to be done and this was an accounting matter not a cost overrun.

In responding to the Chair requiring confirmation if it was possible to include the extra sentence in the explanation around Lothian Buses to clarify the change in the inclusion and exclusion of the pension fund to be included in the final version Mr Fairley advised that we would look at further refining the wording in this section.

The Chair then advised subject to the minor clarification with no objections raised agreed to recommend the Accounts for signature. The Chair on behalf of the Audit Committed thanked all those involved in preparation of the Annual Accounts.

#### Decision

The Audit Committee approved the 2020/21 audited accounts for signature in light of the appointed auditor's report for 2020/21 subject to the minor clarification as discussed.

#### Action

Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.3	Follow-Up Review of Completed Internal Audit Recommendations	Chief Internal Auditor

#### Outline of report and summary of discussion

The Chief Internal Auditor, Jill Stacey, presented this report advising that the purpose of this report was to provide an update on the results of the Internal Audit follow-up Review which included a sample check on the adequacy of new internal controls for Internal Audit Recommendations marked as completed by Management in the period April 2020 to March 2021.

The Chief Internal Auditor advised that the findings of the internal review are set out within the report and highlighted some of the key messages and advised that during an extremely challenging period it was notable that all eight high level recommendations were completed. She further advised on the recommendations identified which were partially satisfactory requiring further work and the discussions with the Audit action owners to ensure the remaining elements of the audit actions are fully completed and that they would continue to be monitored.

**Decision**

The Audit Committee noted the results of the spot check on Internal Audit recommendations that have been marked as completed by Management in the period April 2020 to March 2021 to improve internal controls and governance, and mitigate risks.

Report No.	Report Title	Presented by:
5.4	Internal Audit Work to August 2021	Chief Internal Auditor

**Outline of report and summary of discussion**

The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor’s independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The Chief Internal Auditor, Jill Stacey, presented this report highlighting the main sections contained within the report and outlined the key messages of assurance and areas of improvement.

Thereafter the Chief Internal Auditor responded to questions and comments raised by members of the Committee and the Executive Director Place clarified that the recommendation for audit work to be carried out with regards to Destination Hillend was recommended by Council and would be reported back to full Council.

**Decision**

The Audit Committee:

- a) Considered the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Noted the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out;
- c) Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Report No.	Report Title	Presented by:
5.5	Audit Scotland Fraud and Irregularity Update 2020-21	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.</p> <p>An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.</p> <p>The Chief Internal Auditor in presenting this report to the Audit Committee highlighted that the Integrity Group of Officers considered the report 'Fraud and Irregularity Update 2020/21' by Audit Scotland and none of the cases reported related to Midlothian Council and that the Integrity Group after carrying out an assessment of the internal controls would present a report to the Audit Committee in December 2021 for improvement and assurance purposes.</p>		
<b>Decision</b>		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> <li>a) Acknowledged the Audit Scotland counter fraud report published in recent months;</li> <li>b) Noted that the Integrity Group of officers has considered the report as part of their counter fraud role and responsibilities, has agreed next steps and will report back on Management Actions required for improvement and assurance purposes to the Audit Committee in December 2021.</li> </ul>		
<b>Action</b>		
Executive Director Place/Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.6	Risk Management Update, Quarter 1 2021/22	Chief Officer Place
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this report was to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 1 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.</p>		

The Chief Officer Place, Derek Oliver, presented this report to the Audit Committee highlighting the main sections of the report and that the particular focus during Quarter 1 was the concurrent risks of COVID 19 and UK Exit from the EU.

Thereafter Mr Oliver responded to questions and comments raised by members of the committee relating to some of the strategic risks identified and provided clarity when risks become high risk on the service the Council will provide and also the impact on the workforce with some of these high risks.

The Chair also highlighted that the Risk Management Policy and Strategy was coming forward to the next meeting and provided further clarification on the high/critical risks and that with some of these the Council has done everything it can do to mitigate the risk therefore the ones which are ongoing are ones which can be actively managed.

#### Decision

The Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 1 2021/22.

Report No.	Report Title	Presented by:
5.7	Social Housing Stock Reconciliation	Executive Director Place
<b>Outline of report and summary of discussion</b>		
<p>The purpose of this report is to provide members of the Audit Committee with details of the reconciliation of the Council's Social Housing stock in progress and completions.</p> <p>The Housing stock 2019/20 completions were finalised at 73. However, in the preceding year's audited accounts the original report was of 29 units. Audit Committee requested reconciliation of the 2019/20 number with the capital expenditure in that year of £17.299m on new social housing provision.</p> <p>The Executive Director Place, Kevin Anderson, presented this report highlighting the main sections contained within the report providing clarity on the difference in the housing numbers and advised that houses are only added to the rental stock when construction completed and houses handed over for letting.</p> <p>Thereafter Mr Anderson responded to questions and comments raised providing clarity on cost to completion and that this was monitored by the Capital Plan Board. He also provided further details on the purchase of land and developers' contributions and how we can address the shortfall in the current year.</p> <p>The Chair advised that from the spreadsheet there is a good track on progress and the escalating costs is more for the Capital Plan Board to control and also noted that this was being monitored by Performance Review and Scrutiny Committee.</p>		
<b>Decision</b>		
The Audit Committee noted the reconciliation of Council's Social Housing stock in progress and completions		

## **6. Private Reports**

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No private reports were submitted.

## **7. Date of Next Meeting**

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The next meeting will be held on Tuesday 7 December 2021 at 11 am

The meeting terminated at 12.58 pm



# Action Log

Audit Committee  
Tuesday 7 December 2021  
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	<b>Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy</b>	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Chief Officer Place	March 2022	Findings from Q1 2021/22 Internal Audit review of Risk Management on agenda 7 December 2021. Risk Management Policy and Strategy review and revisions underway.
2	<b>Financial Reports – Council Meeting - (Standing Action)</b>	18/08/2020	Send reports to the Independent Members of the Audit Committee	Democratic Services	Ongoing	Reports with a financial element relevant to Audit are made available to the Independent Members of the Audit Committee. Propose action as completed
3	<b>Internal Audit Recommendations</b>	09/03/2021	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	September 2021	<b>Completed</b> - Agenda 28 September 2021
4	<b>Report on reconciliation of Social Housing work in progress and completions</b>	04/05/2021	Report to be circulated to Members of the Audit Committee when completed.	Executive Director Place	September 2021	<b>Completed</b> - Agenda 28 September 2021

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
5	<b>Property Maintenance</b>	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.  <b>28 September 2021:</b> Commissioning work not completed - timescale December 2021 meeting following next scheduled Business Transformation Steering Group.	Executive Director Place	December 2021	Draft commissioned report received with review of general operational issues and service model options to be considered and recommendations reported to BTSG and the following Audit Committee.
6	<b>Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2021</b>	28/09/2021	A progress report would be brought back to the Committee in January 2022 on the implementation and progress of the EY recommendations.	Chief Officer Corporate Solutions	January 2022	The implementation dates of EY recommendations range from March 2022 to September 2022, though a progress report will be prepared.
7	<b>Audit Scotland Fraud and Irregularity Update 2020-21</b>	28/09/2021	Noted that the Integrity Group of officers has considered the report as part of their counter fraud role and responsibilities, has agreed next steps and will report back on Management Actions required for improvement and assurance purposes to the Audit Committee in December 2021.	Executive Director Place/Chief Internal Auditor	January 2022	A further meeting of the Integrity Group of officers is required to complete the counter fraud controls assessment for improvement and assurance purposes.

## **Treasury Management Mid-Year Review Report 2021/22**

**Report by Gary Fairley, Chief Officer Corporate Solutions**

**Report for Consideration**

### **1 Recommendations**

The Audit Committee is invited to comment on this report before it is presented to Council. In particular, Audit Committee should note the following recommendations which are proposed to be put to Council on 14 December 2021:-

- a) Note the report and the treasury activity undertaken in the period to 30 September 2021, as outlined in Section 5;
- b) Note the forecast activity during the second-half of the year as outlined in Section 6;
- c) Approve the technical revisions to the Prudential Indicators in Section 7 of this report.

### **2 Purpose of Report/Executive Summary**

The purpose of this report is to inform members of the Audit Committee, and subsequently Council, of the Treasury Management activity undertaken during the first half of 2021/22 and the forecast activity for the second half of 2021/22 in accordance with the Treasury Management and Annual Investment Strategy approved in February 2021. It also provides an update to the Treasury and Prudential Indicators for 2021/22.

**Date: 23 November 2021**

**Report Contact:**

**Gary Thomson, Senior Accountant**

[gary.thomson@midlothian.gov.uk](mailto:gary.thomson@midlothian.gov.uk)

**0131-271-3230**

### 3 Background

#### Audit Committee Role

The Prudential Code recommends that the main Treasury Management reports are presented for scrutiny by Audit Committee in advance of consideration by Council. This report is being presented to Audit Committee on 7 December 2021 for consideration prior to being presented to Council on 14 December 2021. Any revisions arising from Audit Committee consideration of the report on 7 December 2021 will be incorporated into the final version of the report to Council on 14 December 2021.

#### Treasury management

Treasury management is defined in the Prudential Code as:

*“The management of the local authority’s borrowing, investments and cash flows, 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.”*

The main function of the treasury management service is the funding of the Council’s capital investment plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of this long term borrowing requirement involves arranging long or short term loans or using cash balances, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. As part of the treasury management operations, officers ensure this cash flow is adequately planned, with available cash balances being deposited in low risk counterparties, providing adequate liquidity initially before considering optimising return on deposits.

Council, on 23 February 2021, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2021/22.

### 4 Economic update for first half of 2021/22

An economic update for the first part of the 2021/22 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2.

## 5 Treasury Activity during first half of 2021/22

The main points arising from treasury activity in the year to 30 September 2021 were:-

- Long term borrowing of £1.094 million matured, this being £0.648 million of PWLB maturities, £0.324 million of Market Loans, £0.100 million of Salix loans and £0.022 million PWLB Annuities;
- The average interest rate earned on external funds on deposit was 0.86%, exceeding the benchmark rate of 0.01%.

The Council's loan portfolio as at 30 September 2021 is shown in table 1 below (position at 31 March 2021 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2021 and 30 September 2021.

Loan Type	31 March 2021		30 September 2021	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
PWLB Annuity	597	8.90%	575	8.91%
PWLB Maturity	235,424	3.28%	234,776	3.27%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	18,191	2.68%	17,867	2.68%
Temporary Market Loans	0	n/a	0	n/a
Other Loans	583	0.00%	483	0.00%
<b>Total Loans</b>	<b>274,795</b>	<b>3.34%</b>	<b>273,701</b>	<b>3.33%</b>
<b>Underlying Borrowing Requirement*</b>	<b>290,173</b>		<b>307,377</b>	
<b>Borrowing Requirement Financed Internally (Under Borrowed)</b>	<b>15,378</b>		<b>33,676</b>	

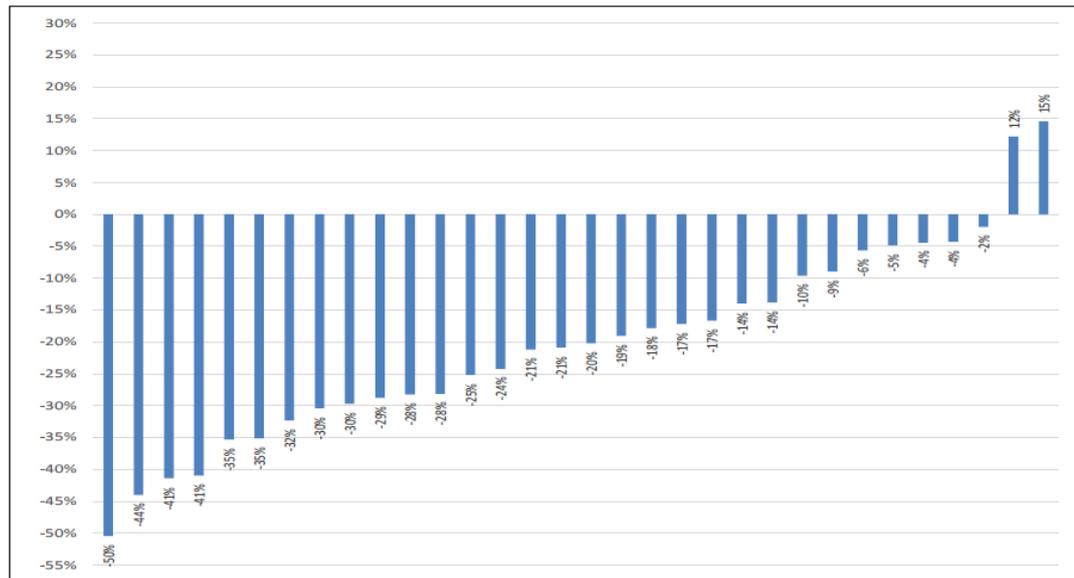
\* *The Underlying Borrowing Requirement is the Capital Financing Requirement excluding the "Public Private Finance" (PPP) Contract Liabilities*

At 30 September 2021 the Council was under borrowed by £33.676 million (10.96%) – this is the extent to which the Council has not financed its borrowing requirement from long term loans, but is using cash reserves and working capital to finance its borrowing requirement.

The internal borrowing position across all 32 Local Authorities in Scotland at 31 March 2021 is illustrated in the graph overleaf. It highlights that the majority of Councils are in an under borrowed position, which is reflective of the current market conditions.

Graph 1: Internal Borrowing Position across Scottish Local Authorities 31 March 2021

Internal Borrowing 2020-21 - %



Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields that has influenced PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

The Council's funds on deposit portfolio as at 30 September 2021 is shown in table 2 below (position at 31 March 2021 also shown for comparison):-

Table 2: Council's Funds on Deposit Portfolio at 31 March 2021 and 30 September 2021

Type	31 March 2021		30 September 2021	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
Money Market Funds	29,818	0.01%	40,718	0.01%
Bank Call Accounts	26,470	0.01%	21,887	0.01%
Bank Notice Accounts	14,985	0.58%	14,985	0.58%
Bank Fixed Term Deposits	0	n/a	0	n/a
Deposits with other Local Authorities	60,000	1.62%	60,000	1.62%
<b>Total Deposits</b>	<b>131,273</b>	<b>0.81%</b>	<b>137,590</b>	<b>0.77%</b>

## 6 Expected Treasury Activity during second half of 2021/22

### Borrowing

Long term borrowing of £0.431 million will mature in the second half of 2021/22, this being £0.325 million of Market Loans, £0.083 million of Salix loans and £0.023 million PWLB Annuities.

It is expected that any long-term borrowing required in the second half of 2021/22 will be sourced by drawing long-term PWLB loans.

Proactive Treasury Management by the Council in the last decade has placed the Council in an extremely strong refinancing position for its existing external debt portfolio, as can be noted in the table below, with only £5.466 million, or just 2.00%, of the Council's total Loan Portfolio of £273.701 million requiring refinancing over the current and forthcoming four financial years. This extremely low short-term exposure to refinancing risk puts the Council in a strong position to plan its borrowings in advance, take advantage of any dips in longer-term borrowing rates from PWLB and other sources, and maintain a low weighted average coupon rate on external debt.

<b>Financial Year</b>	<b>2021/22 Remaining £000's</b>	<b>2022/23- 2025/26 £000's</b>	<b>2026/27- 2030/31 £000's</b>	<b>2031/32- 2035/36 £000's</b>	<b>2036/77+ £000's</b>
Debt Maturing	431	5,035	23,923	37,203	207,109
% of total portfolio	0.16%	1.84%	8.74%	13.59%	75.67%

Appendix 3 provides forecasts for interest rates from the Council's Treasury Management advisor, Link Treasury Solutions Limited. The forward forecast rates, are in line with the Council's forward budgeted borrowing projections that have been incorporated into previous Medium Term Financial Strategy reports, which mitigates any pressure on the medium term financial strategy from increased loan charges.

### Funds on Deposit

In accordance with the Code, it is the Council's priority to ensure security of capital, then liquidity, and finally to obtain an appropriate level of return which is consistent with the Council's risk appetite.

As shown by the interest rate forecasts in Appendix 3, it is now impossible to earn the level of interest rates commonly seen in previous decades as most rates for deposit are barely above zero. Furthermore, some entities, such as the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and forecast slow and gradual rise in Bank Rate over the forecast period, deposit returns are expected to remain low.

£15.000 million of the fixed term deposits mature in March 2022 and prior to maturity officers will review the refinancing in line with the currently approved strategy to cash back reserves.

Day to day liquidity to meet cashflow requirements are sourced from the Council's three Money Market Funds and call bank accounts with the Royal Bank of Scotland and Bank of Scotland, which all operate on an instant access basis. Interest rates receivable from these are currently between 0.00% and 0.01%, reflective of the low Bank of England Base Rate. Due to Government Grant and other receipts that have been paid in advance, the balance of cash the Council is holding in Instant Access accounts is significantly higher than normal, a position that is reflected across the majority of Scottish Local Authorities. As such, the expected application/utilisation of these balances are longer in duration than normal. Council officers are reviewing the profile of the drawdown of these balances with the option to switch funds that are not required immediately from the current instant access accounts and into short-medium term deposits over a 3-6 month period. These would be placed with approved counterparties as per the list of Permitted Investments approved by Council in the 2021/22 TMSS on 23 February 2021, with the expected return on these deposits commensurate with the extended duration.

Given the current low interest rate environment Council officers, in conjunction with Link Treasury Solutions Limited, will continue to review the range of all options for deposit available to the Council within its stated policy in the Treasury Management & Annual Investment Strategy approved by Council on 23 February 2021 in order to select appropriate creditworthy counterparties to ensure the security of Council funds, and from that list select the range of deposit products that offer best value to the Council's portfolio.

The Chief Officer Corporate Solutions confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2021/22.

An updated list of Countries for Deposits as at 30 September 2021 is included as Appendix 4. There are no changes from the list of Countries for Deposits as approved by Council in the 2021/22 TMSS in February 2021.

For the Council's cash-backed reserves, had the Council adopted an alternative strategy to place funds with the UK Government's Debt Management Office, rather than the current strategy to place funds with other local Authorities and on 180-day notice with Santander, this would have resulted in a loss in income for the Council of £0.787 million in 2021/22.

Expected Loan & Fund on Deposit Portfolio at 31 March 2022

Taking all of the above into account, the expected loan and funds on deposit portfolio at 31 March 2022 is shown in Tables 3 and 4 below:-

Table 3: Council's forecast Loan Portfolio at 31 March 2022

Loan Type	31 March 2022	
	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	553	8.90%
PWLB Maturity	257,002	3.18%
LOBO	20,000	4.51%
Market Loans	17,542	2.68%
Temporary Market Loans	0	n/a
Other Loans	400	0.00%
<b>Total Loans</b>	<b>295,497</b>	<b>3.25%</b>
<b>Underlying Borrowing Requirement</b>	<b>328,097</b>	
<b>Borrowing Requirement Financed Internally (Under Borrowed)</b>	<b>32,600</b>	

Table 4: Council's forecast Funds on Deposit Portfolio at 31 March 2022

Type	31 March 2022	
	Principal Outstanding £000's	Weighted Average Rate
Money Market Funds	30,000	0.01%
Bank Call Accounts	20,000	0.01%
Bank Notice Accounts	14,985	0.58%
Bank Fixed Term Deposit Accounts	0	n/a
Other Local Authority Fixed Term Deposits	60,000	1.29%
<b>Total Deposits</b>	<b>124,985</b>	<b>0.69%</b>

## 7 Prudential Indicators 2021/22

The following prudential indicators have been refreshed from those reported to Council on 23 February 2021 in the original Treasury Management and Annual Investment Strategy Statement 2021/22.

These are technical revisions to the Prudential Indicators as a consequence of the revisions to the Council's General Services and HRA Capital Plans and are based on the actual capital plan outturns for 2020/21, and revisions to the capital expenditure and income budgets for 2021/22.

Table 5: Prudential Indicators 2021/22 – Mid Year Update

Indicator	2021/22 Original Estimate £000's	2021/22 Current Position £000's	2021/22 Revised Estimate £000's
2021/22 Capital Expenditure	143,617	26,034	61,027
2021/22 Required Borrowing	98,835	20,797	40,038
2021/22 Underlying Borrowing Requirement*	396,596	307,377	328,097
2021/22 Gross External Borrowing	363,996	273,701	295,497
2021/22 Over/(Under) Borrowing	-32,600	-33,676	-32,600
Operational Boundary – Borrowing	396,596	328,097	328,097
2021/22 Capital Financing Requirement**	492,510	351,645	424,011

\* Excludes "On balance sheet" PPP schemes.

\*\* Includes "On balance sheet" PPP schemes.

The **Capital Financing Requirement (CFR)** denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's PPP and DBFM contracts. The Underlying Borrowing Requirement strips out the latter of these (long-term liability arising from the two PPP contracts) from the CFR.

## 8 Other Treasury related issues

### Prudential and Treasury Management Code Revisions

CIPFA recently launched Stage 2 of the consultation on the revisions to the Prudential and Treasury Management codes of practice.

The key proposals of the Stage 2 consultation include:-

- Treasury Management Practice (TMP) 1 (risk management) to include Environmental, Social and Governance (ESG) considerations;
- A knowledge and skills schedule to be developed and maintained by organisations;
- Updated Section 8 re non-treasury investments;
- Proposed quarterly monitoring of Prudential Indicators;
- New Treasury Management Indicator for Long Term Investments;
- New Prudential Indicator – Net income from commercial and service investments as a percentage of net revenue stream;

The closing date for responses was 16 November 2021 and a joint consultation response has been submitted by the Scottish CIPFA Treasury Management Forum group in conjunction with the Scottish Directors of Finance group.

CIPFA have recently announced that, given the tight timeline for putting the Codes' changes into the TMSS and aligning with Committee cycles, there will be a 'soft implementation'. That means it will be optional to put the changes into the 2022/23 TMSS but with full implementation required for 2023/24. Officers will consider the changes that are appropriate for 2022/23 which will be incorporated in the TMSS.

The codes are expected to become fully effective from the start of the 2023/24 financial year. The review and consultation process as noted above will feed into the final versions of both codes and officers will report back to Council as required following publication. The Council's current Treasury Management Practices will also be updated to reflect the new Codes and reported to Audit Committee for review and consideration.

## 9 Summary

Treasury Management activity during the year to 30 September 2021 has been effective within the parameters set by the strategy for the year.

Any further long-term borrowing for the remainder of 2021/22 will be in line with the approved strategy, and reflective of the borrowing requirement arising from the General Services and HRA capital plans reported to Council on 16 November 2021.

The interest rate climate remains challenging for funds available to be placed on deposit. Officers will continue to review the opportunities available to the Council governed by the approved strategy.

The Prudential Indicators have been updated to reflect current capital expenditure and income projections.

## **10 Report Implications**

### **10.1 Resource**

Expenditure from Treasury Management activity i.e. loan charges, was reported in the quarterly financial positions to Council, with Quarter 2 monitoring reflected in the Financial Monitoring 2021/22 – General Fund Revenue report that was presented to Council on 16 November 2021.

### **10.2 Digital**

None.

### **10.3 Risk**

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved and these will be reviewed and updated following the publication of the revised Prudential and Treasury Management Codes.

As part of their wider scope audit procedures for 2020/21, the Council's external auditors carried out an interim review of the Council's Treasury Management activity in 2020/21. This reviewed four key areas, with no material findings reported.

### **10.4 Ensuring Equalities**

There are no equalities issues arising directly from this report.

### **10.5 Additional Report Implications**

See Appendix A.

## **Appendix A: Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable.

### **A.2 Key Drivers for Change**

### **A.3 Key Delivery Streams**

Themes addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Link Treasury Solutions Limited, the Council's appointed Treasury Consultants.

### **A.6 Impact on Performance and Outcome**

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

### **A.7 Adopting a Preventative Approach**

Not applicable.

### **A.8 Supporting Sustainable Development**

Not applicable.

**Background Papers:**

Appendix 1: Economic Update for first part of 2021/22 financial year

Appendix 2: PWLB Borrowing Rates 1 April 2021 to 30 September 2021

Appendix 3: Link Treasury Solutions Limited Interest Rate Forecasts

Appendix 4: Approved Countries for Deposits as at 30 September 2021

## Appendix 1: Economic Update for first part of 2021/22 financial year

### UK

#### MPC meeting 04.11.2021

The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn by a vote of 6-3.

After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the first upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.

Information available at the December MPC meeting will be helpful in forming a picture but not conclusive, so this could cause a delay until the February meeting. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would, therefore, need to wait until the May meeting (although it also meets in March) when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases in these three meetings.

Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by significant headwinds. Those headwinds are due to supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. However, those headwinds could potentially be offset – at least partially - by consumers spending at least part of the £160bn+ of “excess savings” accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast.

The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year.

It is worth recalling that the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation

overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. On balance, once this winter is over and world demand for gas reduces - so that gas prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

Just a reminder – the MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

1. Raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

Gilt yields fell after the budget led to a reduction of £57.8bn in the forecast by the OBR for the deficit this year and a cancellation of nearly all gilt sales for the remainder of the financial year. There is a delicate balancing act in forecasting gilt yields and PWLB rates over the forecast period as when Bank Rate does increase to 0.50%, the Bank will stop reinvesting maturing gilts – but at a time when the size of gilt sales has just been slashed in the budget.

## US

At its 3rd November Fed meeting, the Fed decided to make a start on tapering QE purchases with the current \$80bn per month of Treasury securities to be trimmed by \$10bn in November and a further \$10bn in December. The \$40bn of MBS purchases per month will be trimmed by \$5bn in each month. If the run-down continued at that pace, the purchases would cease entirely next June but the Fed has reserved the ability to adjust purchases up or down. This met market expectations. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields would rise as a consequence over the taper period, all other things being equal.

However, on the inflation front it was still insisting that the surge in inflation was "largely" transitory. In his post-meeting press conference, Chair Jerome Powell claimed that "the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic" and argued that the Fed's tools cannot address supply constraints. However, with the Fed now placing major emphasis on its mandate for ensuring full employment, (besides containing inflation), at a time when employment has fallen by 5 million and 3 million have left the work force, resignations have surged due to the ease of getting better paid jobs and so wage pressures have built rapidly.

With wage growth at its strongest since the early 1980s, inflation expectations rising and signs of a breakout in cyclical price inflation, particularly rents, the FOMC's insistence that this is still just a temporary shock "related to the pandemic and the reopening of the economy", does raise doubts which could undermine market confidence in the Fed and lead to higher treasury yields.

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to

be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

## **EU**

The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time. German general election. With the CDU/CSU and SPD both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SPD-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

## **China**

After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

## **Japan**

2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation

was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

## **World growth**

World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

## Appendix 2: PWLB Borrowing Rates 1 April 2021 to 30 September 2021

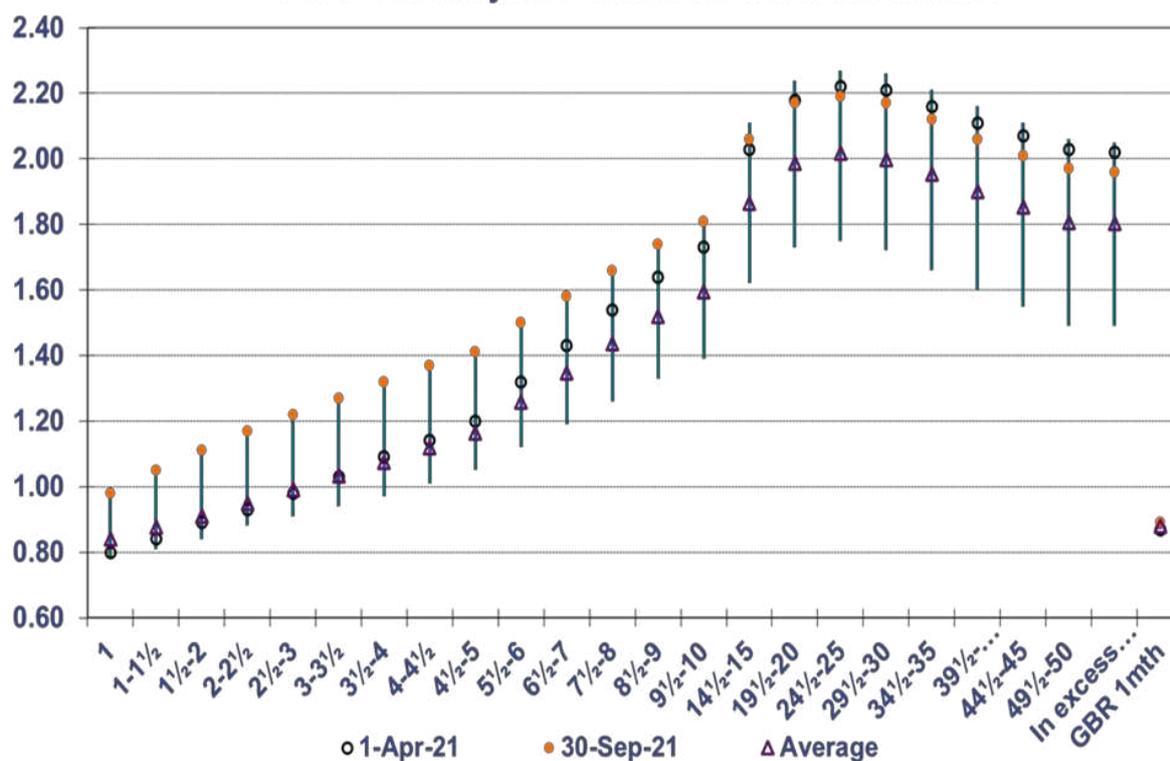
The graphs and table below show the movement in PWLB certainty rates for the first six months of the year to date:

### PWLB certainty rates 1 April 2020 to 30<sup>th</sup> September 2020

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.78%	1.05%	1.39%	1.75%	1.49%
<b>Date</b>	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
<b>High</b>	0.98%	1.42%	1.81%	2.27%	2.06%
<b>Date</b>	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
<b>Average</b>	0.84%	1.16%	1.60%	2.02%	1.81%
<b>Spread</b>	0.20%	0.37%	0.42%	0.52%	0.57%



PWLB Certainty Rate Variations 1.4.21 to 30.9.2021



## PWLB RATES

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10 year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

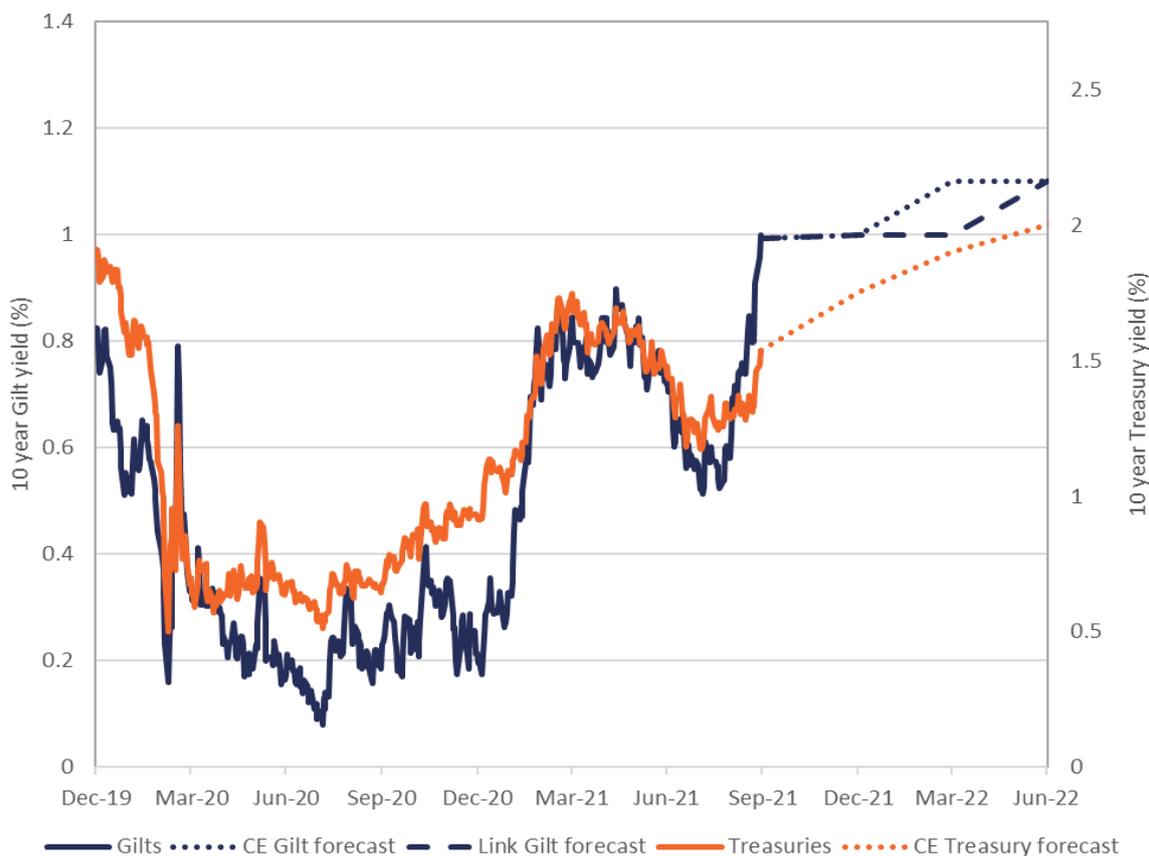
Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020 which caused gilt yields to spike up. However, yields then fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such

unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply.

At the start of January 2021, all gilt yields from 1 to 8 years were negative: however, since then all gilt yields have become positive and rose sharply during the spring, especially in medium and longer-term periods, until starting a significant decline since May which was then sharply reversed in August / September. Repeated assurances by the Fed in the US, and by other major world central banks, that inflation would spike up after Covid restrictions were abolished, but would only be transitory, allayed investor fears until August / September when high inflation was again seen as a growing danger and both central banks in the US and UK gave indications that monetary policy tightening was now on the horizon. There is considerable concern that the US Fed is taking a too laid-back view that inflation pressures in the US are purely transitory and that they will subside without the need for the Fed to take significant action to tighten monetary policy. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that rates will end up rising faster and further in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields.

### **Correlation between 10 year US treasury yield and 10 year gilt yield**

The Link Group forecasts have included a risk of a 75% correlation between movements in US treasury yields and gilt yields over 10 years since 2011. As US treasury yields are expected to rise faster and further than UK gilt yields, there is an upside risk to forecasts for gilt yields due to this correlation. The graph below shows actual movements in both 10 year yields and forecasts by Link (gilt only) and Capital Economics.



- Yields on 10 year Gilts and Treasuries initially both fell during the first quarter of 2020, as signs emerged that the COVID-19 virus would become a global pandemic which would lead to a sharp downturn in economic growth.
- The correlation between 10 year yields in the UK and the US lessened during the second half of 2020 when US yields displayed an increasing tendency to rise, whilst UK yields remained more range bound. This divergence was consistent with the relatively better economic performance registered by the US during the pandemic, which was aided by historically low US business inventory levels needing to be rebuilt.
- During late 2020 gilt yields rose significantly, reflecting optimism that the fast vaccine roll-out in the UK would support a strong economic recovery during 2021.
- During September 2021, treasury yields rose sharply in response to growing investor concerns around high inflation and indications from the Fed that tapering of quantitative easing purchases of treasuries are likely to occur in the near future. Gilts also rose sharply, as did investor concerns around a sharp increase in inflation in the UK which is now likely to go over 4%. In addition, the MPC meeting on 23rd September flagged up major concerns around the strength of inflation which may require Bank Rate to go up much faster than had previously been expected.

### Appendix 3: Link Treasury Solutions Limited Interest Rate Forecasts

The Council's treasury advisor, Link Treasury Solutions Limited, has provided the following forecast:

Link Group Interest Rate View		8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10	
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20	
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00	
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40	
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	

\* LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average).

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, five increases in Bank Rate from 0.10% to 1.25% have now been included, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

#### The balance of risks to the UK:-

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

#### Downside risks to current forecasts for UK gilt yields and PWLB rates include:-

- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- Bank of England acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- The Government acts too quickly to cut expenditure to balance the national budget.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package which has still to be disbursed. These actions will help

shield weaker economic regions in the near-term. However, in the case of Italy in the longer term, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some European banks, which could be undermined further depending on the extent of credit losses resulting from the pandemic.
- German general election in September 2021. Germany faces months of uncertainty while a new coalition government is cobbled together after the indecisive result of the election. Once that coalition is formed, Angela Merkel's tenure as Chancellor will end and will leave a hole in overall EU leadership.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile and, therein, impact market confidence/economic prospects and lead to increasing safe-haven flows.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and Middle Eastern countries, which could lead to increasing safe-haven flows.

#### **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

#### **The balance of risks to medium to long term PWLB rates: -**

There is a balance of upside risks to forecasts for medium to long term PWLB

#### **Forecasts for Bank Rate**

It is not expected that the MPC will embark on a series of increases in Bank Rate of more than 1.15% during the current and next three financial years as inflation is not expected to return to being sustainably above 2% during this forecast period.

#### **Gilt yields and PWLB rates**

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and PWLB rates to rise.

#### **There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -**

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?

- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

### **A new era – a fundamental shift in central bank monetary policy**

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ and the ECB now has a similar policy.
- For local authorities, this means that interest rates for deposits and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the

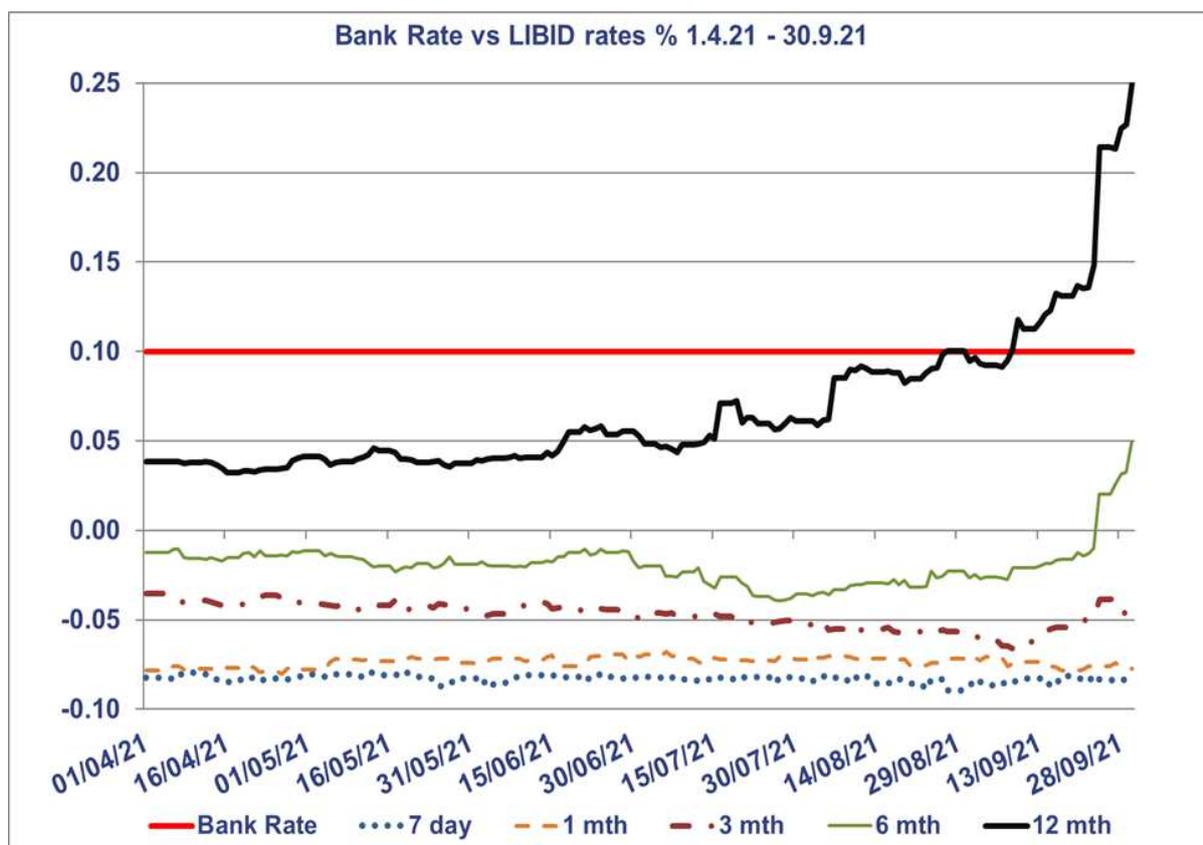
other hand, higher levels of inflation will help to erode the real value of total public debt

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB non-HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - *PWLB non-HRA Certainty Rate is gilt plus 80 basis points (G+80bps)*
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - *PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)*
  - *Local Infrastructure Rate is gilt plus 60bps (G+60bps)*
- \* *Those in italics are those currently applicable/available to Midlothian Council.*

## Interest Rates

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22



## Creditworthiness

Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices

Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

**Appendix 4: Approved Countries for Deposit as at 23 November 2021****AAA**

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

**AA+**

- Canada
- Finland
- U.S.A.

**AA**

- Abu Dhabi (UAE)
- France

**AA-**

- Belgium
- Hong Kong
- Qatar
- U.K.

CIPFA Financial Management Code

**Report by** Gary Fairley, Chief Officer Corporate Solutions

**Report for Noting**

## **1 Recommendations**

Audit Committee are asked to:

- Note the assessment and improvement actions arising from the self-assessment against the CIPFA FM Code; and
- Note an annual progress report will be presented to CMT.

## **2 Purpose of Report/Executive Summary**

To introduce the CIPFA Financial Management Code and the findings of the self-assessment that has been undertaken.

**Date** Friday 5 November 2021

**Report Contact:**

Gary Fairley, Chief Officer Corporate Solutions

[Gary.Fairley@midlothian.gov.uk](mailto:Gary.Fairley@midlothian.gov.uk)

### 3 Background/Main Body of Report

The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time, the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The FM Code applies a principles-based approach which is linked to other financial statutory and good practice guidance. It contains the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

CIPFA's intention is that the FM Code will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies.

## Financial Management Code

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code for the first time sets the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 95 (S95) officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

### Principles

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice and for the first time sets explicit standards of financial management.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable through:

- **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

### Financial management standards

The FM code is split into 7 sections, and 17 standards. Sections 1 and 2 cover important contextual factors which need to be addressed if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style.

The remaining sections, 3 to 7, address the requirements of the financial management cycle, with section 3 stating the need for a long-term approach to the evaluation of financial sustainability. Section 4 looks at the authority's annual budget setting process, followed by stakeholder engagement and business cases (section 5) and performance monitoring arrangements (section 6), and the cycle is completed by section 7, which shows how high quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

#### ***Section 1: The responsibilities of the chief finance officer and leadership team***

- Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money
- Standard B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'

#### ***Section 2: Governance and financial management style***

- Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- Standard D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'
- Standard E: The financial management style of the authority supports financial sustainability

### ***Section 3: Long to medium-term financial management***

- Standard F: The authority has carried out a credible and transparent financial resilience assessment
- Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- Standard H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'
- Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

### ***Section 4: The annual budget***

- Standard J: The authority complies with its statutory obligations in respect of the budget setting process
- Standard K: The budget report includes a statement by the chief finance officer in the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

### ***Section 5: Stakeholder engagement and business plans***

- Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- Standard M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

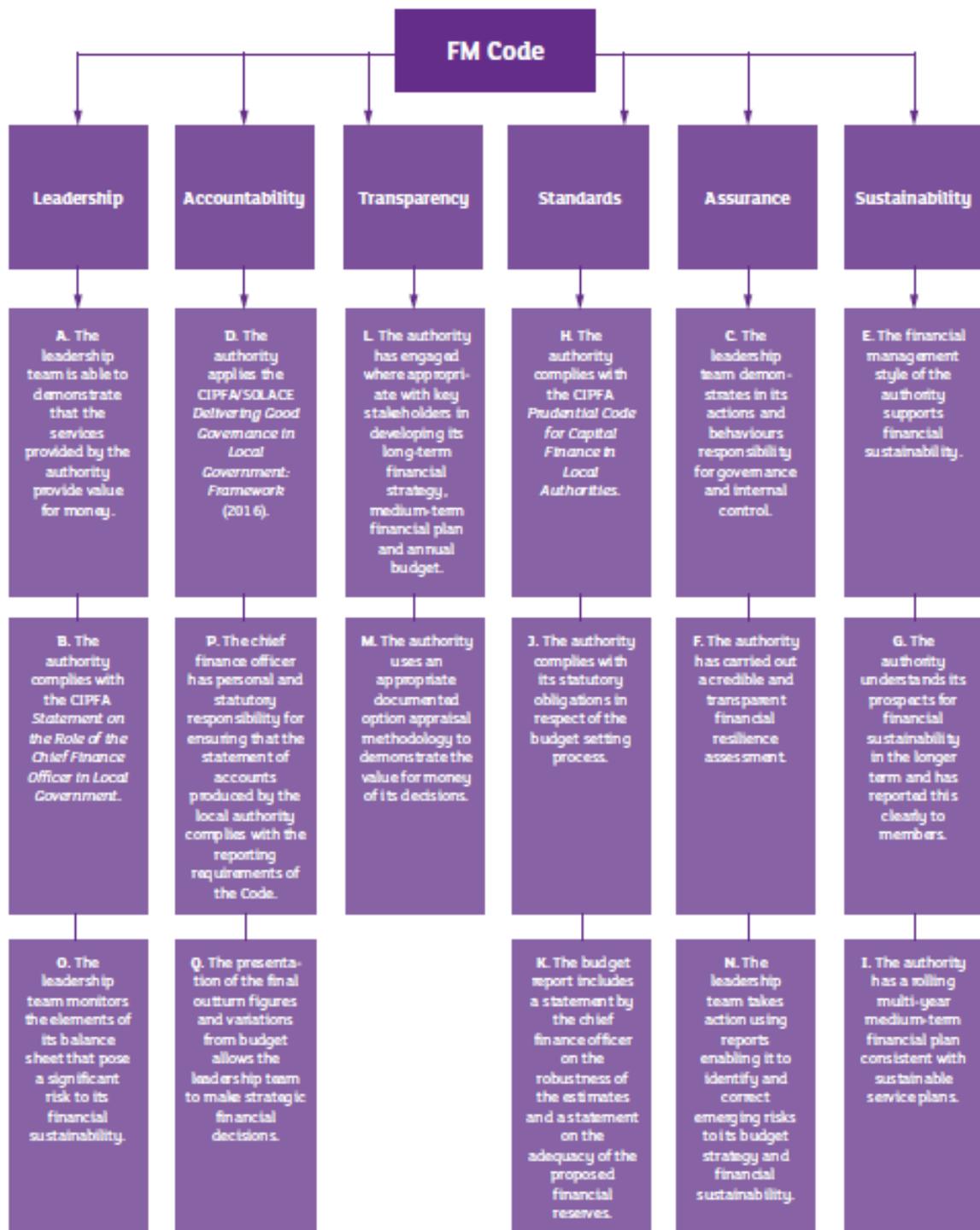
### ***Section 6: Monitoring financial performance***

- Standard N: The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- Standard O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

### ***Section 7: External financial reporting***

- Standard P: The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom'
- Standard Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions

*Diagram 1 below shows how the standards align with the principles.*



### Self-assessment process

A short life working group was established in March 2021, with membership from the Chief Finance Officer, Financial Services Manager, Legal Services Manager, Continuous Improvement Manager and Executive Business Manager (Place). An initial review and evidence gathering exercise was undertaken to inform a draft assessment of compliance, with a RAG rating applied to each of the 17 standards. Following this, DMT and Internal Audit were asked to consider the evidence, RAG rating and improvement actions and provide feedback on the assessment, which was presented and endorsed by CMT on 6 October 2021.

Below is the final assessment of compliance with the code:

<b>RAG rating</b>	<b>Progress</b>	<b>No of FM standards</b>
<b>GREEN</b>	<b>Compliance is being demonstrated</b>	<b>11</b>
<b>AMBER</b>	<b>Minor to Moderate improvements are required to demonstrate compliance</b>	<b>6</b>
<b>RED</b>	<b>Moderate to Significant improvements are required to demonstrate compliance</b>	<b>0</b>

Audit Committee are asked to note the assessment and improvement actions set out below. An annual progress report will be presented to CMT for oversight of the plan's delivery. This activity is complementary to Midlothian Council's self-evaluation approach.

**Leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

Standard	Evidence, assessment and actions	Rating
<p>Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money</p>	<ul style="list-style-type: none"> <li>• The Council has a duty of Best Value which is subject to consideration as part of the annual audit programme. A Best Value Assurance Report (BVAR) was published in 2019, which identified an improvement plan last updated and reported to Council in June 2021. A Local Area Network (LAN), led by the Council’s appointed auditor completes an annual Strategic Risk Assessment (SRA), and areas for further external scrutiny are identified in the National Scrutiny Plan (NSP). Progress against the Best Value improvement plan includes: <ul style="list-style-type: none"> <li>○ Approval and introduction of a Medium Term Financial Strategy (MTFS) with cross-party support to implement a corporate solution for the 2021/22 budget (ensuring no additional service reductions at an already challenging time for communities).</li> <li>○ Introduction of a renewal strategy – Midlothian’s Route Map through and out of the crisis.</li> <li>○ A consolidated strategic change programme and board structure with clear governance via Business Transformation Board (BTB)/Business Transformation Steering Group (BTSG).</li> <li>○ Alignment of change and transformation savings with quarterly financial monitoring and reporting.</li> <li>○ The MTFS and transformation plans being driven forward by the cross-party BTSG.</li> <li>○ Alignment of workforce planning activities with the ambition of Midlothian’s Route Map and associated priorities.</li> <li>○ Acceleration of the Capital Programme and appointment of two new Heads of Development to drive the ambitious programme at pace.</li> <li>○ Progressing plans to review and build on neighbourhood plans and services alongside communities and community partners.</li> </ul> </li> <li>• The Annual Governance Statement (AGS) focuses on all aspects of governance and references best value requirements in service provision.</li> <li>• There is a robust corporate reporting framework which contains key sections for financial implications, risk, engagement, best value and equalities.</li> </ul>	<p><b>GREEN</b></p>

- Financial performance is regularly reported to Corporate Management Team (CMT) and the Council and all reports set out the best value impact.
- Work continues to embed self-evaluation as an improvement tool within services, with a range of methods adopted across the Council, including a corporate model, the Midlothian Excellence Framework which reflects the wider Public Sector Improvement Framework (PSIF) supported by the Improvement Service. Service plans include a range of specific actions and/or areas for planned self-evaluation activities or commit to identifying a programme of self-evaluation and improvement activities.
- The Council participates in the Local Government Benchmarking Framework facilitated by the Improvement Service which compares performance across a range of indicators associated with service costs, performance and satisfaction with other Scottish local authorities. Participation in the process and with associated family groups allows the sharing of best practice and the opportunity to learn from others.
- MTFS delivers a robust financial plan through a rigorous budget setting process.
- Fortnightly financial strategy sessions take place with Chief Executive.
- Finance team work with each directorate to manage directorate and service level budgets, forecasting and savings targets.
- Council reserves have remained at a sustainable level and provide resources for investment and mitigation of financial risks.
- Project and programme risks are monitored at officer led programme boards and are escalated as appropriate.
- Our procurement arrangements and contract specifications lead to effective procurement and we have achieved and have realised savings through contract procurements.
- Procurement strategy and guidance in place and delegated authority for authorisation of transactions embedded in systems.
- Continued implementation of a new Online Payments and Services (OPAS) will enable services to be redesigned with the focus on the customer whilst realising efficiencies in processes.

**Proposed actions:**

No improvement actions proposed

Continue to maintain this position by regular monitoring of the above

Standard	Evidence, assessment and actions	Rating
<p>Standard B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'</p>	<ul style="list-style-type: none"> <li>• The Chief Officer, Corporate Solutions is a Fellow of the Chartered Association of Certified Accountants (FCCA) and has direct link to the Chief Executive.</li> <li>• The role of Chief Finance Officer (CFO &amp; S95) is reflected in the Council's key governance documents.</li> <li>• Through the Finance team, the CFO provides financial and treasury performance monitoring reports throughout the year to the Council.</li> <li>• The CFO: <ul style="list-style-type: none"> <li>○ has 39 years local government finance experience</li> <li>○ is a member of the CMT and has influence on all material businesses decisions, ensuring financial implications are provided on all reports (including all committee reports)</li> <li>○ has oversight of all financial risks in the development of Medium and Longer Term Financial Planning</li> <li>○ ensures that all statutory requirements affecting the Council's finances are complied with</li> </ul> </li> <li>• The Chief Internal Auditor leads the corporate fraud function that supports the Integrity Group.</li> <li>• The annual Statement of Accounts receives unqualified external audit opinions.</li> <li>• The Finance team has an establishment which has experienced, capable and professionally qualified accountants (CIPFA/CIMA/ACCA).</li> <li>• The team are supported through technical training and provided with opportunities to enhance their skills and knowledge ensuring there resilience within the team.</li> <li>• The Council secured a green rating for financial management and amber for financial sustainability from External Audit in 2020.</li> </ul> <p><b>Proposed actions:</b>  No improvement actions proposed  Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>

Standard	Evidence, assessment and actions	Rating
<p>Standard O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability</p>	<ul style="list-style-type: none"> <li>• The Council has a reserves strategy, which sets out a framework for useable reserves.</li> <li>• The Council has mitigated financial risk through the earmarking of reserves.</li> <li>• Potential costs associated with emerging events and risks are assessed and accounted for as required. They are covered in detail in Disclosure notes to the Financial Statements.</li> <li>• The Council complies with both the Prudential Code and the CIPFA Treasury Management Code. Both elements are reported quarterly to CMT, Audit Committee and to Council with Capital Expenditure planned and managed through the Capital Plan and Asset Management Board (CP&amp;AMB).</li> <li>• Provisions are made for bad and doubtful debts which ensures that non collection of Council Tax, rent and other sums due does not impact on financial sustainability. Detailed analysis of short term assets and liabilities takes place alongside an assessment of bad debt provision. Any material costs or risks incorporated in this are picked up in the Financial Statements and Financial Monitoring reports if required.</li> <li>• Whilst the accounts reflect the ISA 19 reporting requirements in respect of pensions there is a triennial review of the Lothian Pension Fund in which the Council participates and the contribution rates considered.</li> <li>• Formal arrangements are in place with the internal value in respect of the revaluation of assets.</li> <li>• Financial sustainability monitored as risk on the corporate risk register, reviewed quarterly</li> <li>• The renewal strategy identified in the Midlothian Route Map is underpinned by the following strategic boards, each having a clear Terms of Reference and a responsibility to provide regular progress/update reports via clear governance route to BTB/BTSG: <ul style="list-style-type: none"> <li>○ Digital First Strategic Board</li> <li>○ Capital Plan &amp; Asset Management</li> <li>○ Economic Renewal</li> <li>○ Place – Hub &amp; Spoke</li> <li>○ Remote Working</li> <li>○ Children, Young People and Partnership</li> <li>○ Health and Social Care Partnership</li> </ul> </li> </ul> <p><b>Proposed actions:</b>  No improvement actions proposed  Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>

**Accountability** - based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

Standard	Evidence, assessment and actions	Rating
<p>Standard D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'</p>	<p>The CMT undertook a full self-evaluation of the Local Code of Corporate Governance during the year 2021/21 in consultation with Internal Audit. This included the consideration of examples of evidence such as systems, processes and documentation to demonstrate compliance with the Framework's seven core principles of good governance, supporting principles and a range of specific requirements. The updated Local Code of Corporate Governance was scrutinised by Audit Committee and approved by Council in March 2021.</p> <p>An annual review of the adequacy and effectiveness of the Council's overall governance framework is carried out with the output of this being the AGS. The AGS explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, reports on their effectiveness, and sets out further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts This is presented for endorsement by the Audit Committee, prior to being published in the Annual Statement of Accounts in September of each year, and is approved by signature by the Chief Executive and Council Leader at the conclusion of external audit processes.</p> <p>The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' is to ensure that:</p> <ul style="list-style-type: none"> <li>• Resources are directed in accordance with agreed policy and according to priorities;</li> <li>• There is sound and inclusive decision making; and</li> <li>• There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.</li> </ul>	<p><b>AMBER</b></p>

	<p>Improvement areas of governance in the AGS 2020/21 include:</p> <ul style="list-style-type: none"> <li>• Update of Financial Regulations and Directives</li> <li>• Ensure that the action taken to strength resource capacity and skills in the Procurement function strengthens compliance with the Council's procurement strategy and procedures</li> </ul> <p><b>Proposed actions:</b> Continue to implement the 11 improvement areas of governance in the AGS 2020/21</p>	
<b>Standard</b>	<b>Evidence, assessment and actions</b>	<b>Rating</b>
<p>Standard P: The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom'</p>	<ul style="list-style-type: none"> <li>• CMT receive and scrutinise quarterly budget and performance monitoring reports.</li> <li>• The CFO is fully aware of the requirements of the financial statements, which are fully compliant and have been unqualified for a number of years, without the need for anything other than mainly presentational issues amendments.</li> <li>• The CFO undertakes a performance appraisal with the Executive Director Place and performance objectives are monitored at monthly one-to-one meetings.</li> <li>• The Statements of Accounts have met the statutory deadlines, for both unaudited and audited accounts.</li> </ul> <p><b>Proposed actions:</b> No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>

Standard	Evidence, assessment and actions	Rating
<p>Standard Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions</p>	<ul style="list-style-type: none"> <li>• CMT receive and scrutinise the final outturn report and these are presented to Council as part of a suite of yearend financial performance reports. They build on the formal quarterly reporting cycle of reports with recovery actions, if required, discussed and agreed at quarterly financial monitoring CMT.</li> <li>• The reports includes details of carry forwards, in line with the scheme of devolved budget management and reflecting carry forward of specific government grant streams.</li> <li>• The Council has a MTFS allowing visibility for CMT and elected members on projected future costs and income streams.</li> <li>• BTB and BTSG have a remit to progress development of the MTFS with a corporate solution in place for 2021/22 and similar proposed for 2022/23, the last budget to be determined by this term of Council. A MTFS for the next term of Council will be presented to members in May 2022.</li> <li>• Cross party engagement on the MTFS takes place at BTSG on a regular basis as covered in the reported budget setting timetable for each forthcoming financial year.</li> <li>• Draft Financial Statements are finalised by the end of June each year with Audited Statements following in September.</li> <li>• Throughout the COVID-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.</li> </ul> <p><b>Proposed actions:</b>            No improvement actions proposed            Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>

**Transparency** - Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making

Standard	Evidence, assessment and actions	Rating
<p>Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget</p>	<p>The Council has worked hard to develop and sustain more constructive relationships between members and between members and officers. The MTFS was approved by Council in June 2019 with cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget.</p> <p>To inform the MTFS, a public consultation visionary exercise was carried out in April 2019 and highlighted the following key priorities for what Midlothian should be like in 2040:</p> <ul style="list-style-type: none"> <li>• <b>A sense of belonging:</b> Pride in communities, working in partnership, transparency in decision making and accessibility in service provision</li> <li>• <b>A balanced infrastructure:</b> Manageable housing numbers, vibrant towns, protected green spaces, a clean, carbon neutral environment and improved community transport</li> <li>• <b>Learning and working together:</b> High quality education and training, jobs close to where people live, a main provider of local food production, maximising technological solutions</li> <li>• <b>Intergenerational opportunities:</b> Reimagined older people services, being able to grow old in the one community, with support and good access to health and social care.</li> </ul> <p>In addition to the visioning exercise the following key themes were explored as part of the consultation programme:</p> <ul style="list-style-type: none"> <li>• <b>One Council - Working with You, For You</b> is underpinned by a commitment to deliver a one council strategy which reduces silo working within services, increases cross party working at a political level and uses holistic approaches which place individuals and communities at the heart of our work.</li> <li>• <b>Preventative and Sustainable</b> responds to Communities telling us strongly that they want to live in a clean, carbon neutral environment with protected green spaces and improved environmentally friendly community transport options.</li> <li>• <b>Efficient and Modern</b> recognises that Midlothian Council needs to adapt to change by doing things differently to get improved results and increasing financial sustainability by addressing inefficiencies.</li> <li>• <b>Innovative and Ambitious</b> recognises our ambition for Midlothian and to make sure it is a great place to grow, now and in the future.</li> </ul>	<p><b>AMBER</b></p>

	<p>The cross-party BTSG is driving forward the MTFs including supporting transformation plans. The Council has long term financial planning covering the Housing Revenue Account and Capital Investment. Financial Planning Horizons for the General Fund Revenue Account are limited reflecting the current annual grant setting regime.</p> <p>The Midlothian Route Map through and out of the crisis sets out a flexible and iterative renewal plan for the Council, in association with partners, to recover from the COVID-19 pandemic. The plan recognises the need to work with partners to continue to change the way we work and identifies priority interventions to support recovery.</p> <p><b>Proposed actions:</b> Engagement plan for next iteration of the MTFs requires to be developed and agreed after the May 2022 election</p>	
Standard	Evidence, assessment and actions	Rating
<p>Standard M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions</p>	<p>The Capital Plan and Asset Management Board (CP&amp;AMB) maintains oversight of the capital plans and oversees the delivery of the wide range of investment projects provided for in the plans. The Council has updated its governance structure for the CP&amp;AMB. The structure establishes clear roles and responsibilities, decision making and reporting process as well as introducing five new programme delivery boards to support the CP&amp;AMB. As part of the governance, the Council has established a business case approach to project development as well as an approved change control procedure and an escalation process for risk and issue management. The board continues to implement a gateway review and reporting process (at this point for all projects over £1m). Programme dashboards and highlight reports are provided to allow BTSG oversight of progress in delivering capital projects and to keep all members informed of progress in their ward. The governance structure and gateway review process is designed to strengthen the overall management of projects, provides a means to more effectively monitor projects against the agreed milestones and allows risks to be monitored and managed effectively.</p> <p>The Council's annual Treasury Management and Investment Strategy is considered in line with budget arrangements. In particular the presentation of the Council's Treasury Management and Investment Strategy at the</p>	<p><b>AMBER</b></p>

	<p>same time as the capital investment plan allows elected members to consider the impact of decisions on borrowing plans. The Borrowing Strategy sets out the prioritised borrowing methods the Council could use, as well as setting limits on types of borrowing and the debt maturity structure.</p> <p>Experience gained from business case assessment of recent projects, along with renewed management arrangements for the capital programme, provides a solid foundation for further development of the Council's approach in this area.</p> <p><b>Proposed actions:</b></p> <p>Review of recent projects and learning</p>	
<p><b>Standards - Adherence to professional standards is promoted by the leadership team and is evidenced.</b></p>		
Standard	Evidence, assessment and actions	Rating
<p>Standard H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'</p>	<p>The Council fully complies with the CIPFA Prudential Code. The Council has approved Capital Investment Strategy and rolling Capital plans which include the requirement to assess schemes ensuring the best outcomes are achieved from our capital investments.</p> <p>The Prudential Code sets out a framework that is intended to ensure that the linked capital investment plans of local authorities are affordable, prudent and sustainable. In 2020/21 as part of the wider scope audit procedures, EY carried out an interim review to consider whether the Council's Treasury Management and Investment Strategy is in line with the principles of the Prudential and Treasury Management codes. They found that the Council's policies and procedures reflect the requirements within CIPFA's Treasury Management Code and Prudential Code. Key points from the EY report to evidence compliance:</p> <ul style="list-style-type: none"> <li>• EY have reviewed the Council's arrangements against the current Codes and made recommendations to support continuous improvement which have all been implemented. There were no high rated actions</li> <li>• The Council's internal auditors reviewed compliance with the Treasury Management Code and Practices in 2018. They reported that they were satisfied that the Treasury Management function had comprehensive policies and procedures in place and determined overall that the arrangements provided "substantial assurance" – three medium-rated recommendations.</li> <li>• The Council outlines its consideration of its borrowing and investment strategies within the annual Treasury</li> </ul>	<p><b>GREEN</b></p>

	<p>Management and Investment Strategy. The Prudential Code requires councils to demonstrate that capital investment proposals are affordable, prudent and sustainable. The Council has a substantial investment programme in place to respond to a quickly growing population.</p> <p>The three main Treasury Management Strategy reports are scrutinised by Audit Committee in advance of consideration and approval by Council, in response to Internal Audit recommendation.</p> <p><b>Proposed actions:</b> Continue to maintain this position by regular monitoring of the above</p>	
Standard	Evidence, assessment and actions	Rating
<p>Standard J: The authority complies with its statutory obligations in respect of the budget setting process</p>	<ul style="list-style-type: none"> <li>• Legislation requires the Council to set council tax and determine a budget for the year ahead. The Council has done so despite challenging grant settlements and limited time from grant announcements to the deadline for setting the budget.</li> <li>• The adoption of the MTFS and corporate solution assist delivery of this requirement.</li> <li>• BTSG endorse forward planning assumptions for budget and agree the schedule of reports which will support the annual decision making process culminating in BTSG making recommendations to Council in respect of Council tax and service budgets.</li> <li>• Budget reports to CMT and to Council include commentary on key assumptions and estimates that are included in the cost and income base.</li> <li>• Commentary of the Reserves position is included in all budget reports including earmarking and recommended minimum levels of non-earmarked reserve.</li> </ul> <p><b>Proposed actions:</b> No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>

Standard	Evidence, assessment and actions	Rating
<p>Standard K: The budget report includes a statement by the chief finance officer in the robustness of the estimates and a statement on the adequacy of the proposed financial reserves</p>	<p>This requirement is not applicable in Scotland however, the CFO advises Council on the budget recommendations for the year ahead, the affordability of Capital plans and the adequacy and use of reserves.</p> <p>Budget reports to CMT and to Council include commentary on key assumptions and estimates that are included in the cost and income base.</p> <p>Commentary of the Reserves position is included in all budget reports including earmarking and recommended minimum levels of non-earmarked reserve.</p> <p><b>Proposed actions:</b>            No improvement actions proposed            Continue to maintain this position by regular monitoring of the above</p>	<p><b>GREEN</b></p>
<p><b>Assurance</b> - Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.</p>		
Standard	Evidence, assessment and actions	Rating
<p>Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and</p>	<p>The AGS explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, reports on their effectiveness, and sets out further improvements to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.</p>	<p><b>AMBER</b></p>

internal control	<b>Proposed actions:</b> Continue to implement the 11 improvement areas of governance in the AGS 2020/21 Continue to maintain this position by regular monitoring of the above	
<b>Standard</b>	<b>Evidence, assessment and actions</b>	<b>Rating</b>
Standard F: The authority has carried out a credible and transparent financial resilience assessment	<ul style="list-style-type: none"> <li>The reserves strategy approved by Council sets out the level of reserves assessed as appropriate to support financial resilience and sets out minimum level of reserves at which intervention is then required by Council. Projections on reserves are incorporated into the MTFS.</li> <li>The MTFS sets out forward projections and the impact of variations in key assumptions. The MTFS includes projections of costs and income with accompanying sensitivity analysis in key areas.</li> <li>The annual external audit programme sets out an assessment of financial sustainability, current assessed as amber,</li> <li>Financial sustainability is identified as a strategic risk and is reported quarterly. All risks have identified mitigations.</li> </ul> <p>Note - the CIPFA financial resilience index encompasses English Local Authorities only and does not cover Scotland. In any event it has limitations as uses historic data</p> <p><b>Proposed actions:</b> No improvement actions proposed Continue to maintain this position by regular monitoring of the above</p>	<b>GREEN</b>
<b>Standard</b>	<b>Evidence, assessment and actions</b>	<b>Rating</b>
Standard N: The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial	<ul style="list-style-type: none"> <li>The Council has overall responsibility for directing and controlling the organisation. The Cabinet is the principal decision-making committee of the Council. The Performance Review and Scrutiny Committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact.</li> <li>The Chief Officer Corporate Solutions (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.</li> <li>The Council's External Auditors report annually to Council on a variety of matters including financial management and sustainability. This includes an agreed management action plan.</li> </ul>	<b>AMBER</b>

sustainability	<ul style="list-style-type: none"> <li>• Internal Audit, in accordance with an annually agreed Audit Plan, report findings and recommendations to CMT and to Audit Committee.</li> <li>• The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.</li> <li>• A MTFS was approved by Council in June 2019. Revenue and Capital Budget Monitoring reports are presented to the Council on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.</li> <li>• As part of the MTFS a corporate solution is in place for 2021/22 budget and same proposed for 22/23.</li> <li>• The Council is continuing to develop the next MTFS which will be presented to the new Council post May 22 elections</li> <li>• Fortnightly financial strategy sessions are held with the Chief Executive, Executive Director Place, CFO and Financial Services Manager with briefing notes setting out the issues to be covered.</li> <li>• The quarterly reports to the Management Team provide detail of variances and estimates of forecasts and are scrutinised at dedicated CMT sessions. Management Team have been engaged in the development of these reports and feedback is sought on improvement and or changes to ensure they remain relevant and meet their requirement.</li> <li>• The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public. An Internal Audit review in 2021 highlighted the need to review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level.</li> <li>• The Council on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively. A new Integrity Group plays a key role in delivering the strategy to improve the Council's resilience to fraud.</li> </ul> <p><b>Proposed actions:</b>  Development and member agreement to the next MTFS covering the term of the next Council  Deliver an elected member seminar on Contingency Planning</p>	
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	Review and refresh the Risk Management Framework to enhance its application following Internal Audit	
<b>Sustainability</b> - <i>The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.</i>		
Standard	Evidence, assessment and actions	Rating
Standard E: The financial management style of the authority supports financial sustainability	<ul style="list-style-type: none"> <li>Financial Monitoring CMT meetings continue to take place with those meetings receiving both the draft quarterly financial monitoring report and appendices for scrutiny and challenge. Also, where appropriate, additional information which outlines the basis of financial projections and the key risks associated with these is also provided.</li> <li>Financial Strategy meetings attended by the Chief Executive, Executive Director Place, Chief Officer Corporate Solutions and Financial Services Manager continue on a fortnightly basis and provide a forum to review and refine the financial strategy and address issues as they emerge.</li> <li>Future year financial implications of in-year service developments are captured and incorporated into the MTFS.</li> <li>The Council's External Auditors report annually to Council on a variety of matters including financial management and sustainability. This includes an agreed management action plan.</li> <li>Internal Audit, in accordance with an annually agreed Audit Plan, report findings and recommendations to CMT and to Audit Committee. The Internal Audit Annual Assurance Report (IAAAR) includes the independent opinion on internal controls, risk management and governance, and this is used to inform the AGS. The IAAAR 2020/21 states "Further work is required to implement recommendations made in previous years' audits relating to budget monitoring, and internally providing financial management information".</li> <li>The Council's Senior Leadership structure supports the strategic delivery of the Council's Vision and ambition which includes the MTFS and the Route Map through and out of the crisis.</li> </ul> <p><b>Proposed actions:</b> Continue to maintain this position by regular monitoring of the above</p>	<b>GREEN</b>

Standard	Evidence, assessment and actions	Rating
<p>Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members</p>	<ul style="list-style-type: none"> <li>• The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party BTSG is driving forward the medium term financial strategy including supporting transformation plans.</li> <li>• Throughout the COVID-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.</li> <li>• In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee, or Council where appropriate.</li> <li>• The CFO updates members on the financial outlook, particularly grant settlements and shares regular economic briefings on issues pertinent to local government finance.</li> <li>• CMT/BTB/BTSG/Council reporting of projections and reserves alongside commentary on risks, assumptions, weaknesses in figures etc.</li> </ul> <p><b>Proposed actions:</b>            No improvement actions proposed            Continue to maintain this position by regular monitoring of the above</p>	<b>GREEN</b>
Standard	Evidence, assessment and actions	Rating
<p>Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans</p>	<ul style="list-style-type: none"> <li>• The MTFS was approved by Council in June 2019.</li> <li>• In addition to the position reported in December 2020, the Council agreed on 28 February 2021, on the recommendation of the BTSG, the 2021/22 budget.</li> <li>• BTSG unanimously endorsed the adoption of a corporate solution to secure financial balance for the 2021/22 and 2022/23 budgets. The adoption of the corporate solution for the 2022/23 budget, the remaining budget that falls within the term of this Council, allows officers to commence work on developing a MTFS for the term of the next Council for consideration after the elections in May 2022.</li> </ul> <p><b>Action</b>            Development and member agreement to the next MTFS covering the term of the next Council</p>	<b>AMBER</b>

## **4 Report Implications (Resource, Digital and Risk)**

### **4.1 Resource**

No additional resource implications. Resource to complete the improvement actions will be met from existing budgets.

### **4.2 Digital**

No digital impact identified

### **4.3 Risk**

The financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. CIPFA members must comply with it as one of their professional obligations. Non-compliance would have serious financial and governance risks to the Council.

### **4.4 Ensuring Equalities (if required a separate IIA must be completed)**

The FM Code does not relate to a new or revised policy, service or budget change that affects people, as such an IIA is not required.

### **4.4 Additional Report Implications (See Appendix A)**

See Appendix A

## **Appendices**

**Appendix A – Additional Report Implications**

**Appendix B – Background information/Links**

## APPENDIX A – Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Good practice in financial management and sound financial sustainability is fundamental to the Council's ability to deliver against all the priorities within the Single Midlothian Plan.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

### A.4 Delivering Best Value

Compliance with the FM Code demonstrates how the Council is achieving Best Value.

### A.5 Involving Communities and Other Stakeholders

The self-assessment process involved evidence contributions from Legal, Finance, Audit and all directorates via DMTs.

### A.6 Impact on Performance and Outcomes

Good practice in financial management and sound financial sustainability is fundamental for the Council to perform effectively.

### A.7 Adopting a Preventative Approach

Sound financial stability promotes a preventative approach.

### A.8 Supporting Sustainable Development

Compliance with the FM Code ensures financial sustainability.

**APPENDIX B**

**Background Papers/Resource Links** (insert applicable papers/links)

CIPFA FM Code 2019

# financial management code



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# financial management code

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# Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

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# Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government

control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

# The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether

or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

# The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it

and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer.”

CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority’s prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable.*

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA’s understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority’s organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

## APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

### The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

## The CIPFA financial management standards

### Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
<b>Section 1: The responsibilities of the chief finance officer and leadership team</b>	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .
<b>Section 2: Governance and financial management style</b>	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).
E	The financial management style of the authority supports financial sustainability.
<b>Section 3: Long to medium-term financial management</b>	
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
<b>Section 4: The annual budget</b>	
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
<b>Section 5: Stakeholder engagement and business plans</b>	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
<b>Section 6: Monitoring financial performance</b>	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
<b>Section 7: External financial reporting</b>	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.



# The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

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### Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

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### The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

### **The role of the chief finance officer**

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

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#### **Financial Management Standard B**

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

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For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.



# Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

### **Good governance**

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

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#### **Financial Management Standard C**

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

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By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

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#### **Financial Management Standard D**

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

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This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

### **Financial management style**

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

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#### **Financial Management Standard E**

The financial management style of the authority supports financial sustainability.

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CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.



# Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

## **Financial resilience and long-term financial strategy**

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the **Financial Resilience Index** that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

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**Financial Management Standard F**

The authority has carried out a credible and transparent financial resilience assessment.

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Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

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**Financial Management Standard G**

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

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CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

## **The Prudential Code for Capital Finance in Local Authorities**

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

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**Financial Management Standard H**

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

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One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

### **Practical medium-term financial planning**

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

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#### **Financial Management Standard I**

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

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# The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

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## Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

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The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

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## Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

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The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

# Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

## Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

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### Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

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## Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

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### Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

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It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

# Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

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## Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

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Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

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## Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

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Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).



# External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

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## Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom*.

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The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must

provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

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**Financial Management Standard Q**

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

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## IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

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### Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.



## IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

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Extract from [IFAC website](#).

### Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

- A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.
- B. The time value of money should be represented by the opportunity cost of capital.
- C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.
- D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.
- E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.
- F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.
- G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.
- H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.



# Glossary

<b>Accounting standards</b>	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
<b>Annual statement of accounts</b>	<p>The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises:</p> <ul style="list-style-type: none"><li>■ comprehensive income and expenditure statement for the period</li><li>■ movement in reserves statement for the period</li><li>■ balance sheet as at the end of the period</li><li>■ cash flow statement for the period, and</li><li>■ notes, comprising significant accounting policies and other explanatory information.</li></ul>
<b>Asset management plan</b>	Asset management plans align the asset portfolio with the needs of the organisation.
<b>Audit committee</b>	A special committee of the council that reviews the financial management and accounts of the council.
<b>Balance sheet</b>	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
<b>Capital budget</b>	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
<b>Capital financing charges</b>	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
<b>Capital receipt</b>	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
<b>Chief financial officer</b>	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
<b>CIPFA FM Model</b>	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
<b>Code of Practice on Local Authority Accounting in the United Kingdom</b>	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
<b>Earmarked reserve</b>	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

<b>Financial management</b>	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as “the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals”.
<b>General fund balance (also council fund or police fund)</b>	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
<b>Governance</b>	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
<b>Housing Revenue Account (HRA)</b>	An account used to record the income and expenditure related to council housing.
<b>IFAC (International Federation of Accountants)</b>	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
<b>Internal audit</b>	An internal review of the organisation’s systems to give assurance that they are appropriate and being complied with.
<b>Leadership team</b>	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
<b>Non-domestic rates</b>	A tax paid by local businesses to their council.
<b>Public Sector Internal Audit Standards</b>	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
<b>Provision</b>	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
<b>Prudential Code</b>	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
<b>Revenue budget</b>	The amount that a council spends on its day-to-day running of services through the financial year.
<b>Ringfencing</b>	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
<b>Society of Local Authority Chief Executives (SOLACE)</b>	SOLACE’s purpose is to develop the highest standards of leadership in local government and the wider public sector.
<b>Treasury management</b>	CIPFA has adopted the following as its definition of treasury management activities: <ul style="list-style-type: none"> <li>■ the management of the organisation’s borrowing, investments and cash flows</li> <li>■ its banking</li> <li>■ money market and capital market transactions</li> <li>■ the effective control of the risks associated with those activities</li> <li>■ the pursuit of optimum performance consistent with those risks.</li> </ul>

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<b>Treasury Management Code</b>	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
<b>Treasury management strategy</b>	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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**Internal Audit Work to October 2021****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

**Date 25 November 2021****Report Contact:**

Jill Stacey                      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### 3 Progress Report

- 3.1** The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 1 September to 31 October 2021 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Risk Management
  - EU Funded Programme Tyne Esk LEADER
  - Roads Maintenance Service
  - Performance Management Local Government Benchmarking Framework (LGBF)
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

#### Current Internal Audit Assurance Work in Progress

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Digital Learning Strategy	Drafting the report
Income Collection	Testing underway
Performance Management (Framework)	Testing underway
Scottish Welfare Fund	Testing underway
Early Learning and Childcare Expansion	Testing underway

## Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, and Information Management Group.
  - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings.
  - Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.
  - Carried out background research and analysis associated with the Financial Policy and Governance Framework assurance audit. This has been preparation in advance of working with Financial Services in a critical friend role in alignment with the timescales of their work programme of financial policy review.

## Recommendations

- 3.7** Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

<b>High:</b> Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
<b>Medium:</b> Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
<b>Low:</b> Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	12
Low	4
<b>Sub-total reported this period</b>	<b>16</b>
Previously reported	7
<b>Total</b>	<b>23</b>
Recommendations agreed with action plan	23
Not agreed; risk accepted	0
<b>Total</b>	<b>23</b>

## **4 Report Implications (Resource, Digital, Risk and Equalities)**

### **4.1 Resource**

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

### **4.2 Digital**

There are no digital implications arising from this report.

### **4.3 Risk**

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

### **4.4 Ensuring Equalities**

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

### **4.5 Additional Report Implications (See Appendix A)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

### A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

#### **A.5 Involving Communities and Other Stakeholders**

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes.

#### **A.7 Adopting a Preventative Approach**

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Risk Management</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 02 June 2021 Draft; 22 November 2021 Final</p> <p>Level of Assurance: Substantial (Risk Management policy, and application of principles at Strategic level) and Limited (provision of Risk training for Managers, inconsistent application of systematic risk management at Service operational level, and 2<sup>nd</sup> line monitoring for assurance purposes).</p>	<p>The purpose of this assurance audit was to review the process for identifying, evaluating, controlling / mitigating, recording, monitoring and reporting risks that potentially have a detrimental impact on the effective and efficient delivery of Services, to review risk management policy, strategy, training and toolkits, and to assess risk registers at Strategic, Service Operational, Programme/Project, and Partnership levels.</p> <p>The Covid pandemic has been pervasive, simultaneously impacting employees, suppliers and customers and for a duration previously not considered a possibility. The Covid pandemic response, which exhibits elements of Risk Management, has successfully navigated the Council through this very serious crisis and demonstrated the ability to adapt and innovate in extreme circumstances. Our audit is focussed on the Risk Management Framework and not on responses to the Covid pandemic.</p> <p>The Risk Management Policy currently in place was produced in 2015 with refreshed guidance subsequently issued in 2018. The policy and guidance have not been reviewed and revised since then due to a lack of capacity. The Policy nevertheless represents a sound basis for managing risk but requires updating to reflect best practice, current conditions and identified improvements. Risk Management is well established at the Strategic level but there are inconsistencies in the application of the principles that underpin the Policy at the Service/Operational level.</p> <p>Improved provision of training to Managers is necessary to equip them with the necessary competence and capacity to apply the risk management policy and practices.</p> <p>Business planning and performance management processes are not fully aligned and integrated with the risk management cycle. This is particularly evident at Service level.</p> <p>Risk management information and reporting to CMT and the Audit Committee in respect of strategic risks is sufficiently relevant, accurate and timely to enable them to fulfil their respective roles and responsibilities. An effective monitoring and review structure of the risk management process is not in place. Neither CMT nor the Audit Committee receive adequate information to be assured that risk management processes are being applied in accordance with Policy consistently across all Council Services.</p>	0	6	0	<p>Management in the Place directorate have accepted the report findings and agreed to implement improvement actions.</p> <p>The review and refresh of the Risk Management Framework will be led by the Chief Officer Place and the Protective Services Manager, enabled through the Risk and Resilience Group of officers. Full implementation of the improvement actions will require engagement by Service Managers who are responsible for the application of Risk Management Policy and practices consistently in all Council Services.</p> <p>Internal Audit will be available as a critical friend to follow-up on these developments.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Risk Management (cont'd)	<p>Internal Audit considers the level of assurance is Substantial in relation to Risk Management policy, and application of principles at Strategic level, and Limited in relation to provision of Risk training for Managers, inconsistent application of systematic risk management at Service operational level, and 2<sup>nd</sup> line monitoring for assurance purposes. Internal Audit made the following recommendations which are designed to improve the application of the Risk Management framework across the Council:</p> <ul style="list-style-type: none"> <li>• Resources dedicated to risk management should be reviewed to initially apply risk management processes consistently across Council Services, and then maintain standards at this level. (Medium)</li> <li>• The Risk Management Policy and Guidance should be updated to reflect best practice and the current conditions, specifically roles and responsibilities, the Council's risk appetite particularly when taking on high and critical risks, and quantification of the Council's risk appetite, tolerance and capacity. (Medium)</li> <li>• Arrangements for monitoring and reporting of risks requires improvement in some areas, specifically to ensure CMT and Audit Committee receive annual assurance of compliance with the Risk Management Policy, escalation of high operational risks, and quality assurance checks of risk management process to DMTs. (Medium)</li> <li>• Following the completion of the update to the CPP risk register, Senior leadership should carefully consider the implications of any identified risks for the Council. (Medium)</li> <li>• An ongoing training programme should be established to develop the competence, capacity and confidence of Managers in post and to those new to the Council. (Medium)</li> <li>• Risk management should be integrated with business planning and performance management processes. All plans and performance reporting should clearly demonstrate linkages with risks. (Medium)</li> </ul> <p>Following the update of the Risk Management Policy, Senior Management should explicitly re-emphasise the importance of risk management, ensure the application of risk management policy and practice consistently in all Council Services, and confirm this in their annual assurance statements.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programme Tyne Esk LEADER</p> <p>Category: Legislative and Compliance</p> <p>Date issued: 29 September 2021 Draft; 26 October 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this legislative and compliance audit, required by the SLA, was to assess the adequacy of the internal controls in place for the administration of Tyne Esk LEADER Programme to comply with the SLA. The LEADER programme is part of the Scotland Rural Development Programme 2014-2020 which aims to promote economic and community development within rural areas of Scotland. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme. Midlothian Council is the Accountable Body for the Tyne Esk LEADER programme.</p> <p>The SLA was signed on 30 December 2015 and the original funding allocation was £3.5m, with 25% of this budget being for administration of the programme. This funding allocation was updated to £3.6m in March 2021 in light of the LEADER programme's extension to December 2021, taking into account the impact of Covid-19 pandemic. Of the £2.7m available to be allocated to projects, £2.4m has been awarded to eligible projects (92.61%). The extension has given sufficient time for all original Tyne Esk LEADER projects to conclude and all projects from the programme have been fully claimed for.</p> <p>Internal Audit considers that the level of assurance is Substantial in terms of governance of the programme, grant application management and grant claims processes. Prior year Internal Audit recommendations have been implemented. There is sufficient staff resources to support the LEADER programme to its closure date and applicant grant claims and grant drawdown processes with the Scottish Government are up to date.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Management should review and update the LEADER Programme risk Register and relevant Service Risk Register, and ensure it includes the risk of funding clawback (1 project was identified with risk of clawback, but the Chief Officer Place has confirmed that the Scottish Government has recently clarified that it will not pursue recovery). (Low)</li> <li>• Management should review the audit findings from the LEADER project file review and take appropriate action to rectify any issues, ensure the register of interests has been completed by all LAG members, and ensure that access is revoked in the LARCs system for users no longer requiring access. (Low)</li> </ul>	0	0	2	<p>Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations which were completed prior to the finalisation of this report.</p> <p>This Internal Audit Report has been submitted to the Scottish Government along with the Programme's Annual Confirmation Certificate on 5 November 2021.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Roads Maintenance Service</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 28 September 2021 Draft; 26 October 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to undertake a review of the Roads Maintenance Service including both capital and revenue jobs ensuring that the service is complying with the relevant code of practice / risk based inspection regime.</p> <p>The operational labour force of 40 is a multi-skilled workforce able to undertake a comprehensive range of design maintenance, construction and servicing activities to maintain 433 miles of public road.</p> <p>The Revenue budget of around £3.1m covers minor repairs including pot holes, cyclical works and incident response. The Capital Works Programme has a budget of around £1.5 million per annum divided between roads (£1 million) and footways (£0.5 million) which funds pre-planned, frequently large roads maintenance schemes for which the in-house team is the contractor and the customer / budget holder is the Client in the Roads team. An annual programme is produced and a decision made as to which jobs, if any, should be offered to external contractors. This decision is based on the assumption that higher profile, higher value jobs will remain internal and only those which either require specialist skills or for which the in-house team does not have the capacity are offered to Framework Contractors, consisting of three for Roads Operations. These works are planned, scheduled and completed by the in-house team in consultation with the Client. Once completed the measurement and valuation of the works is agreed and the invoice signed off by the Client.</p> <p>In the short term, additional funding has been agreed for the Accelerated Roads Capital Programme which will provide an extra £2.5 million per annum for financial years 2021/22 and 2022/23 to deliver an accelerated resurfacing programme for the unclassified roads network in residential streets of Midlothian. As per Council approval, internal resources are engaged to deliver the Accelerated Roads Capital Programme and day to day emergency / reactive maintenance, with external contractors delivering on the current capital works programme within the two year timescale.</p> <p>Management made a conscious decision to delay a review of the Schedule of Rates (SORs) due to the pandemic and the low RPI rate. This is due to be undertaken taking into account the current risks in the market, and contingent values will be incorporated. The SORs will be appropriately benchmarked to ensure value for money.</p>	0	4	2	Management have confirmed the factual accuracy and findings of the report and agreed to the implementation of the recommendations within realistic timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Roads Maintenance Service (cont'd)	<p>There have been significant improvements since the recruitment of the current Operations and Asset Manager Roads including the recruitment of additional staff and the shift in allocating work from contractors to the in-house team.</p> <p>The governance and strategic management of the Service requires improvement to achieve objectives and evidence best value. Internal Audit considers the level of assurance is Limited for those aspects. The Service's risk register requires update to take account of these findings and to re-evaluate the risks and mitigations.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• The Road asset management plan (RAMP) should be updated and published following engagement with relevant stakeholders. It should align with the corporate vision and demonstrate the contribution the RAMP makes towards achieving this vision. (Medium)</li> <li>• Financial plans should be prepared in alignment with the RAMP covering short, medium and long term time horizons. In reviewing the level of funding, the condition of the road network should be taken into account and lifecycle planning principles should be used. (Medium)</li> <li>• An asset management system should be acquired and asset and tool inventory registers created to enable effective asset management (road condition, inspection and maintenance). (Medium)</li> <li>• The Service should work with the Procurement team to establish framework agreements / contracts for plant hire. (Medium)</li> <li>• Appropriate performance monitoring arrangements including the use of benchmarking information require development to assist the operation of an efficient service which supports the Roads asset management plan (RAMP) and demonstrates value for money. (Low)</li> <li>• The possibility for more partnership working on road maintenance should be explored to optimise value for money. (Low)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Performance Management Local Government Benchmarking Framework (LGBF) – Improvement Service Return</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 08 October 2021 Draft; 22 October 2021 Final</p> <p>Level of Assurance: Limited for the 15 indicators submitted within LGBF SPI</p>	<p>The purpose of this assurance audit was to provide independent validation of performance indicators and benchmarking information, specifically to ensure accuracy of data of the 15 indicators submitted within LGBF SPI return to the Improvement Service for Local Government Benchmarking Framework (LGBF). This audit did not cover the full LGBF process.</p> <p>The LGBF brings together a wide range of information about how Scottish Councils perform in delivering better services to local communities. Overall there are 97 indicators which are submitted at different times.</p> <p>Individual Services are responsible for providing some of the data returns to the Continuous Improvement Team for the LGBF SPI return which includes 15 indicators and is required to be reported to the Improvement Service by 31 August 2021. They fall under 4 headings: Corporate; Corporate Assets; Culture and Leisure; and Environment. 9 indicators were selected for testing from the LGBF SPI return. The LGBF SPI return was submitted to the Improvement Service on time and the correction to one SPI was submitted during the validation period in September 2021.</p> <p>Internal Audit considers the level of assurance on the LGBF SPI return is Limited as testing of 9 performance indicators highlighted that 8 were either inaccurate, incomplete, based on historic data, or did not conform with the criteria stipulated in the LGBF data collection guidance. Within some Services there was a lack of procedures over the generation of the indicators, a lack of quality assurance checks, and there was not always an audit trail detailing how the indicators were calculated. It is useful to note that changes in staffing resulting in a lack of continuity reporting exposed a number of the issues identified.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Services should: retain an audit trail of source documentation; create procedure notes; undertake quality assurance checks; and ensure compliance with the LGBF data collection criteria. Continuous Improvement Team should ensure a reminder of LGBF data collection guidance for the 15 indicators included in the LGBF return is disseminated to Services annually. (Medium)</li> <li>• The PIs where errors were highlighted should be re-calculated and reported to the Improvement Service for future correction. (Medium)</li> </ul>	0	2	0	Management have confirmed the factual accuracy and findings of the report and agreed to the implementation of the recommendations within realistic timescales.

## **Internal Audit Mid-Term Performance Report 2021/22**

### **Report by Chief Internal Auditor**

### **Report for Decision**

#### **1 Recommendations**

The Audit Committee is asked to:

- a) Note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2021/22 by the mid-year point;
- b) Confirm that it is satisfied with the performance of the Internal Audit service provision.

#### **2 Purpose of Report/Executive Summary**

The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2021, towards completing the Internal Audit Annual Plan 2021/22. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.

The Internal Audit Annual Plan 2021/22 that was approved by the Audit Committee on 9 March 2021 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

The report provides details of the half yearly progress by Internal Audit with its programme of work and highlights changes that require approval to reflect the changing risks arising from Covid-19.

**Date 25 November 2021**

#### **Report Contact:**

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### **3 Background**

- 3.1** As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
  - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
  - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
  - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
  - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 3.2** Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 3.3** The Internal Audit Annual Plan 2021/22 that was approved by the Audit Committee on 9 March 2021 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4** Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and a statutory annual Internal Audit opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.

### **4 Half Year Results Against Internal Audit Plan 2021/22**

- 4.1** The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2** In the first quarter of the year 2021/22, the two Internal Auditors continued to be deployed part-time to assist with the administration of support grant payments (equivalent to approx. 30 days).
- 4.3** The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its programme of work. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, and those scheduled for the second half of the year are not shaded.

- 4.4** Internal Audit has made reasonable progress in the first half of the year towards completing the approved Internal Audit Annual Plan 2021/22, despite lower than planned Internal Audit capacity. Work on two audits (Income Collection and Digital Learning Strategy) is slightly behind original schedule, though is on track to conclude in the 3<sup>rd</sup> quarter. Work on one audit (School Excursions \*\* Brought forward from 2020/21) has been deferred to 2022/23 in light of its Low risk due to Covid-19 pandemic restrictions in 2020/21 and 2021/22.
- 4.5** The continuous audit approach, in accordance with the Internal Audit Strategy approved by Audit Committee on 9 March 2021, enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services. For example, Business Transformation Board, Capital Planning and Asset Management Board, and Information Management Group.

## **5 Completing the Revised Internal Audit Plan for 2021/22**

- 5.1** The Internal Audit programme of work for the six months from October 2021 to March 2022, to complete the delayed work and incorporate the remaining planned audit work, presently indicates that the Internal Audit Annual Plan 2021/22 can be delivered, subject to maintaining current staffing levels within this period.
- 5.2** The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy & Other Work carried out in accordance with the approved Internal Audit Charter.
- 5.3** Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will be communicated within the Internal Audit Annual Assurance Report which will also provide the statutory annual Internal Audit opinion based on audit findings over the year.

## **6 The Local Authority Accounts (Scotland) Regulations 2014**

- 6.1** The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.
- 6.2** The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices.

## **7 Public Sector Internal Audit Standards (PSIAS) and Quality Assurance & Improvement Plan (QAIP)**

- 7.1** The MLC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2** The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3** An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2021/22. The results and any associated improvement actions will continue to be reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 7.4** The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that Midlothian Council will be reviewed by East Renfrewshire Council in 2022 and will review East Lothian Council in 2022.

## **8 Report Implications (Resource, Digital, Risk and Equalities)**

### **8.1 Resource**

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan.

Budget monitoring of the Service is discussed by the Chief Internal Auditor and the Principal Internal Auditor with the Financial Services Manager on a quarterly basis to address any budgetary pressures.

There is a commitment to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. Separate plans and reports are presented to MIJB Audit and Risk Committee to fulfil this role.

## **8.2 Digital**

There are no digital implications arising from this report.

## **8.3 Risk**

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2021/22, at the start of each audit engagement, and during the re-assessment of the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.

If Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the Annual Plan 2021/22 will not be delivered in full. This will be mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary. This is to ensure that a sufficient range and breadth of assurance audit work will be carried out during 2021/22 to underpin the statutory Internal Audit opinion to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.

## **8.4 Ensuring Equalities**

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

## **8.5 Additional Report Implications (See Appendix A)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

### A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control

and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

#### **A.5 Involving Communities and Other Stakeholders**

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance plans.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year, which are designed to maintain and / or enhance internal controls, governance arrangements and risk management, assists the Council in improving its performance and outcomes.

#### **A.7 Adopting a Preventative Approach**

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance, including the provision of an Internal Audit service, is important to enable Midlothian Council to achieve its objectives.



AUDIT	DAYS	COMMENTARY	STATUS
<b>Assurance - Cyclical</b>			
<b>MLC Annual Assessment of Internal Control and Governance</b>	35	Prepare an annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with the Local Code of Corporate Governance covering the corporate whole and individual Directorates/Services.	Continuous audit approach to follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2020/21. Annual evaluation of compliance with the Local Code of Corporate Governance scheduled 4th Qtr. Internal Audit opinion, work undertaken and compliance with PSIAS will be outlined in Internal Audit Annual Assurance Report 2021/22.
<b>Income Collection</b>	30	Review of the policies and procedures in place for the collection of income and debt recovery. The audit will include a review of the Parent-pay system, car parking and licensing.	Brought forward from 2020/21. Audit work slightly behind original schedule though on track to conclude in 3rd quarter.
<b>Roads Maintenance Service</b>	30	Review of the Roads Maintenance service including both capital and revenue jobs ensuring that the service is complying with the relevant code of practice / risk based inspection regime.	Brought forward from 2020/21. Draft Report issued 28 September 2021. Final Report issued 26 October 2021. Executive Summary to Audit Committee 7 December 2021.
<b>Homelessness</b>	30	Review of controls in place to ensure the achievement of statutory obligations for the Homelessness service with a focus on prevention and support. Review of the provision, funding and costs associated with providing accommodation for homeless clients.	Brought forward from 2020/21. Draft Report issued 2 July 2021. Final Report issued 26 August 2021. Executive Summary to Audit Committee 28 September 2021.
<b>Information Governance</b>	20	Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation, specifically on information security. Specific review of FOI process and resources.	Internal Auditor attends Information Management Group. Assurance review of information governance framework is scheduled 4th Qtr.
<b>Schools</b>	30	Review of internal financial controls and business administrative procedures in place and data analytics of expenditure (DSM, PEF and other Funds including Schools Funds) to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools.	Scheduled 4th Qtr.
<b>Performance Management</b>	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's Services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework (LGBF) and Corporate Priorities Pls. Assess progress of the review and refresh of the Performance Management Framework.	Performance Management audit split into two elements - LGBF and Performance Management Framework (PMF). LGBF: Draft Report issued 8 October 2021; Final Report issued 22 October 2021; Executive Summary to Audit Committee 7 December 2021. Critical friend role during review and refresh of the PMF.
<b>Risk Management</b>	20	Review the process for identifying, evaluating, controlling / mitigating, recording, monitoring and reporting risks that potentially have a detrimental impact on the effective and efficient delivery of Services. Review risk management policy, strategy, training and toolkits, and assess risk registers at Strategic, Service Operational, Programme/Project, and Partnership levels.	Draft Report issued 2 June 2021. Final Report issued 22 November 2021. Executive Summary to Audit Committee 7 December 2021.
<b>Financial Policy and Governance Framework</b>	15	Assess the Financial Policy and Governance Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines and any associated Codes of Practice, including the rollout to employees.	Carried out background research and analysis in 1st Qtr in advance of working with Financial Services in a critical friend role in alignment with the timescales of their work programme of financial policy review.
	<b>240</b>		

AUDIT	DAYS	COMMENTARY	STATUS
<b>Assurance - Risk-Based</b>			
<b>Learning and Physical Disabilities Services</b>	<b>30</b>	Review of the decision-making process for packages of care, the provision and cost of the service provided, funding and transition to ensure obligations are met to deliver services.	Brought forward from 2020/21 - Scheduled 3rd Qtr
<b>School Excursions</b>	<b>0</b>	Assess the policies and procedures in place to ensure the inclusion and safety of children on excursions.	** Brought forward from 2020/21. Defer to 2022/23 - Low risk due to Covid-19 pandemic restrictions in 2020/21 and 2021/22.
<b>Invoice Approval and OCR</b>	<b>10</b>	Assess the authorisation controls, including segregation of duties, and security controls over payments.	Brought forward from 2019/20 and 2020/21 'Automated Invoice Payments'. Draft Report issued 7 September 2021. Final Report issued 14 September 2021. Executive Summary to Audit Committee 28 September 2021.
<b>ICT Security</b>	<b>30</b>	Assess the adequacy of the ICT security arrangements associated with the network and business applications, including: policy and guidelines; physical and operational controls; business continuity and disaster recovery arrangements; and third party access. Review of the Public Services Network (PSN) and Cyber Essentials accreditation	Scheduled 3rd Qtr.
<b>Waste and Recycling Services</b>	<b>30</b>	Ensure there are adequate financial and operational controls in place for the effective delivery of waste collection and recycling services including plans to achieve Zero Waste targets.	Scheduled 3rd Qtr.
<b>Scottish Welfare Fund</b>	<b>20</b>	Assess the adequacy of the operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund and that they are effective, appropriate and consistent. Include a specific review of Discretionary Housing Payment policy, processes and payments.	Scheduled 3rd Qtr.
<b>Housing Allocations</b>	<b>30</b>	Assess the policies, procedures and practices in place to ensure the Council allocates housing in accordance with the Housing (Scotland) Act 2001 and 2014.	Scheduled 3rd Qtr.
<b>Sustainable Environment</b>	<b>20</b>	Assess progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility such as climate change.	Scheduled 3rd Qtr.
<b>Capital Investment</b>	<b>30</b>	Continual audit approach to assess compliance with established good practice by Accounts Commission - review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme/projects. Specific focus on monitoring and scrutiny of delivery.	Chief Internal Auditor attends Capital Planning & Asset Management Board. Assurance work on governance is scheduled 3rd Qtr.
<b>Early Learning and Childcare Expansion</b>	<b>30</b>	Review of the Council's future plans for delivering the expansion in early learning and childcare to 1140 hours and the remaining allocation of the capital funding received to deliver the additional capacity required.	Scheduled 3rd Qtr. The audit name and high level audit objective have been amended to reflect focus on future plans.
<b>Adult Social Care Contract Monitoring</b>	<b>30</b>	Review of the contract monitoring arrangements with suppliers for both care at home and care homes.	Scheduled 3rd Qtr.
<b>Digital Learning Strategy</b>	<b>20</b>	Review of the roles and responsibilities and project governance to ensure that the digital learning rollout is aligned to Council priorities and business requirements.	Audit work slightly behind original schedule though on track to conclude in 3rd quarter.
<b>Business Continuity</b>	<b>20</b>	Review the process for setting, testing, reviewing and updating Business Continuity Plans to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose (i.e. no critical single points of failure).	Carried out some work in 2nd Qtr though remaining parts of audit scope are scheduled in 4th quarter to align with system development implementation.
	<b>300</b>		

AUDIT	DAYS	COMMENTARY	STATUS
<b>Legislative &amp; Other Compliance</b>			
EU Funded Programme Tyne Esk LEADER	10	Annual requirement to review the controls in place to deliver the EU Funded Programme Tyne Esk LEADER and to undertake compliance related work as defined by the Service Level Agreement (extension granted to the programme).	Draft Report issued 29 September 2021. Final Report issued 26 October 2021. Executive Summary to Audit Committee 7 December 2021.
	10		

AUDIT	DAYS	COMMENTARY	STATUS
<b>Consultancy</b>			
Consultancy - critical friend	20	In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Learning Estate Strategy, Business Transformation Board, Information Management Group); and an objective assessment of self-evaluation arrangements.	In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, and Information Management Group.
	20		

AUDIT	DAYS	COMMENTARY	STATUS
<b>Other</b>			
PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to the Audit Committee.	Scheduled 4th Qtr. Findings will be outlined in Internal Audit Annual Assurance Report 2021/22.
MLC Audit Committee Self-Assessment	5	Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance.	2020/21 self-assessment carried out during an Informal Session on 4 May 2021 facilitated by the Chief Internal Auditor. The Chairman presented the Audit Committee Annual Report 2020/21 to Council on 5 October 2021. 2021/22 self-assessment scheduled 4th Qtr.
MLC Recommendation Follow Up Reviews	30	Undertake 2 reviews: the first includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed, and the second assesses performance against closing Audit Actions by the agreed due date.	Follow-Up Review of Completed Internal Audit Recommendations to Audit Committee 28 September 2021. Follow-Up Review of In Progress Internal Audit Recommendations scheduled 3rd Quarter.
Contingency	60	Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.	Contingency days utilised for non-audit work during the first quarter of the year due to the continued part-time deployment of the two Internal Auditors to Economic Development service to assist with the administration of support grant payments, as part of the Council's ongoing emergency response associated with the Covid-19 pandemic.
Help Desk Enquiry system	22	Provide guidance and advice to Management and Staff on internal controls. Manage any enquiries received through the whistle-blowing facilities offered by the Council.	Ongoing.
MLC Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committee.	Ongoing.
Risk Management Group	5	Attend and provide support to the Risk Management Group, the Serious and Organised Crime Group, and the new Integrity Group.	No meetings in first half of year 2021/22 of Risk Group or Serious & Organised Crime Group. Integrity Group met every 2 months.
MLC Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant.	Ongoing.
MLC Audit Planning for 2022/23	11	Update the Audit Universe, check risk registers and other sources of assurance, and develop and consult on proposed coverage within the Internal Audit Annual Plan 2022/23.	Scheduled 4 Qtr. Internal Audit Annual Plan 2022/23 will be presented to Audit Committee for approval in March 2022.
	155		
<b>MLC Total</b>	<b>725</b>		

AUDIT	DAYS	COMMENTARY	STATUS
<b>Non MLC</b>			
Midlothian Health and Social Care Integration Joint Board	40	Audit reviews and support to be determined and agreed by the Midlothian Health and Social Care Integration Joint Board Audit and Risk Committee for review of the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources.	MIJB Internal Audit Annual Plan 2021/22 approved by MIJB Audit and Risk Committee on 4 March 2021. Audit work ongoing. Reports will be presented to MIJB Audit and Risk Committee.
	40		
<b>Overall Total</b>	<b>765</b>		

## **Internal Audit Follow-Up of Recommendations Progress**

### **Report by Chief Internal Auditor**

#### **Report for Decision**

#### **1 Recommendations**

The Audit Committee is asked to:

- a) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management; and
- b) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

#### **2 Purpose of Report/Executive Summary**

The purpose of this report is to provide an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

**Date 25 November 2021**

#### **Report Contact:**

Jill Stacey

[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### **3. Background**

- 3.1** Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2** The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3** Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit Final Report stage the Audit Recommendations are input into the Pentana Performance system, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4** A new Protocol for agreeing extensions to due dates for Internal Audit recommendations made was implemented in August 2019 to ensure that Internal Audit has oversight of this and to provide a visible audit trail within the Pentana Performance system.
- 3.5** Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been reported as complete and reviews the adequacy of the actions taken and improvements made (reported to the 28 September 2021 Audit Committee). The second reports on the progress Management have made in implementing the recommendations by the expected date (the subject of this report).
- 3.6** The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

### **4. Progress Update**

- 4.1** It is Management responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively. These are known as the first and second lines. The quarterly performance monitoring process provides an opportunity for Management to have a discussion on all of the open audit actions, including those that are overdue, the reasons why they were not completed by the original due date, risk mitigations in place in the interim, and requests to Internal Audit for extensions to due dates.

- 4.2** An Internal Audit action report was generated from the Pentana Performance system on 8 November 2021 which reflected the Quarter 2 updates 2021/22. The 47 audit actions that are in progress can be summarised as follows:

Financial Year	High	Medium	Low	Total
2016/17	0	1	0	1
2017/18	0	0	0	0
2018/19	2	4	1	7
2019/20	1	11	8	20
2020/21	3	9	6	18
2021/22	0	1	0	1
<b>Total</b>	<b>6</b>	<b>26</b>	<b>15</b>	<b>47</b>

- 4.3** The table demonstrates that there are 6 High rated, 26 Medium rated and 15 Low rated audit actions in progress. There have been occasions when it is necessary to grant extra time to complete audit actions. Some Managers have proposed extensions to due dates for some audit actions which have been agreed with Internal Audit, based on further work required to implement these audit actions in full. There are no overdue audit actions, though there are 16 audit actions that have a target implementation date of 31 December 2021.
- 4.4** The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team on 25 November 2021.
- 4.5** A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2021/22 for Midlothian Council which is scheduled for presentation to the Audit Committee in June 2022.

## **5 Report Implications (Resource, Digital, Risk and Equalities)**

### **5.1 Resource**

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

### **5.2 Digital**

There are no digital implications arising from this report.

### **5.3 Risk**

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced

operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

#### **5.4 Ensuring Equalities**

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

#### **5.5 Additional Report Implications (See Appendix A)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

### A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

#### **A.5 Involving Communities and Other Stakeholders**

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. This report is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana Performance system and followed-up by Internal Audit. Any further matters of concern will be raised to CMT and the Audit Committee as appropriate.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes. The report identifies the performance of the Council in closing Internal Audit recommendations by the agreed implementation date.

#### **A.7 Adopting a Preventative Approach**

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.

**Title of Report** Risk Management Update, Quarter 2 2021/22

**Report by** Derek Oliver, Chief Officer - Place

**Report for Information**

## **1 Recommendations**

Audit Committee is recommended to:

- note the current risk landscape and organisational response to the most significant risks in Quarter 2 2021/22.

## **2 Purpose of Report/Executive Summary**

The purpose of this report is to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 2 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.

**Date** 25 November 2021

**Report Contact:**

Derek Oliver, Chief Officer – Place  
[derek.oliver@midlothian.gov.uk](mailto:derek.oliver@midlothian.gov.uk)

### **3 Q2 Risk Management overview**

#### **3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 2 2021/22 against a backdrop of operating within a series of government directed constraints and transition through Protection Levels, associated with responding to a global pandemic.

Despite indications in Quarter 1 of potential EU-Exit linked impacts on wider supply chains and logistics sector, there continues to be no negative experience or forecasted impact on Council operational service delivery.

Quarter 2 required the Council to maintain its ongoing control of risk associated with COVID 19 as the country transitioned through the Protection levels.

The Council continued to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary Corporate oversight over the broader strategic landscape continues.

#### **3.2 UK Exit from EU**

Quarter 1 2021/22 saw forecasts of workforce and supply chain issues but they were not yet experienced locally by the Council. With the likelihood and impacts that these would have on Council operations increasing, the risk evaluation of EU Exit was increased from Low Risk in Q4 2020/21 to Medium Risk in Quarter 1 2021/22. The incidence of impacts have again not been experienced in Quarter 2, although with concurrent risks attributed to supply chain delays and material costs, the Medium Risk score remains at this time.

#### **3.3 Strategic Risk Profile update**

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan demonstrating the Council's financial stability.

Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target.

The highest risks set out within the strategic risk profile at Quarter 2 are associated with the 'Early Years expansion', the 'Scottish abuse inquiry', with additional governance and controls in place for Asset Management resulting in a reduction in the likelihood score, with net effect of the evaluation reducing from High to Medium.

#### **3.5 Strategic Risk Profile Summary**

The Strategic Issues for the Council are summarised in table 1:

Issues	Likelihood	Impact	Score	Evaluation Q2	Q1 21/22
COVID 19	5	5	25	Critical 	Critical
The Change Programme	3	4	12	Medium 	Medium
Financial Stability	3	4	12	Medium 	Medium

The Strategic Risks for the Council are summarised in table 2:

Strategic Risks	Likelihood	Impact	Score	Evaluation Q1	Q1 21/22
Early Years Expansion (1140 Hours)	4	5	20	High 	High
Scottish Child Abuse Inquiry	4	5	20	High 	High
Asset Management	3	5	15	Medium 	High
Scottish Child Abuse Claims Project	3	5	15	Medium 	Medium
Information Security	3	5	15	Medium 	Medium
Cyber Security	3	5	15	Medium 	Medium
Health and Safety	3	5	15	Medium 	Medium
UK decision to leave the EU	3	4	12	Medium 	Medium
The Long Term Change Programme	3	4	12	Medium 	Medium
Financial Sustainability in future years	3	4	12	Medium 	Medium
Growing Council	3	4	12	Medium 	Medium
Care at Home	3	4	12	Medium 	Medium
Governance and standards	3	4	12	Medium 	Medium
Employee performance	3	4	12	Medium 	Medium
Emergency planning and business continuity	3	4	12	Medium 	Medium
Climate change	3	3	9	Medium 	Medium
Legal and Regulatory compliance	3	3	9	Medium 	Medium
Working with other to deliver outcomes	3	3	9	Medium 	Medium
Internal control environment	3	3	9	Medium 	Medium
Corporate policies and strategies	2	3	6	Low 	Low

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation Q2 21/22	Q 21/22
City Deal	5	5	25	Critical 	Critical
Creating a World Class Education System	4	5	20	High 	High
Shawfair	5	4	20	High 	High
Easter Bush – Penicuik	5	4	20	High 	High

### **3.6.1 STRATEGIC ISSUE – RATED CRITICAL AND HIGH**

#### **3.6.1 COVID 19**

During Quarter 2, Midlothian transitioned through the Protection levels to level 0 in July and beyond level 0 in August. The risks associated with this transition were significant in terms of service delivery and on employees and service users. Despite a vaccination programme in place, the virus impact remains significant, together with the various variants and risks associated with the re-opening of sectors.

### **3.7 STRATEGIC RISKS – RATED CRITICAL/HIGH**

#### **3.7.1 Scottish child abuse inquiry**

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. All relevant actions with respect to the Claims Project have been completed and reduced the evaluation outcome of the risk in Quarter 1.

#### **3.7.2 Early Years Expansion (1140 Hours)**

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140, the Council has continued to plan with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in estate capacity. These challenges are being considered in the wider context of the plan, in which the capacity and expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements.

The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. An Early Years report was reported to Council in June 2021 and included information on risks associated with proposed funding distribution. Cosla proposal shared on funding quantum for 2022/23 with LAs for comment in August 2021.

## **3.8 STRATEGIC OPPORTUNITIES**

### **3.8.1 City Deal**

South East Scotland Region City Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity.

### **3.8.2 Fastest Growing Council**

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

### **3.8.3 Creating a World Class Education System**

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

### **3.8.4 Shawfair**

The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

### **3.8.5 Easter Bush**

Fast growing opportunities in Science, Technology, Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.

## **4 Report Implications (Resource, Digital, Risk and Equalities)**

### **4.1 Resource**

There are no direct resource implications indicated in this report, although, individual risks have associated resource implications.

### **4.2 Digital**

None.

### **4.3 Risk**

The risks reported in this report are understood with the Council able to demonstrate the current risk controls and actions being taken in response to these.

The report provides an overview of the significant risks faced by the Council during Quarter 2 2021/22 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

### **4.4 Ensuring Equalities**

There are no direct equalities issues arising from this report.

### **4.5 Additional Report Implications (See Appendix A)**

## **Appendices**

### **Appendix A – Strategic Risk Profile (Quarter 2 2021/22)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic risk profile

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

### A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

### A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compiled with input from a range of internal key stakeholders.

## **A.6 Impact on Performance and Outcomes**

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

## **A.7 Adopting a Preventative Approach**

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.

## **A.8 Supporting Sustainable Development**

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level Risks and Opportunities.

## Appendix A – Strategic Risk Profile (Quarter 2 2021/22)

### ISSUES

#### COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p><b>Risk cause:</b> COVID 19 Virus</p> <p><b>Risk event:</b> Virus evident in all communities with rates of positive infection increasing. In a Scottish setting the focus on increase is within the central belt.</p> <p><b>Risk effect:</b> Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services.</p> <p>Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery inline with new controls.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> <li>CIMT was established to take Strategic approach to managing response to COVID 19. Stands ready to be re-initiated at any time.</li> <li>Employees directed to work from home where possible, follow Scottish Government guidance and MC remote working by default Policy.</li> <li>COVID-19 guidance monitored and continually revised then issued to Adult Services, children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk.</li> <li>Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers.</li> <li>Promotion of digital tools to support employees and prevent employees becoming isolated.</li> <li>Council website kept up-to date, providing details of which services were operating and any changes on how to access services.</li> <li>Remote working by default, with digital kit provided to support this for critical activities as required.</li> <li>Following safe working guidance issued by Scottish government relevant to sectors.</li> <li>Economic Recovery Strategy</li> <li>Support for Test and Protect</li> <li>School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.16	Risk assessment/Guidance on protective measures.	<b>Q1 21/22:</b> Gallagher Basset will undertake a review of all Risk Assessments and procedures across the Council estate. A report will be presented to CMT following receipt. <b>Q2 21/22:</b> Actions have been detailed to the respective risk owners directly and/or tabled at the relevant Estate Safety & Maintenance Group.	Chief Officer Place	30-Sep-2021	
SRP.IA.10.17	4,000 mobile devices issued to support home learning	<b>Q1 21/22:</b> 3,300 devices have now been returned and reorganised in preparation to be re-deployed as part of the Equipped for Learning. The Equipped for Learning programme will see these 3,300 plus new devices deployed to all Midlothian pupils (14,000 approx total).  700 devices remain with young people to support digital inclusion and remote learning. These devices will be swapped out on deployment day to ensure those young people have the exactly the same device model as their peers.	Chief Officer Corporate Solutions; Executive Director Children, Young People and Partnerships	31-Mar-2022	

## SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p><b>Risk event</b> Delayed progress or non achievement of outcomes and benefits.</p> <p><b>Risk effect</b> Slow or delayed financial benefits arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>Strategic Boards in place reporting to the Business Transformation Board covering range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub &amp; Spoke Place Based Solutions; Remote Working.</li> <li>Deep Dive sessions arrange for December 2021 to support the work of the Boards and assess pace and scale of transformation with aim of driving transformation</li> <li>Secured financial balance for 2021/22 via corporate solution with similar approach adopted for 2022/23 budget. This avoided the need for further service reductions and allows CMT to focus on the next iteration of the MTFs</li> <li>"Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic.</li> <li>Financial monitoring reports and work of the FM CMT evidence continued financial sustainability and overall delivery of services within budget in year.</li> <li>Recognition of and actions progressing, to develop the next iteration of the MTFs covering the term of the next Council.</li> </ol>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update proposed to BTSG meeting on 7<sup>th</sup> June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29.</p> <p>In turn, this will support a report, via BTSG, to Council in November 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>The Projections and key assumptions endorsed by BTSG</li> <li>The projected gap between recurring expenditure and funding</li> <li>A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> </ul> <p>With further updates to BTSG and then to Council on 14 December 2021 and 15 February 2022. All to allow Council to determine the budget for 2022/23.</p> <p>In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election.</p> <p><b>Q2 21/22:</b> A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 16 November 2021, setting out an update on various aspects of the 2022/23 budget, and recommending a freeze for local determined fees and charges. The report also set out the 2 further reports that would be presented in December and February to allow Council to determine its 2022/23 budget and set Council Tax.</p> <p>In parallel, work continues to bring forward the next iteration of the MTFS as part of a Long Term Strategic Plan, for the term of the next Council, for consideration after the May 2022 election.</p>	Chief Officer Corporate Solutions	15-Feb-22	

### SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p><b>Risk cause</b> Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are Rising customer expectations</p> <p><b>Risk event</b> Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p>	Chief Officer Corporate Solutions;	<ol style="list-style-type: none"> <li>There is an approved Capital Strategy and Reserve Strategy in place</li> <li>There is an approved budget for 2021/22, services are being delivered within the totality of that budget and a corporate solution proposed for 2022/23</li> <li>There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus.</li> <li>Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services.</li> <li>Strategic Boards in place and BTB focus and attention on driving</li> </ol>	3	4	

	<p><b>Risk effect</b> Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.</p>		<p>transformation to support future years financial sustainability 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 6. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasised the need for effective financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.07.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7th June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29.</p> <p><b>Q2 21/22:</b> A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 16 November 2021, setting out an update on various aspects of the 2022/23 budget ,and recommending a freeze for local determined fees and charges. The report also sett out the 2 further reports that would be presented in December and February to allow Council to determine its 2022/23 budget and set Council Tax.</p> <p>Quarterly financial monitoring report identify that services are being delivered within the totality of the budget and so reserves position being maintained.</p> <p>In parallel work continues to bring forward the next iteration of the MTFS as part of a Long Term Strategic Plan, for the term of the next Council, for consideration after the May 2022 election.</p>	Chief Officer Corporate Solutions	15-Feb-22	

## RISKS

### SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p><b>Risk cause:</b>                      Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's                      Increasing population of 0-15 age group and at a time when there are                      Rising customer expectations                      Policy decisions by UK &amp; Scottish Governments which are not fully funded.                      Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service.                      Future year pay award settlements</p> <p><b>Risk event:</b>                      Real terms reduction in core grant settlements.                      Policies decisions at Government level not fully funded to Council's.                      Implementation of a National Care Service and impact on grant settlements                      Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge.                      Cost pressures exceeding budget estimates.                      Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p><b>Risk effect:</b>                      Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	<p>Chief Executive;                      Executive                      Director Children, Young People and Partnerships;                      Executive                      Director Place:                      Head of Adult and Social Care;                      Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work;                      Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Development of Medium Term Financial Strategy.                      2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.                      3. Capital and Reserves Strategies in place.                      4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.                      5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in.                      6. Best Value Audit report actions.                      7. Strategic Boards in place to drive transformation in line with the Route Map through and out of the Pandemic</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status

SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at BTSG meeting on 7th June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29. Updates to BTSG in November 2021 and January 2022, supporting Council reports on 14 December 2021 and 15 February 2022.</p> <p><b>Q2 21/22:</b> A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 16 November 2021, setting out an update on various aspects of the 2022/23 budget, and recommending a freeze for local determined fees and charges. The report also set out the 2 further reports that would be presented in December and February to allow Council to determine its 2022/23 budget and set Council Tax.</p> <p>Quarterly financial monitoring report identify that services are being delivered within the totality of the budget and so reserves position being maintained.</p> <p>In parallel work continues to bring forward the next iteration of the MTFS as part of a Long Term Strategic Plan, for the term of the next Council, for consideration after the May 2022 election.</p>	Chief Officer Corporate Solutions	15-Feb-22	
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**SRP.RR.02 The Long Term Change Programme**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p><b>Risk cause</b> A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p><b>Risk event</b> Delayed progress in applying various strands of the Change Programme Slow benefits realisation and budget savings Cuts in service provision rather than service transformation</p> <p><b>Risk effect</b> Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	1. Medium Term Financial Strategy and Route Map 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 6. Capacity to deliver change.	3	4	

	short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in Short term savings instead of transformation					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at BTSG meeting on 7th June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29. Updates to BTSG in November 2021 and January 2022, supporting Council reports on 14 December 2021 and 15 February 2022.</p> <p><b>Q2 21/22:</b> A Medium Term Financial Strategy, 2022/23 budget update was provided to Council on 16 November 2021, setting out an update on various aspects of the 2022/23 budget, and recommending a freeze for local determined fees and charges. The report also set out the 2 further reports that would be presented in December and February to allow Council to determine its 2022/23 budget and set Council Tax.</p> <p>Quarterly financial monitoring report identify that services are being delivered within the totality of the budget and so reserves position being maintained.</p> <p>In parallel work continues to bring forward the next iteration of the MTFS as part of a Long Term Strategic Plan, for the term of the next Council, for consideration after the May 2022 election.</p>	Chief Officer Corporate Solutions	15-Feb-22	

### SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p><b>Risk cause</b> Current or new legislation applying to Midlothian Council</p> <p><b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p><b>Risk effect</b> Council failing to meet its statutory obligations resulting in a</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer	<ol style="list-style-type: none"> <li>1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required.</li> <li>2. Annual Assurance Statement.</li> <li>3. Internal Audit testing of internal controls as part of risk based audit plan.</li> <li>4. External Audit.</li> <li>5. Range of external inspection.</li> <li>6. Local Scrutiny Plan</li> </ol>	3	3	

	potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	BTSG oversight of new legislation			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	<p><b>Q1 21/22:</b> Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.</p> <p><b>Q2 21/22:</b> Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required. Regular Assurance Statements to sign off on regular external inspections in both CLL &amp; CS</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-March-2022	
SRP.RA.03.0 2	Rights of the Child Bill	<p><b>Q1 21/22:</b> Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.</p> <p><b>Q2 21/22:</b> Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.</p>	All Directors	1-Nov-2021	
SRP.RA.03.0	National Care Service	<b>Q1 21/22:</b> Following an independent review of adult social care, a Scottish Government	Joint Director	31-Mar-2022	

3		consultation is due to be published on 9 <sup>th</sup> August 2021 on proposals to improve the way social care is delivered, entitled: National Care Service for Scotland: Consultation. With full consideration of the consultation and acknowledgement of potential risks, this has been identified as an emerging risk within the IJB.  <b>Q2 21/22:</b> Response to SG consultation on the creation of a National Care Service for Scotland.	Health and Social Work		
SRP.RA.03.04	Heath Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 due to expire on 30 Sep 2021 (subject to review).	<b>Q1 21/22:</b> CMT, Group Leaders briefings and Quarterly Performance Framework continue to detail and report on external developments.  <b>Q2 21/22:</b> The Extension and Expiry Act removes provisions no longer required and extends those still required until the end of March 2022, with further extension possible to end of September 2022, subject to agreement of the Scottish Parliament. Ongoing monitoring of changing regulatory landscape.	Chief Executive	31-March-2022	

#### SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p><b>Risk cause</b> Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance</p> <p><b>Risk event</b> Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.</p> <p><b>Attendance / Wellbeing</b> 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers.</p> <p><b>Performance</b> 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons</p>	3	4	

	<p><b>Risk effect</b>  Difficulties recruiting the right staff  Challenges retaining quality staff  Low skill levels  Low morale, especially during change  High absence rates, loss of experience in service areas.  'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members.  Poor employee performance will Exacerbate the financial challenge</p>		<p>etc.</p> <p><b>Organisational Change</b>  1. Policy for Organisational Change includes strong emphasis on early engagement of employees.  2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p><b>Conduct</b>  1. Resolution Policy encourages early intervention of workplace issues.  2. Professional standards and values build into the induction process and management development programme.</p> <p><b>Communication</b>  1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	<p><b>Q1 21/22:</b> Place Directorate Service Review underway, with phase 1 of Place Services nearing implementation. Childrens' Services, Corporate Solutions and Development reviews implemented across Q2-3.</p> <p><b>Q2 21/22:</b> Directorate Service Reviews underway, with implementation across Q3/4. CYPP Business Support Team service review completed. Digital Learning &amp; Inclusion team service review completed. Early Years' Service Review ongoing and central education team review ongoing.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2022	

SRP.RA.02.05	Workforce Wellbeing	<p><b>Q1 21/22:</b> New EAP provider appointed to ensure highest level of service provided to staff. Embedding of the new Employee Health and Wellbeing Strategy. Partnership status obtained with See Me mental health charity. Roll out of mental health awareness training.</p> <p><b>Q2 21/22:</b> New EAP provider appointed to ensure highest level of service provided to staff. Embedding of the new Employee Health and Wellbeing Strategy. Partnership status obtained with See Me mental health charity. Roll out of mental health awareness training.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2022	
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### SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p><b>Risk cause</b> General Data Protection Regulation formulated by the European Commission.</p> <p><b>Risk event</b> The Regulation implemented on 25 May 2018.</p> <p><b>Risk effect</b> The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Information Management Group</li> <li>2. Public Sector Network Compliance.</li> <li>3. Meta Compliance</li> <li>4. Information Management, awareness raising program (Private-i)</li> <li>5. General Data Protection Regulation Project plan implemented with close report.</li> <li>6. Public sector cyber security compliance</li> <li>7. Implementing Scottish Government Cyber Security Action Plan</li> <li>8. Mandatory e-learning for all employees and elected members.</li> <li>9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts.</li> </ol>	3	5	
Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	

SRP.RA.06.0 1	Cyber Security	<p><b>Q1 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p> <p><b>Q2 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p> <p>Action plan being prepared in response to the publication of reports by SEPA following the cyber attach experienced by them.</p>	Chief Officer Corporate Solutions	31-Mar-2022	
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**SRP.RR.07 Care at Home**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b> Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p><b>Risk event</b> Capacity of Community Support outstripped by demand</p> <p><b>Risk effect</b> There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;	<ol style="list-style-type: none"> <li>1. Care at Home improvement action plan in place and near compaction</li> <li>2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level</li> <li>3. New Framework agreement in place with significant improvement in quality from Providers</li> <li>4. Flow management planning in development to maximise Care at Home capacity going forward</li> <li>5. Weekly provider meetings in place</li> <li>6. Additional locum team members recruited to for contingency cover</li> <li>7. New Leadership model in place</li> <li>8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at hone support in place</li> </ol>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.0 1/ SRP.RA.03.0 3	Independent review of adult and social care	<b>Q1 21/22:</b> Following an independent review of adult social care, a Scottish Government consultation is due to be published on 9 <sup>th</sup> August 2021 on proposals to improve the way social care is delivered, entitled: National Care Service for Scotland: Consultation. With full consideration of the consultation and acknowledgement of potential risks, this has been identified as an emerging risk within the IJB.	Joint Director Health and Social Work	31-Mar-2022	

### SRP.RR.08 Asset Management – buildings, vehicles, roads and Digital assets/networks

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p><b>Risk cause</b> Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Chief Officer Corporate Solutions; Chief Officer Place	<ol style="list-style-type: none"> <li>1. There is provision in place within the capital plan for investment in the asset base.</li> <li>2. Asset register</li> <li>3. Conditional Survey</li> <li>4. Understanding of future asset needs</li> <li>5. Asset Strategy: <ul style="list-style-type: none"> <li>. Roads</li> <li>. Land</li> <li>. Fleet</li> <li>. Digital Service Network</li> <li>. Digital Service hardware</li> </ul> </li> <li>6. Capital program - investment in estate.</li> <li>7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</li> <li>8. Established Capital Plan and Asset Management Board</li> </ol>	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.0 2	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<p><b>Q1 21/22:</b> Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>As result of Government guidance on Construction all summer works postponed resulting</p>	Chief Officer Place	31-Mar-2022	

		<p>in the need for rescheduling of planned capital works</p> <p><b>Q2 21/22:</b> Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>Revised governance for the Capital Plan And Asset management Board has created a separate Asset Management Board to further strengthen approach to managing existing asset base</p>			
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	<p><b>Q1 21/22:</b> Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.</p> <p>Work to take forward the Roads Asset Strategy will form a fundamental component of restructured services priorities.</p> <p><b>Q2 21/22:</b> Council committed additional funding to upgrade of non classified roads across Midlothian</p>	Chief Officer Place	31-Mar-2022	
SRP.RA.08.05	School Estate Strategy	<p><b>Q1 21/22:</b> Revision of existing Learning Estate Strategy and agreement from Capital Project Board to progress with projects.</p> <p><b>Q2 21/22:</b> Revision of existing Learning Estate Strategy and agreement from Capital Project Board to progress with projects. Including replacement of Beeslack HS, Mayfield and St Luke's Primaries and Refurbishment of Penicuk High as part of the LEIP programme</p>	Executive Director Children, Young People and Partnerships	31-March-2022	

### SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p><b>Risk cause</b> The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p><b>Risk event</b> There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p><b>Risk effect</b> Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices),</p>	Chief Officer Place	<p><u>Potential</u> sub risks include:-</p> <p>01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Risk and Resilience Group support development, peer review and roll out of plans.</p> <p>02 – Establishment based incident response plans in place and maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p>	3	4	

	computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries		05 – Care for People Group meeting 3 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan Resettlement programme			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.0 2	Development of Emergency Planning Improvement Plan	<b>Q4 20/21:</b> Contingency Improvement Plan drafted and due to be shared with Risk and Resilience Group ahead of reporting to CMT for approval. <b>Q2 21/22:</b> Established Risk Management & Resilience Group, which met to consider Risks and Concurrent Risks, with associated Resilience Planning.	Chief Officer Place	31-Mar-2022	
SRP.RA.09.0 3	Business Continuity System	<b>Q4 20/21:</b> Business Continuity system successfully procured with cross service project group involved. System currently being built around existing Council systems ahead of roll out to all services.	Chief Officer Place	31-Mar-2022	

### SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards. <b>Risk event</b> Failure in openness, accountability, clarity. <b>Risk effect</b> Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	<u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration 07 Scheme of Delegation	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.0 1	Corporate Governance	<b>Q1 21/22:</b> Annual Assurance Statement; People Policies; and Standing Orders subject to review process <b>Q2 21/22:</b> Annual Assurance Statement; People Policies; and Standing Orders subject to review process	Chief Executive; Executive Director Place	31-March 2022	

### SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p><b>Risk cause</b> Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p><b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p><b>Risk effect</b> Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Single Midlothian Plan providing overarching direction</li> <li>2. Service plans aligned to Single Midlothian Plan.</li> <li>3. Leadership team to ensure correct approaches are adopted to get the right results.</li> <li>4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding.</li> <li>5. Procurement Strategy 2018</li> <li>6. Local Procurement Strategy 2021.</li> <li>7. Capital Strategy</li> <li>8. Integrated Joint Board (IJB) Strategic Plan</li> <li>9. IJB Strategic needs assessment</li> </ol>	2	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 1	Parental Engagement Strategy	<p><b>Q1 21/22:</b> Parental Learner Liaison Officer appointed. Will be in post by end of October 2021.</p> <p><b>Q2 21/22:</b> Parental Learner Liaison Officer is appointed and is now in post. The new officer is now taking forward our revised Parental Engagement Strategy and preparing to carry out the national parental engagement survey, looking at examples of Parental Engagement Strategies from around Scotland. Working to have a final draft written in the period from Jan- April, based on consultation with families. Also beginning a consultation process with stakeholders looking to create a draft Accessibility policy in January.</p>	Executive Director Children, Young People and Partnerships	30-April-2022	
SRP.RA.11.0 2	Accessibility Strategy	<p><b>Q1 21/22:</b> Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a workstream will be progressed to ensure Council compliance.</p> <p><b>Q2 21/22:</b> Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a workstream will be progressed to ensure Council compliance.</p>	Executive Director Children, Young People and Partnerships	31-December-2021	
SRP.RA.11.0	Neighbourhood Services	<b>Q4 20/21:</b> Place Service has been working with community representatives and the	Chief Officer Place	31-Mar-2022	

3		Charity Nesta to establish a new Neighbourhood Service aimed at working with Communities to deliver and meet the needs of Services.  <b>Q2 21/22</b> Place Service has been working with community representatives and the Charity Nesta to establish a new Neighbourhood Service aimed at working with Communities to deliver and meet the needs of Services.			
SRP.RA.11.0 4	Remote Working	<b>Q1 21/22:</b> Continue with Remote Working/Digital By Default position. Working through Board to fully implement and deliver the vision in conjunction with trades union.  <b>Q2 21/22:</b> Remote working by default remains until at least Christmas. Remote working by default thereafter for those who can maintain it or a phased transitioning to a hybrid model of working - both based on data gathered from Manager survey	Chief Officer Corporate Solutions	31-Mar-2022	
SRP.RA.11.0 5	Antisocial Behaviour Policy	<b>Q1 21/22:</b> Working with partners to review and implement a revised whole systems Policy, led by Protective Services.  <b>Q2 21/22:</b> Working with partners to review and implement a revised whole systems Policy, led by Prot4ective Services/Community Safety.	Chief Officer Place	31-Mar-2022	

### SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors. Changing risk landscape associated with remote working solutions.</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Services have been prompted to consider fraud and waste within Service Risk Registers.</li> <li>2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls.</li> <li>3. Internal Audit examine internal control arrangements based largely on the risk registers.</li> <li>4. Whistleblowing Policy (subject to review)</li> <li>5. Internal and external assurance.</li> <li>6. E-learning for staff to complete mandatory training for fraud awareness.</li> <li>7. Implemented changes to business processes and procedures to maintain and enhance internal control.</li> <li>8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement.</li> <li>9. Continue remind staff of secondary employment/outside interests and gifts &amp; hospitality</li> <li>10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation.</li> <li>11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations.</li> </ol>	3	3	
<b>Related</b>	<b>Related Action</b>	<b>Related action latest note</b>		<b>Managed By</b>	<b>Due Date</b>	<b>Status</b>

Action Code					
SRP.RA.12.0 1	Risk Management Policy and Strategy	<p><b>Q1 21/22:</b> Review of Risk Management Policy and Strategy to be undertaken and approved by December 2021 Audit Committee.</p> <p><b>Q2 21/22:</b> Internal Audit of Risk Management.</p>	Chief Officer Place	07-Dec-2021	
SRP.RA.12.0 2	Corporate Integrity	<p><b>Q1 21/22:</b> The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.</p>	Executive Director Place	31-Mar-2022	

### SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p><b>Risk cause</b> Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p><b>Risk event</b> Council Services not responding to the Climate Change Act with sufficient pace.</p> <p><b>Risk effect</b> Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Executive Director Place	<ol style="list-style-type: none"> <li>1. Statutory requirement to report on compliance with the climate change duties.</li> <li>2. Council Carbon Management Plan</li> <li>3. Approval of a Corporate Climate Change and sustainable development action plan</li> <li>4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress.</li> <li>5. Climate Change Strategy</li> <li>6. Resilience Seminars</li> </ol>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 2	Recruitment of Climate Change Officer	<b>Q4 20/21:</b> The Council developed a Climate Change Action Plan part of its Climate Change Strategy approved by Council in August 2020, there is now governance to recruit	Chief Officer Place	31-Mar-2022	

		<p>a Climate Change officer. This role is seen as being instrumental in driving forward the Council's Climate Change Action Plan and reporting on progress against the plan.</p> <p><b>Q2 21/22:</b> Review of the new Planning, Sustainable Growth &amp; Investment service, with the creation of a dedicated Climate Change &amp; Biodiversity team, established within the structure, incorporating the new Climate Change Officer post.</p>			
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**SRP.RR.14.1 Scottish Child Abuse Inquiry**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p><b>Risk Cause:</b> Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p><b>Risk Event:</b> The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p><b>Risk Effect:</b> If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C &amp; D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records.</li> <li>2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules.</li> <li>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</li> </ol> <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</li> <li>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</li> <li>6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council.</li> <li>7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.</li> <li>8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan.</li> <li>9. Processes and 2 experienced staff in place and to date have been</li> </ol>	4	5	

			able to respond to every request from the SCAI team.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 3	Foster Care and Residential Care File Review	Q1 20/21: File reading continues around foster care and residential care.	Chief Officer Children's Services;	31-Mar-2022	

### SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p><b>Risk Cause:</b> Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p><b>Risk Event:</b> Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p><b>Risk Effect:</b> There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>	Chief Officer Children's Services;	<p>1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.</p> <p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p> <p>3. Scottish Governments Redress Scheme – awaiting the scheme to come into force. Legislation to establish the Redress Scheme has been passed by Parliament.</p>	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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		Identified Previous Actions Complete	Chief Officer Children's Services;		
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### SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p><b>Risk event</b> Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Local development plan and supplementary guidance on developer contributions.</li> <li>2. Services planning future service provision on the basis of anticipated service demands</li> <li>3. The change programme</li> <li>4. Learning Estate Strategy, including ASN provision</li> <li>5. Capital Strategy</li> <li>6. Housing Strategy</li> <li>7. Joint needs assessment used to develop - IJB Strategic Plan</li> <li>8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</li> <li>9. City deal provides the opportunity to support inclusive growth.</li> </ol>	3	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.RA.16.01	Capital Programme	Q1 21/22: Implementation of Project Management teams, with advertisement for 4 Senior Project Managers.		Executive Director Place; Heads of Development	31-Oct-2022	

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p><b>Risk cause</b> UK vote to leave the European Union</p>	Chief Executive; Executive	<ol style="list-style-type: none"> <li>01 – EU Exit Working Group</li> <li>02 – Taking a risk management approach to identifying and assessing</li> </ol>	3	4	

	<p><b>Risk event</b> UK leaving the European Union</p> <p><b>Risk effect</b> The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	<p>Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.1-1	EU Exit Working Group	<p><b>Q1 21/22:</b> EU Exit group meets monthly to support assessment and monitoring of impact or potential impacts of exiting the EU, including emerging impacts on supply chains and HGV driver workforce. Continued monitoring and assessment during Q2.</p> <p><b>Q2 21/22:</b> EU Exit Group last met on 11/11/21, with decision made to consume the Group into the Risk Management &amp; Resilience Group meetings as a concurrent risk topic. With the exception of increased material costs and supply chain delays, no impacts on Council service provision or delivery reported at this time.</p>	Chief Officer Place;	31-Mar-22	

### SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p><b>Risk cause</b> Failing to identify and rectify non-compliance with Health and Safety regulations.</p>	Chief Executive; Executive Director Children,	<p>1 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021)</p>	3	5	

	<p><b>Risk event</b> Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p><b>Risk effect</b> Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.</p>	<p>Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>3 - Comprehensive range of Health &amp; Safety Management &amp; Assessment based development opportunities for line managers 4 - Use of Health &amp; Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.06	Delivery of Health, Safety and Wellbeing Strategy	<p><b>Q1 21/22:</b> Revised Health &amp; Safety Management Arrangements approved by CMT; revised health and safety audit programme in support of the check phase of the Council's Health and Safety Management system implemented. External review of Health &amp; Safety practices and protocols undertaken by Gallagher Bassett. Report to October CMT. Collegiate working continues between Environmental Health and Corporate Health &amp; Safety team to ensure all public health and H&amp;S risks are suitably identified, assessed and controlled.</p> <p><b>Q2 21/22:</b> Actions have been detailed to the respective risk owners directly and/or tabled at the relevant Estate Safety &amp; Maintenance Group for action. Report to CMT, with associated actions and outcomes to follow. Established Risk Management &amp; Resilience Group.</p>	Chief Officer Place;	31-Dec-2021	

**SRP.RR.20 Early Years Expansion (1140 Hours)**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.20	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours.</p> <p><b>Risk event</b> Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>	Executive Director Children, Young People and Partnerships; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Learning Estate Strategy</li> <li>2. Early Years Expansion to 1140 hours updates</li> <li>3. Capital Strategy</li> <li>4. School Roll Projections will be reviewed and updated</li> </ol>	4	5	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.20.0 1	1140 future years funding	<p><b>Q1 21/22:</b> Early Years report to Council in June 2021 included information on risks associated with proposed funding distribution. Cosla proposal shared on funding quantum for 2022/23 with LAs for comment in August 2021.</p> <p><b>Q2 21/22:</b> Continuation of current distribution for 2022/23 as consequence of pandemic, though SG will only confirm quantum as part of 22/23 SG budget. . COSLA and Government working, through ELC finance working group to evidence quantum for future years and to have this ready to inform any SG years 2 &amp; 3 indicative settlements post May 2022 elections. . Decision to move to a needs based allocation already taken <b>Q2 21/22</b> Associated risk due to possible increase in the sustainable rate to be paid to partner providers.</p>	Chief Officer Corporate Solutions	31-March 2022	

**SRP.RR.21 Cyber Security**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.21	<p><b>Risk Cause:</b> Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p><b>Risk Event:</b> The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p><b>Risk Effect:</b> Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> <li>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan</li> <li>2. Cyber Essentials Plus Certification</li> <li>3. Public Sector Network Certification</li> <li>4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack</li> <li>5. Employing an Information Governance and Security Lead</li> <li>6. Implementing Scottish Government Cyber Security Action Plan</li> </ol>	3	5	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.06.0 1	Cyber Security	<p><b>Q1 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p> <p><b>Q2 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p>	Chief Officer Corporate Solutions	31-Mar-2022	

		Action plan being prepared in response to the publication of reports by SEPA following the cyber attach experienced by them.			
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**OPPORTUNITIES .**

**SRP.OP.01 Shawfair**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	<p>The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.</p> <p>Comment from Peter A – should the risk be <i>The delivery of a sustainable low carbon new community?</i></p>	Executive Director Place	<ol style="list-style-type: none"> <li>1. Shawfair Landowners Group.</li> <li>2. Legal agreement with developers to secure developer contributions (Section 75)</li> <li>3. Plan for entire community</li> <li>4. Business and industrial provision, including small business incubator space.</li> <li>5. Circa 4000 new homes</li> <li>6. A school campus comprising Early Years, Nursery, Primary, Secondary &amp; Life Long Learning provision</li> <li>7. New Primary schools</li> <li>8. Public Transport infrastructure.</li> <li>9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)</li> </ol>	5	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.OP.01.01	Energy Service Agreement	Q1 21/22: LCTIP subsidy to the energy from waste heat generation.		Executive Director Place	31-Mar-2022	

**SRP.OP.03 Easter Bush - Penicuik**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	<p>One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.</p> <p>Need to secure long-term strategic road access to ensure continued growth.</p>	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> <li>1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM).</li> <li>2. Land allocated for expansion.</li> <li>3. Midlothian Science Zone.</li> <li>4. City Deal funding to provide for growth and strategic road access.</li> </ol>	5	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status

SRP.OP.03.A 1	A701/A702 Trunk Road Improvements	<b>Q1 21/22:</b> Project progress to STAG (Transport Appraisal).	Executive Director Place	31-Dec-2021	
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### SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> <li>1. City Deal signed in August 2018.</li> <li>2. Maintain strong Midlothian involvement through the City Deal governance structure.</li> <li>3. Midlothian City Deal Key Officer (Internal) Group.</li> <li>4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.</li> </ol>	5	5	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.OP.04.0 1	Realisation of outcomes of respective workstreams	<b>Q1 21/22:</b> Continued engagement with CRD forums		Executive Director Place	31-Mar-2022	

### SRP.OP.07 Creating a World Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> <li>1. Digital Centre of Excellence at Newbattle Community High School</li> <li>2. Partnership agreement with the University of Edinburgh</li> <li>3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets</li> <li>4. Accelerating our ambition – Digital Strategy</li> <li>5. Review of Digital team to support Digital Centre for Excellence</li> </ol>	4	5	

Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.OP.A.07 .01	Research and development	<p><b>Q4 20/21:</b> Replacement for Beeslack High school progressing with research being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.</p> <p><b>Q1 21/22:</b> Status Quo</p> <p><b>Q2 21/22:</b> CIVTECH research project progressing well in partnership with University of Edinburgh and SFT. Ongoing dialogue with the University of Edinburgh and Edinburgh College in relation to the new centre of excellence.</p>		Executive Director Children, Young People and Partnerships;	31-Aug-2023	

**Risk Management report Key:**

<b>Very low risk</b>	<b>1-3</b>	
<b>Low risk</b>	<b>4-8</b>	
<b>Medium risk</b>	<b>9-15</b>	
<b>High risk</b>	<b>16-20</b>	
<b>Critical risk</b>	<b>25</b>	

**Action Key:**

<b>In progress</b>	
<b>complete</b>	
<b>Overdue</b>	



**Midlothian Council  
Risk Management Strategy  
DRAFT**

## **1. Policy Statement**

Midlothian Council understands that it is important to recognise and manage the many risks which are inherent in its activities, and in the services which it provides for the benefit of the community. The Council has therefore adopted this policy on risk management, has established the attached Risk Management Strategy and has implemented procedures in support of the policy and strategy.

Midlothian Council acknowledges that risk can never be eliminated in its entirety. The Council also recognises that managing risk can also identify positive opportunities which, with the appropriate level of control, may lead to service improvements. Therefore, the measures which the Council adopts are principles of good management practice which seek to control and balance risk and opportunity.

Specifically, in the area of risk management, the Council seeks to:

- Always meet its statutory obligations, and to act within the law.
- Safeguard the public at large, the Council's members, employees, pupils, tenants and all persons to whom the Council has a duty of care.
- Protect its property, including buildings, equipment, vehicles or any other assets and resources.
- Preserve and enhance service delivery.
- Maintain effective control of public funds.
- Maintain and enhance the Council's reputation.
- Safeguard and enhance the quality of Midlothian's environment.

The Council will promote these objectives by systematically identifying, evaluating, and thereafter seeking to control and monitor all risks which would potentially endanger, or which could have a detrimental effect upon the aims and objectives stated above.

The Council will support its members and officials in developing the necessary skills and competencies to enable the provision of good quality risk management to the Council.

## **2. Introduction**

The objective of this strategy is to ensure that risk management is an integral part of the Council's corporate and service management, forms part of the Council's governance, planning and service delivery operations and allows for monitoring and reporting on the effectiveness of that strategy.

The strategy acknowledges that risks occur at all levels of the Council's functions and activities and includes strategic or corporate risks as well as innumerable operational risks.

### **3. Terminology**

#### **Governance**

The system by which local authorities fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users.

#### **Risk**

The chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. This can be further defined as “the combination of the likelihood of an event occurring (or not occurring, as the case may be) and its impact on the organisation”.

#### **Risk Management**

The planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the organisation and to ensure the continued financial and organisational well-being of the Council. All organisations exist to achieve their objectives. The purpose of risk management is to manage the barriers in achieving these objectives.

#### **Effective risk management**

Having a process in place that can identify what might go wrong, what the consequences might be of something going wrong and finally, deciding what can be done to reduce the possibility of something going wrong. If something does go wrong, making sure that the impact is kept to a minimum. Good risk management is successfully managing the barriers to achieving objectives.

### **4. Objectives**

Midlothian Council is committed to establishing and maintaining a systematic approach to the identification and management of risk.

The Council’s risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the Council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Consider compliance with health and safety, insurance and legal requirements as a minimum standard.
- Prevent death, injury, damage and losses, and reduce the cost of incidents and accidents.
- Inform policy and operational decisions by identifying risks and their likely impact.
- Raise awareness of the need of risk management by all those connected with the Council's delivery of service.
- Recognise that good risk management also includes positive risk taking and the identification of opportunities.

These objectives will be achieved by:

- Clearly defining the roles, responsibilities and reporting lines within the Council for risk management.
- Setting out clear risk management processes.
- Continuing to demonstrate the application of risk management principles in the activities of the Council, its employees and members.
- Reinforcing the importance of effective risk management as part of the everyday work of employees and members.
- Maintaining a register of risks linked to the Council's business, strategic and operational objectives, including those risks linked to working in partnership.
- Maintaining documented procedures of the control of risk and provision of suitable information, training and supervision.
- Maintaining an appropriate system for recording health and safety incidents, responses and identifying preventative measures against recurrence.
- Preparing contingency plans to secure business continuity where there is a potential for an event to have a major impact upon the Council's ability to function.
- Monitoring arrangements continually and seeking continuous improvement.

## **5. Approach**

It is essential that a single risk management approach be utilised at all levels throughout the Council. By demonstrating good governance through effective management of risks and opportunities, the Council will be in a stronger position to deliver our objectives, provide improved services to the public, work better as a partner with other organisations and achieve value for money.

This approach to risk management will inform the Council's business processes, including:

- Strategic planning.
- Financial planning.
- Service planning.
- Policy making and review.
- Performance management.
- Project management.
- Partnership working.

It is essential in order to achieve the objectives referred to in section 4 that processes are in place to identify and assess risks and opportunities, develop and implement controls and warning mechanisms, and to review and report on progress.

The identified risks and relevant control measures will be managed through the Council's Strategic Risk Register.

## **6. Status of Risk Management**

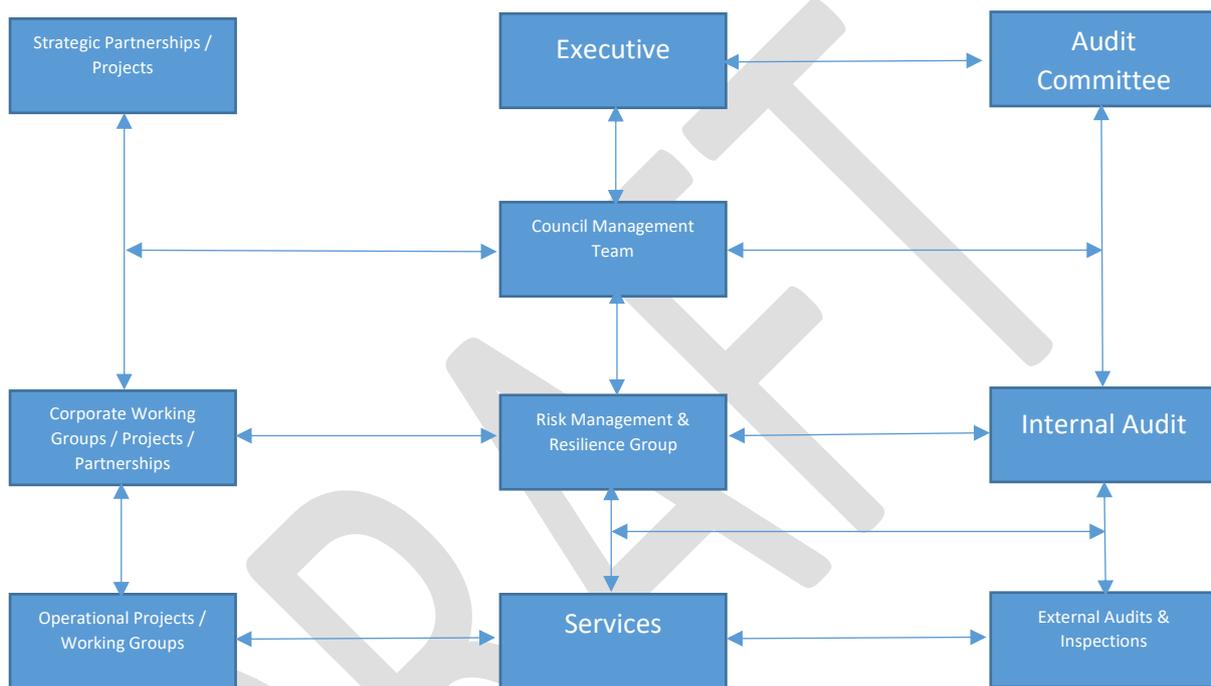
Risk management is as much a part of the duties of Council officials as, for example, the control of budgets or the deployment of staff and assets. It is one of many substantive issues to be considered by elected members when making decisions. If the Council is to have reasonable assurance that risk management is effective, and is effectively part of

the Council's operations, risk management must be carried out in a systematic and structured manner and be subject to monitoring and reporting on its effectiveness.

## 7. Management Arrangements

Risk management is a part of service and corporate / strategic management and accordingly is integrated within normal management processes.

The Risk Management Reporting Framework illustrates the Council's risk management structure:



The Chief Executive has overall responsibility for the management of risk within Midlothian Council.

Chief Officer – Place will have responsibility for ensuring that the Council's Risk Management Strategy, Policy and Strategic Risk Register/Profile are maintained and regularly reviewed. Risk owners will be clearly identified within the Strategic Risk Profile. The Strategic Risk Profile will be reviewed quarterly, or where a new significant risk is identified. The reviewed Strategic Risk Profile will be presented to the Council Management Team for approval and thereafter to the Audit Committee.

Executive Directors will have responsibility for ensuring the Strategic Risk Profile is compiled and maintained in respect of their Services.

Chief Officers will be responsible for ensuring all risks falling within their service portfolio are reviewed quarterly, or where a new risk is identified.

Senior Managers will ensure that Service Risk Registers are reviewed quarterly, or where a new risk is identified. Any identified risk which has a wider corporate impact will be escalated to the Strategic Risk Register.

The Council Management Team shall:

- Determine the levels of risk and outcomes that are tolerable and acceptable to achieve the Council's objectives.
- Provide advice to elected members on the type and amount of risk to accept when making policy decisions.
- Assume ownership of the strategic risks recorded in the Strategic Risk Profile.
- Carry out a strategic overview of the Strategic Risk Profile quarterly.
- Promote and support the implementation of the risk management policy and strategy throughout the Council.

Identified risks will be allocated to an officer of the Corporate Management Team and each risk will be accompanied by an assessment of likelihood and impact. Registers will be accompanied by related actions, highlighting the means by which the risk will be controlled.

There are some aspects of operational risk management which benefit from corporate support and co-ordination. There is also a need for the Council to be able to demonstrate that risk management arrangements are effective, through the Audit Committee.

The Risk Management & Resilience Group consists of at least one senior representative from each directorate of the Council. This is not a decision-making body, as recommendations that have a strategic or corporate impact are referred to the Corporate Management Team.

The Audit Committee evaluates and recommends approval of the strategies and frameworks in respect of risk management. The Committee approves updates and provides direction in respect of risks held within the strategic risk profile.

The Risk Management Policy and Strategy will be reviewed every two years.

## **8. Health & Safety**

The Council has responsibilities under health and safety legislation to ensure the health, safety and welfare at work of employees and other people affected by the Council's business. Managing health and safety risks is an integral part of business risk management and the management of such risks should not be taken in isolation. Poor health and safety management can have a negative impact on other business risks such as reputation, insurance, business continuity and financial resources.

The effective management of health and safety risks, as with all significant corporate risks, is an essential part of the role of the relevant managers. The organisation and arrangements for managing health and safety within the Council are detailed in the Council's Health and Safety Policy documents.

## **9. Business Continuity**

The business continuity process is essentially risk management applied to the whole organisation and its ability to continue with its service provision in the event of a

catastrophic or a localised operational impact event. The Council ensures risk management processes are applied throughout the business continuity lifecycle.

## 10. Monitoring and Accountability

Formal monitoring and accountability procedures form an integral part of the risk management process, covering the following three main issues:

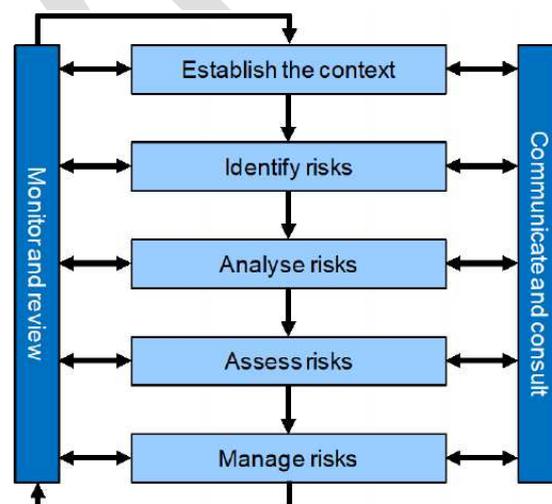
- Delivering the risk management strategy.
- Implementing risk management action plans, both corporate/strategic and service.
- Determining whether the related actions are making a difference to the risk, as appropriate.

The following monitoring arrangements are in place:

- Risk registers are presented to the Audit Committee quarterly to advise members of the risks which may affect the achievement of the Council's strategic objectives.
- Service risks are monitored through quarterly performance reports so that any performance risks are highlighted to the Council Management Team through exception reporting.
- Ensuring that the Risk Management & Resilience Group continues to be an effective and streamlined means of maintaining an overview of risk management and supporting corporate and strategic consistency in the implementation of the risk management policy.
- Internal Audit's role includes the auditing of the risk management process across the Council and the reporting on the efficiency and effectiveness of internal controls.

## 11. Approach to Risk Management

### Risk Management Process – ISO31000



The above diagram demonstrates the whole process and cycle of risk management under the international standard ISO 31000.

The standard as outlined above makes clear that risk management is a dynamic process, with frequent review of existing risks and monitoring of the environment necessary to ensure the risks captured represent the current profile of the organisation.

Continual communication of risks within the organisation is essential to allow for informed decision-making. Communication to the Audit Committee and other stakeholders is imperative to allow effective scrutiny and provide assurance that the risk profile is being effectively managed.

### Assessment of Risk

The assessment, or scoring, of risk allows for prioritisation by evaluation. Determining the likelihood and impact of a risk and utilising a standardised assessment criteria to assign a score based on these factors allows the Council to understand and prioritise which risks to mitigate first.

	1	2	3	4	5
Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
Impact	Negligible	Minor	Moderate	Major	Extreme

### Risk Assessment Matrix

The risk assessment matrix is a 5x5 scoring mechanism which will identify a score between (1x1) at the lowest (very low) and 25 (5x5) at the highest possible score (critical).

The risk assessment matrix is summarised below:

LIKELIHOOD	5	Low 5	Medium 10	Medium 15	High 20	Critical 25
	4	Very Low 4	Low 8	Medium 12	High 16	High 20
	3	Very Low 3	Low 6	Medium 9	Medium 12	Medium 15
	2	Very Low 2	Low 4	Low 6	Low 8	Medium 10
	1	Very Low 1	Very Low 2	Very Low 3	Low 4	Medium 5
		1	2	3	4	5
IMPACT						

### Controls

Risk controls are management measures put in place to effectively manage a risk to within acceptable levels (i.e. within target score). It is essential that the controls put in place to manage a risk are effective. The identification of effective controls is the most important part of the whole risk management process as without this element the Council would simply be identifying risks and doing nothing to manage them.

There are two main types of control measure that can be put in place to manage a risk:

- *Preventative Controls*: These are mitigating actions which will work to control the cause of the risk and prevent it happening in the first place
- *Contingency Controls*: These are actions that can be put in place to reduce the impact of the risk if it does materialise.

### **Risk Review**

Once the process of identifying, analysing and assessing a risk are complete, it is imperative that it is subject to regular review. Ongoing management and review of a risk is the most important part of the process as maintaining or reducing the risk score to within an acceptable level assures the overall management of the organisation's profile.

During a risk review, the risk is re-assessed. If it is identified that the risk continues to exist, the list of current controls and further controls required must be checked, cross-referenced and added to where necessary. On the basis of progress with controls and an assessment of the risk environment, a re-assessment of the current score must be made using the risk assessment matrix. This will show whether the risk is decreasing, increasing or remaining static. Depending on its escalation level, a change to risk score will be reported at the Audit Committee.

### **Risk Reporting**

A quarterly risk management report is presented to the Audit Committee which reports on the Council's strategic risks. In addition, the Council Management Team is provided with a regular risk management report on strategic and organisational risks.

The Risk Management & Resilience Group provides recommendations to the Council Management Team on the escalation, de-escalation and closure of strategic level risks.

Directorates and services undertake quarterly review, monitoring and reporting on their risk registers (supported by the risk management function) in order to ensure that risks are identified and escalated to the appropriate level at an early stage.