

Notice of Meeting and Agenda



Audit Committee

Venue: Virtual Meeting,
[Venue Address]

Date: Tuesday, 22 June 2021

Time: 11:00

Executive Director : Place

Contact:

Clerk Name: Janet Ritchie

Clerk Telephone:

Clerk Email: janet.ritchie@midlothian.gov.uk

Further Information:

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

Privacy notice: Please note that this meeting may be recorded. The recording may be publicly available following the meeting. If you would like to know how Midlothian Council collects, uses and shares your personal information, please visit our website: www.midlothian.gov.uk

1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4.1 Minute of Meeting of 4 May 2021 submitted for approval 3 - 12

4.2 Audit Action Log 4 May 2021 13 - 14

5 Public Reports

5.1 Risk Management update Quarter 4 2020/21 - Report by Chief Officer Place 15 - 50

5.2 Counter Fraud Annual Report 2020/21 - Report by Executive Director Place 51 - 58

5.3 Draft Annual Governance Statement 2020/21 - Report by Chief Executive 59 - 72

5.4 Wider Scope Review of Treasury Management - Report by EY External Auditors 73 - 88

5.5 Annual Treasury Management Outturn Report 2020/21 - Report by Chief Officer Corporate Solutions 89 - 120

5.6 Unaudited Financial Statements 2020/21 - Report by Chief Officer Corporate Solutions (To Follow)

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 28 September 2021 at 11 am

Minute of Meeting

Audit Committee
Tuesday 22 June 2021
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 4 May 2021	11.00 am	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Milligan
Councillor Muirhead
Councillor Smaill
Councillor Parry
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
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
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Alan Turpie	Legal Services Manager
Saty Kaur	Executive Business Manager, Place Directorate
Myra Forsyth	Continuous Improvement Manager
Janet Ritchie	Democratic Services Officer

1. Welcome and Apology

The Chair, Mike Ramsay welcomed everyone to the meeting.

2. Order of Business

The Chief Executive referred to her request in December 2020 that EY undertake wider scope work on Treasury Management and advised that this report was not yet available and therefore sought clarification on whether the Committee considered it necessary to hold an additional meeting to consider this matter prior to the next scheduled meeting at the end of June 2021. The Chair confirmed that he did not consider it necessary for an additional meeting and therefore proposed that this report was presented to the June 2021 meeting.

It was noted the remaining order of business was as per the agenda previously circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 Comments were received on Treasury Management from both Mr de Vink and Councillor Smaill and the Chair advised that it would be more appropriate to scrutinise the Treasury Management report when it was presented to the Audit Committee in June.

The Committee, on a proposal by Councillor Milligan, seconded by Councillor Smaill approved the minute as a correct record.

Councillor Milligan then raised that in February 2021 the committee scrutinised Treasury Management at a formal briefing and at that time a note had been taken but this was not appended to the minute. Mr Anderson confirmed that a note had been taken and apologised this had not been circulated previously and confirmed this would be appended to this minute.

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

- 1) 'Internal Audit Annual Assurance Report: 2019/20 Risk Management Policy and Strategy: The Chair highlighted that as the Risk Manager was leaving the Council would there be any impact on this report being presented to the June 2021 Meeting. After brief updates from Officers it was confirmed that there would be no impact and this would be covered by Derek Oliver and this would be presented to the June 2021 Meeting.
- 2) 'Annual Governance Statement 2019/20 – Financial Improvement Updates': Presented on today's Agenda.

- 3) Financial Reports – Council Meeting – 25 August 2020: Mr Fairley confirmed that there had been no further information since the papers sent out in February 2021 and the next scheduled reports were for June 2021 Council and these would be sent out to members in due course.

Mr Fairley also advised he was available to answer any questions the members may have once these reports were received.

- 4) Internal Audit Recommendations: Ongoing – to be presented in June 2021.
- 5) Local Code of Corporate Governance: This action is now complete.

Councillor Parry apologised due to technical issues she was unable to raise earlier a point with regards to the Risk Management and asked for clarity on the reasons for the turnover of senior staff and should this be recorded as a risk.

The Chief Executive in responding by way of reassurance to the Committee advised that the Workforce plans were regularly updated, in particular following any pandemic they would be significantly updated and confirmed that these would be coming forward as part of the Service Plans to the June 2021 Council. The Chief Executive was delighted to confirm that some of the staff leaving the Council were moving on to promoted positions. She also advised that a number of apprentices had now been made permanent and that a number of initiatives were underway including the Kickstart programme and Derek Oliver could provide further information if required on any of these initiatives.

Councillor Smaill raised 3 specific items which he felt were relevant for the Audit Committee members to receive copies when complete:

- Report on reconciliation of Social Housing work in progress and completions – Kevin Anderson
- Property Maintenance – BTSG report.
- Treasury Management relaxation – this will be included in the Treasury Management Report on the June 2021 Agenda

It was agreed to add these to the Action Log and in response to a question raised by Councillor Smaill with regards to the Council House Building Programme update which will be presented to Council on 11 May 2021, it was agreed this would be circulated to the independent members.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to March 2021	Chief Internal Auditor
Outline of report and summary of discussion		
<p>There was submitted a report, dated 20 April 2021, by the Chief Internal Auditor providing 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>Internal Audit carried out work associated with the delivery of the Internal Audit Annual Plan 2020/21 to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.</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 the report highlighted the key findings and recommendations contained within appendix 1 of the report. Officers then responded to various questions and comments raised by Members in particular with regards to Procurement and DSM and it was acknowledged the questions around procurement would be addressed in the agenda item 5.3. Fiona Robertson in responding to questions raised with regards to DSM provided an update on the strategic groups in place for the redesign of the DSM scheme and provided some clarity on school purchases and PEF funding.</p>		
Decision		
<p>The Audit Committee noted:</p> <ul style="list-style-type: none"> (a) The Executive Summaries of the final Internal Audit assurance reports issued; (b) The Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and (c) The assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. 		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.2	Internal Audit Annual Assurance Report 2020/21	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report, dated 15 April 2021, by the Chief Internal Auditor was to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2021 which included the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.</p> <p>To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2020/21 (Appendix 1) included the Chief Internal Auditor's annual opinion, providing details of the Internal Audit activity and performance during the year to fulfil its role, and summarised the outcomes of assessments of the Internal Audit service against the PSIAS.</p> <p>The Chief Internal Auditor outlined the main sections contained within the report in particular highlighting the sections contained within Appendix 1 of the report. Specifically in section 2 the opinion that the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, financial management, and workforce development to address the identified risks.</p>		
Decision		
The Audit Committee noted the Internal Audit Annual Assurance Report 2020/21 (Appendix 1), and assurances contained therein.		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.3	Annual Governance Statement – Improvement Update	Chief Officer Corporate Solutions
Outline of presentation and summary of discussion		
<p>With reference to the Audit Committee meeting of 22 June 2020, when considering the draft of the Annual Governance Statement (AGS) for 2019/20, agreed that the Chief Officer Corporate Solutions would provide regular updates on the financial improvement actions. An update in respect of the financial improvement actions was provided to Audit Committee on 8 December 2020. This further update has been expanded to include all of the thirteen items set out in the 2019/20 AGS with a draft noted by the Corporate Management Team on 21 April 2021.</p> <p>The Chief Officer Corporate Solutions in presenting the report to the Committee outlined the main sections contained within the report highlighting the update on the thirteen improvement actions.</p>		

Thereafter Officers responded to various questions and comments raised by the Committee.

Fiona Robertson provided clarity on the Empowerment agenda and the Education Strategic Group and how decisions were made on the funding available to Education and the role Head Teachers took in this. In response to further comments received from Councillors regarding procurement Fiona Robertson confirmed she would feed this back to the Education Strategic Group.

Councillor Parry asked for some clarity on participatory budgeting and although she did acknowledge that there was work undertaken in the Council which would meet the definitions of this there is no strategic focus on it.

In response to various comments with regards to Hillend, Valleyfield Project and the Capital programme, Officers provided clarity on the governance and plans in place for these and advised that a report would be presented to Council next week (11 May 2021) with regards to the Roads Capital programme and a report would be presented to Council in June 2021 with regards to Hillend. The Chief Internal Auditor also advised that if the Audit Committee had any particular areas of concern these could be taken into account and covered within the Internal Audit work on Capital Investment.

In response to a question raised by the Chair with regards to further updates on the Annual Governance Statement 2019/20 and the outstanding actions, Mr Fairley advised that the next update would be on the 2020/21 Annual Governance Statement in June 2021 with a further update provided in December 2021. The Chief Internal Auditor also confirmed that any outstanding actions from 2019/20 would be included in the Annual Governance Statement 2020/21.

Decision

The Audit Committee noted this update on the improvement actions as set out in the 2019/20 Annual Governance Statement, the completion of which enhances compliance with the Council's Local Code of Corporate Governance.

Action

Chief Officer Corporate Solutions

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on Tuesday 22 June 2021 at 11.00 am

The meeting terminated at 12.52 pm

Appended to the Minute: Treasury Management Briefing Note of 17 February 2021

Briefing Note



Elected Member Briefing – Treasury Management

Date	Time	Venue
Wednesday 17 February 2021	1.00pm	Via Microsoft Teams

Present:

Councillor Alexander	Councillor Cassidy
Councillor Curran	Councillor Hackett
Councillor Imrie	Councillor Lay-Douglas
Councillor McCall	Councillor Milligan
Councillor Muirhead	Councillor Parry
Councillor Russell	Councillor Smaill
Councillor Wallace	

Also Present:

Mike Ramsay (Independent Chair, Audit Committee)	Peter de Vink, (Independent Member, Audit Committee)
David Chefneux (Link Group)	Grace Scanlin (External Auditor, EY)

In attendance:

Dr Grace Vickers, Chief Executive	Kevin Anderson, Executive Director Place
Gary Fairley, Chief Officer Corporate Solutions	David Gladwin, Financial Services Manager
Gill Stacey, Chief Internal Auditor	Gary Thomson, Senior Accountant, Projects & Treasury
Brenda Glass, Assistant Accountant Treasury	Mike Broadway, Democratic Services Officer
Rosemary Walsh, Support Assistance	

1 Introduction and Apologies

Apologies for Absence were intimated on behalf of Councillor Hardie.

Kevin Anderson, Executive Director Place, in welcoming everyone, briefly explained the purpose of today's session, and that he would chair the initial briefing before handing over to Mike Ramsay, Independent Chair of the Audit Committee to Chair scrutiny of the draft Treasury Management and Investment Strategy 2021/22.

2 Briefing

(a) Background

By way of background, reference was made to (i) the report "Treasury Management Mid-Year Review 2020/21" which had been submitted to the meeting of the Audit Committee on 8 December and Council on 15 December 2020. A copy of which, together with a Minute extract taken from the Midlothian Council meeting had been circulated - item 4.1 refers; and (ii) the Group Leaders meeting held on 8 February 2021 when it was agreed that in the absence of an Audit Committee meeting before Council on 23 February 2021 that the proposed Treasury Management and Investment Strategy 2021/22 also be considered at the briefing session.

(b) Briefing Session

Thereafter, David Chefneux, Link Group provided a presentation on Treasury Management, during, and following, which he responded to questions and comments.

(c) Scrutiny of the draft Treasury Management and Investment Strategy 2021/22

There then followed a discussion scrutinising the draft Treasury Management and Investment Strategy 2021/22 (TMIS), which was due to be considered by Council on 23 February 2021. Amongst the particular matters considered were –

- The proposed adjustment to the authorised limit for borrowing and whether this was actually necessary. Gary Fairley explained that the authorised limit was one of the indicators required by the Prudential Code and that the authorised limit for borrowing reflected the extensive capital investment plans approved by the Council and which required to be financed through increased borrowing, Mr Fairley reassured Members that for reasons referred to by David Chefneux in his presentation around interest rates and carry cost as a result of the current economic climate, it was considered highly unlikely that officers would increase long term external borrowing in advance of need. He highlighted the requirements of the TMIS which requires a business case to support any borrowing in advance of need. Accordingly the expectation is that long term borrowing will be matched with actual capital expenditure incurred. Elected Members and independent Audit Committee members felt that it would be helpful if the position outlined by Mr Fairley was better articulated in the report.
- The criteria used in carrying out due diligence on potential deposits with counterparties and whether these were sufficiently robust enough in light of some Elected Members and independent Audit Committee members concerns

arising from the deposit placed with the London Borough of Croydon, was discussed at some length. It was acknowledged that the matter of that particular deposit had been remitted back to the Audit Committee to facilitate an examination of the execution of Midlothian Council's Treasury Management policy informed by additional work being undertaken by the Council's external auditors (Ernst and Young LLP) as part of their wider scope analysis, and the likelihood was that these issues would be explored further at that time, although care would be required not to unduly constrain future ability to pursue the effectiveness of the operation of the Council's TMIS.

After further discussion it was agreed to recommend that the report to Council be amended to note that Officers will ensure that any long term external borrowing be drawn down to match the existing maturity and projected capital expenditure profiles as closely as possible and on the basis of that change to recommend to Council that the draft Treasury Management and Investment Strategy 2021/22, as amended be approved.

The meeting terminated at 3.04 pm.

Action Log

Audit Committee
Tuesday 22 June 2021
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy	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	TBC	Linked to update of Local Code. Internal Audit review of Risk Management underway in Q1 2021/22
2	Annual Governance Statement 2019/20 – Financial Improvement Updates	22/06/2020	Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee	Chief Officer Corporate Solutions (Section 95 Officer)	June 2021	First update reported to the December 2020 meeting. Further report presented to the May 2021 meeting. Completed
3	Financial Reports – Council Meeting - 25 August 2020	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	Ongoing	Future Reports with a financial element relevant to Audit to be made available to the Independent Members of the Audit Committee.
4	Internal Audit Recommendations	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	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
5	Treasury Management	04/05/2021	EY or provide a report on Treasury Management	EY, External Auditors	June 2021	
6	February Briefing on Treasury Management	04/05/2021	Note of the formal briefing to be circulated to members of the Audit Committee.	Democratic Services	June 2021	
7	Report on reconciliation of Social Housing work in progress and completions	04/05/2021	Report to be circulated to Members of the Audit Committee when completed.	Kevin Anderson	TBC	
8	Property Maintenance	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.	Kevin Anderson	TBC	
9	Council House Building Programme update	04/05/2021	Report which will be presented to Council on 11 May 2021 to be circulated to Independent Members of the Audit Committee.	Democratic Services	June 2021	

Risk Management Update, Quarter 4 2020/21

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 4 2020/21.

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 4 2020/21 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 14 June 2021

Report Contact:

Derek Oliver, Chief Officer – Place
derek.oliver@midlothian.gov.uk

3 Q4 Risk Management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout quarter 4 of 2020/21 against a backdrop of operating within a series of government directed constraints, associated with responding to a global pandemic. The Scottish Government response to the above resulted in sectors being instructed to close as part of a national lockdown response in December 2020. The restrictions associated with this lockdown carried through Q4 2020/21.

As the Council has responded to the risks introduced by the pandemic it became apparent that the public sector faced a new challenge in quarter 4. There were 3 significant factors which had the potential to interplay over quarter 4. These were the concurrent risks of:

- COVID 19,
- UK Exit from the EU, and
- Winter

In addition to these new risks the Council continue to manage those risks recorded within the Strategic Risk Profile. The work required to maintain the necessary Corporate oversight over the broader strategic landscape continues, while there is a current focus on the particular set of external factors the organisation needed to be prepared to respond to.

3.2 UK Exit from EU

The UK stopped being a member of the European Union at 23:00 on 31 January 2020. The UK continued in a transition period up to the 31 December 2020 when the UK formally left the European Union.

The Council's EU Exit Working Group had been reconvened by the Chief Officer Place in quarter 1 2020/21 to enable suitable planning to take place in response the emerging new relationship with the EU and any changes which had the potential to impact services or supplies. Midlothian Council worked with partners including CoSLA and the Local Authority Resilience Group to monitor developments in this area and plan accordingly.

The Council's EU exit risk register was revised through the EU Exit working group, taking into account UK Government guidance and through appropriate use of the UK governments 'reasonable worst case scenario planning assumptions'.

The UK agreed a Trade and Cooperation agreement in December 2020 ahead of the exit date which has reduced some of the risks associated with the UK leaving the EU. The exact impacts associated with leaving the EU are not fully clear at this stage with the pandemic and changed behaviours potentially masking some of the impacts yet to be experienced. The internal group was reconvened to support assessment of the impacts leaving the EU has created and to identify appropriate organisational responses.

3.3 Winter preparedness

The winter months always present a potential risk of severe weather, with the associated risk of impacts across a range of sectors. In preparation for this winter, Midlothian Council's severe weather plan was reviewed. This review included an update of the Council's Roads Service response given the significant contribution they play in keeping essential roads and pedestrian routes open during severe weather.

The challenge facing Council's across the UK going into this winter had been the concurrent risks associated with COVID-19 and the potential for rise in community transmission during the normal winter flu season as was experienced across Scotland and the wider UK.

Going into any winter period anyone of the above risks could have created a significant impact in their own right. This required careful planning to ensure that in the event of winter impacts and/or EU exit impacts, against a backdrop rising COVID 19 community based transmission, the Council remained in a position able to deliver the critical services the people of Midlothian rely on.

During the early part of January, the Council experienced the first of 2 severe weather episodes which saw some frontline services having to be suspended such as transport services and waste collection. As a result of pre planning however staffing and equipment normally used to deliver suspended services were deployed quickly to support the Roads Service response to the severe weather to the benefit of the communities served within Midlothian.

3.4 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 seen as the tool to put the Council's finances on a more stable footing.

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 3 are associated with the 'Early Years expansion', the 'abuse claims project' the 'Scottish abuse inquiry', Asset Management and the Long term change programme.

3.5 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.

Top Issues	Likelihood	Impact	Score	Evaluation	
COVID 19	5	5	25	Critical	
Financial Stability	3	4	12	Medium	
The Change Programme	3	3	9	Medium	

The Strategic Risks for the Council are summarised in tabled 2 below.

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

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

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

3.6 STRATEGIC ISSUE – RATED CRITICAL AND HIGH

3.6.1 COVID 19

During quarter 4, the level of Community transmission remained significant across Scotland and the rest of the UK. While the Scottish Government had introduced a tiered restriction model which was deployed in quarter 3 in response to the rise in infection a second lockdown was imposed in December 2020 which carried through into quarter 4 with many restrictions in place going into Q1 of 2021/22. Restrictions included all school pupils, with a small exception, studying from home for most of Quarter 4.

The Council's Incident Management Team (CMT) continues to co-ordinate and oversee preparations and planned responses to the implementation of the tiered system. During quarter 4, the CMT have maintained oversight to track potential risk impacts, the risk controls in place and to record progress on actions being taken to mitigate potential or expected impacts.

3.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.7.1 Asset Management

This risk reflects the challenges managing the need for increased assets to meet the growth demand against the current financial backdrop of reducing revenue. The Capital and Asset Management Board put in place measures to allow it to more robustly monitor the of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.

Given the importance of the built estate within Education to support delivery of the Council's priorities in this area the Council have established a Learning Estate Manager post and Executive Business Manager post within Education and Children's Services, to oversee delivery of School Estate Strategy. Estate Project Board established to oversee and track progress against agreed projects and delivery.

3.7.2 Scottish child abuse inquiry and Scottish child abuse Claims

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. The scheme will be open for applications as soon as possible and before the end of 2021.

3.7.3 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 commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in 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.

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.

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 Borders Rail

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor. Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

3.8.6 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 4 2020/21 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 4 2021/21)

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 compile 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 4 2021/21)


ISSUES .

COVID 19



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p>Risk cause: COVID 19 Virus</p> <p>Risk event: 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>Risk effect: 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</p> <p>Director Children, Young People and Partnerships; Executive</p> <p>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"> 1. CIMT established to take Strategic approach to managing response to COVID 19. 2. Employees directed to work from where possible, follow Scottish Government guidance on shielding. 3. COVID-19 guidance 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. 4. Keeping employees briefed and supported through the Chief Executives weekly staff briefings. (e-mailed to all employees through combination of work and personal e-mail addresses) 5. Team conference call/Zoom and Microsoft Team meetings, team what's app groups, phone calls to prevent employees becoming isolated. 6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 7. Remote working where possible, with digital kit provided to support this for critical activities as required. 8. Following safe working guidance issued by Scottish government relevant to sectors. 9. Mortuary capacity increased to support potential increase in demand. 10. Economic Recovery Strategy 11. Support for Isolate and Protect 12. School and workplace based COVID risk assessments to support the identification and control of risk 	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.09	Vulnerable children young people and families gate keeping group	Q4 20/21: Group to support those young people and families who are vulnerable or became vulnerable during the pandemic.	Chief Officer Children's Services	31-Mar-2022	
SRP.IA.10.14	Financial impact	Q4 20/21: Update report to be presented to Council 29 June 2021, monitor funding developments on a daily basis.	Chief Officer Corporate Solutions	29-Jun-2021	
SRP.IA.10.15	IT equipment availability to support home working	Q4 20/21: It experiencing delays in sourcing laptops to July 2021. Digital services looking to re-provision equipment as a mitigation measure.	Chief Officer Corporate Solutions	31-Jul-2021	
SRP.IA.10.16	Risk assessment/Guidance on protective measures.	Q4 20/21: Glove use to control risk, not effective if touching multiple surfaces. 72Hr isolation review to be undertaken with support for H&S.	Chief Officer Place	30-Jun-2021	
SRP.IA.10.17	4,000 mobile devices issued to support home learning	Q4 20/21: Monitoring and tracking of devices to ensure devices are returned to school for school based learning.	Chief Officer Corporate Solutions; Executive Director Children, Young People and Partnerships	31-Jul-2021	

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p>Risk effect Slow or delayed proposals/savings arising from service</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	<ol style="list-style-type: none"> Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. Got consolidated Change Programme following approval of 2020/21 budget. In arriving at the consolidated programme, we have removed savings proposals which were undeliverable or not able to achieve the savings indicated. Business Transformation Steering Group and Business Transformation Board oversight of change programme and direct changes to the change programme in light of external factors impacting the organisation. The most significant of which has been the COVID Pandemic during 2020/21. 	3	3	



	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.	Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place				
--	---	--	--	--	--	--

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>Q4 20/21: 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 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5th October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> The Projections and key assumptions endorsed by BTSG The projected gap between recurring expenditure and funding A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and Will also aim to set out initial projections for 2023/24 to 2028/29 <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	
SRP.RA-02.05	Update to CMT and Council on impact of Pandemic on delivery of the change programme.	<p>Q4 20/21: Council agreed on 17th November, during consideration of paper Financial Monitoring 2020/21 General Fund Revenue, that a review of the deliverability of savings targets for the current year as a consequence of the pandemic be progressed and reflected in the next monitoring report. The outcome of this work, which involved both the removal of some savings targets and mitigating underspends, is reflected in the Q3 Financial Monitoring report. The net impact on Reserves is nil.</p>	Chief Officer Corporate Solutions	30-June-2021	

SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause</p> <p>Reduction in long term funding from Scottish Government</p> <p>Increasing ageing population of over 75's</p> <p>Increasing population of 0-15 age group</p> <p>Rising customer expectations</p> <p>Risk event</p>	Chief Officer Corporate Solutions;	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2021/22</p> <p>3. There are 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.</p>	3	4	


	<p>Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps COVID has created Significant divergence of budget for a range of services.</p> <p>Risk effect A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>		<p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. 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.</p> <p>6. Chief Executive has emphasised the need for much needed 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>			
--	--	--	---	--	--	--

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>Q4 20/21: 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 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5th October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> • The Projections and key assumptions endorsed by BTSG • The projected gap between recurring expenditure and funding • A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and • Will also aim to set out initial projections for 2023/24 to 2028/29 <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	
SRP.IA.07.01	Develop Medium Term Financial Strategy	<p>Q4 20/21: Programme to develop medium term financial strategy for next Council from May 2022.</p>	Chief Executive	30-Jun-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>Risk cause: Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p>Risk event: Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. 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>Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</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"> 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. 	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.	Q4 20/21: The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7 th June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/34 to	Chief Executive	7-Jun-2021	


		<p>2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5th October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> • The Projections and key assumptions endorsed by BTSG • The projected gap between recurring expenditure and funding • A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and • Will also aim to set out initial projections for 2023/24 to 2028/29 <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>			
--	--	--	--	--	--





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>Risk cause</p> <p>A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area</p> <p>Reduced resources</p> <p>Leadership fit for the future</p> <p>Lack of clarity or clear compelling vision for the future</p> <p>Delay or shortfall in securing savings</p> <p>Lack of or not securing transformational change in service provision</p> <p>Risk event</p> <p>Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework</p> <p>Slow benefits realisation and budget savings</p> <p>Cuts in service provision rather than service transformation</p> <p>Risk effect</p> <p>Objectives of change not actually met</p> <p>Adverse impact on services</p> <p>Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities.</p> <p>Staff morale negatively affected, Government step-in Short term savings instead of transformation</p>	<p>Chief Executive; Executive</p> <p>Director Children, Young People and Partnerships; Executive</p> <p>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. Financial Strategy and Change Programme</p> <p>2. Leadership from all elected members, Executive Team and Senior Leadership Group.</p> <p>2. Appropriated governance in place across the Change Programme.</p> <p>3. Links between Change Programme and Workforce Plans</p> <p>4. Resilience planning.</p> <p>5. Senior Leadership Group regularly considering Change Programme and budget position.</p> <p>6. Capacity to deliver change.</p> <p>7. BTB board structure#####</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>Q4 20/21: 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 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5th October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> The Projections and key assumptions endorsed by BTSG The projected gap between recurring expenditure and funding A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and Will also aim to set out initial projections for 2023/24 to 2028/29 <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	

SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</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. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan</p> <p>BTSG oversight of new legislation</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	Q4 20/21: Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	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-2021	
SRP.RA.03.0 2	Rights of the Child Bill	Q4 20/21: 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 Governments new bill on the rights of the child is expected to have far reaching implications for public bodies. As a result the Council are monitoring progress of this to enable planning and any associated response to the new legislation with the bill as it develops. UK Government Challenge to this on basis of powers of Scottish Government.	All Directors	1-Nov-2021	
SRP.RA.03.0 3	Independent review of adult and social care	Q4 20/21: Impact to be fully understood, the impact has the potential to influence governance arrangements in IJB arrangements in the future. (https://www.gov.scot/groups/independent-review-of-adult-social-care/)	Joint Director Health and Social Work	31-Mar-2022	
SRP.RA.03.0 4	Heath Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 due to expire on 30 Sep 2021.	Q4 20/21: CIMT oversight of organisation response throughout the pandemic continue to monitor external developments and assess and respond to their impact n Midlothian Council. CIMT are monitoring the future change to COVID restrictions.	Chief Executive	30-Sep-2021	


SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	Risk cause Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain	Chief Executive; Executive Director Children, Young People	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.	3	4	


	<p>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>Risk event 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> <p>Risk effect 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>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>Attendance / Wellbeing 1. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 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. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p>Performance 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 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 etc.</p> <p>Organisational Change 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. 3. Agreed protocol for accessing the Redeployment Fund.</p> <p>Conduct 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format.</p> <p>Communication 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>			
--	--	---	---	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	<p>Q4 20/21: Revision to Service Workforce Plans and Action Plans are required as set out in internal audit report. Action is required in the following areas:</p> <ul style="list-style-type: none"> • analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities; • gap analysis and gap closing strategies; and • performance measures and target setting for evaluation of success in delivering the Workforce Plan. <p>Service restructuring and COVID Pandemic have impacted the revision of Service plans. Revised work will be completed in this area as restructuring is concluded.</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.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p>Risk cause General Data Protection Regulation formulated by the European Commission.</p> <p>Risk event The Regulation implemented on 25 May 2018.</p> <p>Risk effect 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"> 1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members. 9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts. 	3	5	




SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause 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>Risk event Capacity of Community Support outstripped by demand</p> <p>Risk effect 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"> Care at Home improvement action plan in place and near compaction Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level New Framework agreement in place with significant improvement in quality from Providers Flow management planning in development to maximise Care at Home capacity going forward Weekly provider meetings in place Additional locum team members recruited to for contingency cover New Leadership model in place Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place 	3	4	


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>Risk cause 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 & buildings used to deliver services.</p> <p>Risk event 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>Risk effect 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</p>	Chief Officer Corporate Solutions; Chief Officer Place	<ol style="list-style-type: none"> There is provision in place within the capital plan for investment in the asset base. Asset register Conditional Survey Understanding of future asset needs Asset Strategy: <ul style="list-style-type: none"> Roads Land Fleet Digital Service Network Digital Service hardware Capital program - investment in estate. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. Introduction of Capital Plan and Asset Management Board 	4	5	



	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.					
--	--	--	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<p>Q4 20/21: 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 in the need for rescheduling of planned capital works.</p>	Chief Officer Place	31-Mar-2022	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	<p>Q4 20/21: 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>	Chief Officer Place	31-Mar-2022	
SRP.RA.08.05	School Estate Strategy	Q4 20/21: Established Learning Estate Manager post and Executive Business Manager post within Education and Children's Services, to oversee operational delivery of School Estate Strategy. Estate Project Board established to oversee and track progress against agreed projects and delivery. Reports onto Council Capital Projects Board.	Executive Director Children, Young People and Partnerships	30-Jun-2021	


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>Risk cause The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event 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>Risk effect 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,</p> <p>- Council's plans developed and maintained in response to identified risks,</p> <p>- 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.			
--	---	--	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q4 20/21: Contingency Improvement Plan drafted and due to be shared with Risk and Resilience Group ahead of reporting to CMT for approval.	Chief Officer Place	31-Mar-2022	
SRP.RA.09.03	Business Continuity System	Q4 20/21: Business Continuity system successfully procured with cross service project group involved. System currently being built around existing Council systems ahead of role 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	Risk cause Code of conduct for Members and employees actions falling short of International Standards. Risk event Failure in openness, accountability, clarity. Risk effect 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	3	4	


SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place:	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding.	2	3	

	<p>priorities.</p> <p>Risk effect 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>	<p>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>5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Local Procurement Strategy 2021. 8. Capital Strategy 9. Integrated Joint Board (IJB) Strategic Plan 10. IJB Strategic needs assessment</p>			
--	---	---	---	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 1	Parental Engagement Strategy	Q4 20/21: Education Service are developing a Parental Engagement Strategy which aims to ensure that all parents and carers are encouraged and supported to engage as partners in their children's learning, and to become involved in the life of the school their child or child they care for attends.	Executive Director Children, Young People and Partnerships	30-Sep-2021	
SRP.RA.11.0 2	Accessibility Strategy	Q4 20/21: Midlothian Council have a legal duty to prepare a strategy to increase the physical accessibility of the school environment, increase the access to the curriculum and improve communication, especially in relation to the provision of school information, for those pupils who have disabilities. Work on this is well established and will be reported on in quarter 1 2021/22.	Executive Director Children, Young People and Partnerships	30-Jun-2021	
SRP.RA.11.0 3	Neighbourhood Services	Q4 20/21: 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.	Chief Officer Place	31-Mar-2022	
SRP.RA.11.0 4	Remote Working	Q4 20/21: Remote working policy – working to implement in conjunction with joint trades unions. Opportunity to review property estate linked to remote working.	Chief Officer Corporate Solutions	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>Risk cause 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>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place:</p>	<p>1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy.</p>	3	3	

	<p>Risk event Persons exploiting opportunities to commit fraud Waste and errors. Changing risk landscape associated with remote working solutions.</p> <p>Risk effect 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>	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>5. Internal and external assurance.</p> <p>6. E-learning for staff to complete mandatory training for fraud awareness.</p> <p>7. Implemented changes to business processes and procedures to maintain and enhance internal control.</p> <p>8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement.</p>			
--	--	--	--	--	--	--


SRP.RR.13 Climate Change



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p>Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p>Risk event Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Executive Director Children, Young People and Partnerships;	<p>1. Statutory requirement to report on compliance with the climate change duties.</p> <p>2. Council Carbon Management Plan</p> <p>3. Approval of a Corporate Climate Change and sustainable development action plan</p> <p>4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018.</p> <p>5. BTB board for Climate Change to bring strategic focus and oversight of plans and progress.</p> <p>6. Climate Change Strategy</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.02	Recruitment of Climate Change Officer	Q4 20/21: 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 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.	Chief Officer Place	30-Sep-2021	


--	--	--	--	--	--


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>Risk Cause: 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>Risk Event: 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>Risk Effect: 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 & D of the last Section 21 to April 2020, which has been granted.</p> <p>To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system. File reading continues around foster care and residential care.</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"> 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. 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. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council. 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. 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. 	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	Q4 20/21: During lockdown a further extension was requested as the workers assigned to the abuse inquiry were not deemed critical workers therefore were not able to attend work.	Chief Officer Children's Services;	31-Mar-2022	
SRP.RA.14.0 2	Foster Care Case Study	Q4 20/21: In August 2020 2 full time members of staff were recruited to attend at work and undertake the task of file reading and preparing a report for the latest Section 21 in relation to 'Foster Care Case Study'. This significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. A report was submitted to the Inquiry team in September 2020 and to date we have received no feedback from the inquiry team around their findings or whether or not they wish a larger sample of file read. File reading continues. There is no evidence in our file read to date of foster carer files that there was systemic abuse occurring.	Chief Officer Children's Services;	30-Sep-2020	

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>Risk Cause: 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>Risk Event: 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>Risk Effect: 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</p>	4	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	Q4 20/21: 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. The scheme will be open for applications as soon as possible and before the end of 2021.	Chief Officer Children's Services;	31-Mar-2021	

SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause 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>Risk event 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>Risk effect 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"> 1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy, including ASN provision 5. Capital Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 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. 9. City deal provides the opportunity to support inclusive growth. 10. Increase capacity to support investment of growing population through Head of Development roles. 	3	4	


SRP.RR.17 UK Decision to leave the EU


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>Risk effect 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>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>01 – EU Exit Working Group 02 – Taking a risk management approach to identifying and assessing 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>	3	2	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.1-1	EU Exit Working Group	Q4 20/21: EU Exit group had been in abeyance until there was a need to re-commence. The group has been reconvened during quarter 4 to support assessment and monitoring of impact or potential impacts of exiting the EU.	Chief Officer Place;	31-Dec-2021	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
-----------	---------------------	------------	-----------------------	------------	--------	-----------------


SRP.RR.19	<p>Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event 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>Risk effect 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>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 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & 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>	3	5	
-----------	--	--	--	---	---	---

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	Q4 20/21: A report is being prepared for CMT to consider a revised audit programme in support of the check phase of the Council's Health and Safety Management system. The planned programme had been impacted by the pandemic with resource switched to support manager/head teachers and prepare a range of bespoke guidance and risk assessment templates.	Chief Officer Place;	30-Sep-2021	


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p>Risk cause 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</p>	<p>Executive Director Children, Young People and Partnerships; Chief Officer</p>	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy</p>	4	5	

	<p>to increase the current provision of free early years care from 600 to 1140 hours.</p> <p>Risk event 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>Risk effect 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>	Place				
--	--	-------	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.20.01	1140 funding distribution	Q4 20/21: Monitor and influence the proposed funding distribution beyond 2021/22. Proposal for report to CoSLA leaders in June 2021.	Chief Executive; Executive Director Children, Young People and Partnerships; Chief Officer Corporate Solutions	30-Jun-2021	


SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p>Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p>Risk Event: 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>Risk Effect: Access to Council systems by cyber criminals and foreign</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	<ol style="list-style-type: none"> 1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 	3	5	


	<p>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>Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>				
--	--	---	--	--	--	--

OPPORTUNITIES .


SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	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.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 8. Public Transport infrastructure. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall) 	5	4	

SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Monitored by Economic development. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Timely submission of bids for approval by the Blueprint Group 4. Close monitoring of approved funded projects. 5. Borders rail subgroup Chaired by Midlothian Council Chief Executive. 	5	4	

SRP.OP.03 Easter Bush - Penicuik


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	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. Need to secure long-term strategic road access to ensure continued growth.	Executive Director Children, Young People and Partnerships;	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A1	A702 Trunk Road Improvements	Q4 20/21: City Deal business case approved for Easter Bush expansion includes A701/A702 road scheme and sustainable active travel corridor to improve long term strategic access. On-going liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Executive Director Children, Young People and Partnerships;	31-Mar-2021	

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;	1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.	3	5	


SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. 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 all forms of	Chief Executive; Executive Director Children, Young People and Partnerships;	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP) 4. Local development plan 5. Capital Strategy investment of £0.8 Billion	5	5	

	<p>infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, 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.</p>	<p>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>	6. Economic Strategy			
--	---	---	----------------------	--	--	--

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;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. A701 High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q4 20/21: 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.	Executive Director Children, Young People and Partnerships;	31-Aug-2023	

Counter Fraud Annual Report 2020/21

Report by Kevin Anderson, Executive Director Place

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2021 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2020/21.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team over the past year as part of the arrangements to tackling fraud at the Council.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices, are specific changes associated with the Counter Fraud Strategy approved by Council on 25 August 2020.

Assurances about the effectiveness of the Council's existing systems and arrangements for tackling fraud can be taken from the outcomes contained within this report.

Date 31 May 2021

Report Contact:

Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Background

- 3.1** The Council at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group and the Counter Fraud Annual Plan 2020/21.
- 3.2** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices, are specific changes associated with the refreshed Counter Fraud Strategy.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the new Integrity Group. The purpose of the new Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering).
- 3.4** Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.

4 Counter Fraud Activity during 2020/21

- 4.1** The Counter Fraud Annual Plan 2020/21, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 22 June 2020. All elements of the Counter Fraud planned work were carried out relating to activity at a high level as follows:
 - a) Contract Management compliance testing and investigations;
 - b) Corporate Fraud Enquiries
 - c) Data Match of Council Tax Reduction Scheme, Discounts and Exemptions;
 - d) Data Match associated with the Council's participation in the National Fraud Initiative;
 - e) Corporate Fraud Policy Framework;
 - f) Fraud Risk Assessments; and
 - g) Fraud Awareness Training.
- 4.2** Monthly meetings of the new Integrity Group were held between October 2020 and March 2021 to initiate its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and currently has representatives from HR, Finance, Legal, IT, Internal Audit and Corporate Fraud.
- 4.3** The Corporate Fraud Officers are members of the Scottish Local Authority Investigators Group (SLAIG) to represent Midlothian Council. They join SLAIG's quarterly virtual meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring their knowledge of emerging fraud risks and issues is up to date. Any insights are shared on a regular basis with the Integrity Group.

- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2020/2021 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Principal Internal Auditor acts as the Council's Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date with input from relevant Services across the Council.
- 4.5** In response to a recommendation by the Audit Committee at its meeting on 12 October 2020, the Integrity Group considered all three counter fraud reports published by Audit Scotland in June and July 2020, and carried out an assessment of counter fraud controls associated with Covid-19 emerging fraud risks. The findings of the Integrity Group's assessment of Midlothian Council's counter fraud controls and necessary actions to enhance the Council's resilience to fraud were presented to Senior Management on 24 February 2021 and were considered by the Audit Committee on 9 March 2021.

5 Outcomes of Counter Fraud Activity 2020/21

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of Corporate Fraud Team activity a total savings value of £300,240 has been identified during 2020/21. These outcomes are detailed in Appendix 1.
- 5.2** The outcomes of the Council's continuing participation in the National Fraud Initiative 2020/2021 will be presented in the Counter Fraud Annual Report 2021/22 at the conclusion of the exercise.
- 5.3** In conclusion, the Corporate Fraud Team has been successful in delivering the activity set out in the Counter Fraud Annual Plan 2020/21 and achieving the above outcomes during 2020/21 to support the Council's objectives. The new Integrity Group has met regularly since October 2020 to initiate activity within its remit associated with the Counter Fraud Strategy. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes.

6 Report Implications (Resource, Digital, Risk and Equalities)

6.1 Resource

The Integrity Group will support Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention; meeting during the course of fraud investigations with the aim to take corrective action, minimise losses and help prevent further frauds; and coordinating with the Serious Organised Crime (SOC) Group.

The staff resource set out in the Counter Fraud Annual Plan 2020/21 relates to two Corporate Fraud Officers, plus some management and supervision provided by the Principal Internal Auditor and the Chief Internal Auditor. The Corporate Fraud Officers collaborate with other managers and staff across the Council to carry out the activity, and support the Integrity Group. The Actual was 447 days versus Plan 406 Days for Corporate Fraud activity.

6.2 Digital

None.

6.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy (approved by Council on 25 August 2020) provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

The report on the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks was designed to provide assurance to Senior Management and the Audit Committee on the efficacy of Midlothian Council's arrangements, and set out the actions that are ongoing or required to enhance the Council's resilience to fraud.

The Integrity Group will carry out a further review of these fraud risks and any other emerging fraud risks relating to Covid-19 in due course, to ensure the controls continue to be effective in mitigating the risks. This will include the receipt, consideration and monitoring of organisational vulnerability alerts or fraud flags, including those identified via various internal and external sources.

6.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed prior to the presentation of the revised Counter Fraud Policy and Strategy that were approved by the Council on 25 August 2020.

6.5 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 (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 preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

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 arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy (approved by Council on 25 August 2020). The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud risk assessments and e-learning packages that can be tailored to specific Services.

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

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Counter Fraud Strategy (August 2020) states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to be evaluated, managed and evidenced to demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised by staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit and Corporate Fraud work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy (August 2020).

A.8 Supporting Sustainable Development

None.

Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2020/21

Type of Referral	No of Referrals	Web	Telephone	Email	No with Fraud Detected	£ value Fraud Detected	Comments
Corporate Fraud (Internal)	7	3	2	2	1	£15,000	Investigations in response to referrals from various sources. Disciplinary or other action taken, as appropriate. 3 investigations still ongoing from prior years. 1 investigation relating to the recovery of Council equipment with the original value of £15k which is currently awaiting outcome of Police Scotland investigation.
Housing Tenancy Fraud	29	9		20	3	£282,240	29 referrals resulting in investigations. 1 applicant was removed from the Housing waiting list, producing a nominal saving of £3,240 as per Audit Scotland guidance. 3 Council houses also recovered and returned to available housing stock. Nominal value per Audit Scotland guidance (£93,000 per property over 4 years): £279,000.
Council Tax Discounts & Exemptions	4	3		1	1		1 enquiry forwarded to DWP SFIS to investigate; however the outcome is not yet known. Information also submitted to Police Scotland to investigate information found during enquiries.
DPA/SOCG enquiries	8			8			A member of the Corporate Fraud team acts as the Single Point of Contact for Midlothian Council with Police Scotland for Serious and Organised Crime Groups. During the year, 8 enquiries were received from Police Scotland and information was provided to them under section 21 (paras 2 & 3) of the Data Protection Act 2018.
Other	18	9	8	1			Investigations mostly resulting in referrals being submitted to external partners and internal services including the Department for Work and Pensions Single Fraud Investigation Service (SFIS) of the Department for Work and Pensions (DWP), Health & Safety Executive, Trading Standards, Planning, and Environmental Health.
Covid-19 support grants administered on behalf of Scottish Government	6	4	1	1	1	£3,000	New types of allegations received relating to Covid-19 breaking of restrictions and fraudulent attempts to claim Covid-19 grants. 1 case was found to be an ineligible application for self- employed grant and was rejected, resulting in the non-payment of £3,000. The main Covid-19 grants were administered by City of Edinburgh Council; however it was later found that 92 applications worth approx. £120k were fraudulent and have been reported to Police Scotland.
Total	72	28	11	33	6	£300,240	

Draft Annual Governance Statement 2020/21**Report by Chief Executive****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the details of the draft Annual Governance Statement 2020/21 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements;
- b) Approve that it be published in the Council's Statement of Accounts 2020/21, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process; and
- c) Note that from March 2020 the Council have been managing the response to the Covid-19 Pandemic which resulted in two "lockdown" periods during the course of 2020/21.

2 Purpose of Report/Executive Summary

The purpose of this report is to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2020/21.

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

This has been an unprecedented year. From March 2020 the Council has been managing the response to the Covid-19 Pandemic which resulted in two "lockdown" periods during the course of 2020/21. During these "lockdown" periods the Council committed to deliver three main functions: caring for the vulnerable, co-operating with our resilience partners, and supporting economic recovery. As part of the strategic response, the Midlothian Community Planning Partnership launched the Kindness Midlothian Campaign on 18 March 2020 prior to the first "lockdown" period. As part of the strategic recovery response, the Midlothian Route Map was approved by Council in June 2020. In addition, the Council have been working together with Nesta and the *Listen and Learn* Report was approved in September 2020. The Council also approved a new Economic Renewal strategy and an

accelerated Capital programme, as part of the Council's commitment to supporting Economic Recovery.

The Council's Local Code of Corporate Governance was reviewed and updated during 2020/21 through significant engagement with the Corporate Management Team to reflect the changes in corporate governance during 2020/21. The updated Local Code was approved by Council on 23 March 2021 to assist with the annual assurance process 2020/21.

The draft Annual Governance Statement 2020/21, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.

Date 15 June 2021

Report Contact:

Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Background

- 3.1** Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2** Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.

4 Changes in the Council's Corporate Governance during 2020/21

- 4.1** This has been an unprecedented year. From March 2020 the Council has been managing the response to the Covid-19 Pandemic which resulted in two "lockdown" periods during the course of 2020/21.
- 4.2** On 16 March 2020 Group Leaders agreed that Standing Order 19.2 would be triggered for any emergency decisions during any period where Council and Committees were suspended. This was implemented from 24 March 2020 due to the suspension of the March Council meeting in response to the first "lockdown" which was announced on 23 March 2020. On 18 March 2020 the Community Planning Partnership launched the Kindness Midlothian Campaign. At 3.30pm on Friday 20 March 2020 the Council moved to critical service delivery which meant that the Council would carry out its three main statutory functions: caring for the vulnerable, co-operating with our resilience partners, and supporting economic recovery.
- 4.3** During the period from 24 March to 15 June 2020, the Corporate Incident Management Team met daily and the Chief Executive met weekly with the Leader and Depute Leader, Group Leaders and the Administration. In preparation for "lockdown" the Council significantly transformed its approach to digital devices and remote working solutions in order to continue to keep critical services moving during "lockdown" with many staff volunteering to undertake alternative duties.
- 4.4** Council meetings resumed on 16 June 2020. At this meeting the Midlothian Route Map was approved. To support this strategic recovery route map the Council have been working together with Nesta and the *Listen and Learn* Report was approved in September 2020. In addition Council also approved a new Economic Renewal strategy and an accelerated Capital programme, as part of the Council's commitment to supporting Economic Recovery.

5 Update of the Council's Local Code of Corporate Governance

- 5.1** The Council's Local Code of Corporate Governance has been updated during 2020/21 to reflect the changes in corporate governance during 2020/21. This was carried out through significant engagement with the Corporate Management Team (CMT) facilitated by the Chief Internal Auditor as part of HIA¹ role to be champion for sound governance. .
- 5.2** The CMT were provided the opportunity to engage in the review and finalisation of the updated Local Code of Corporate Governance, and considered one Local Code principle at a time during meetings between August and November 2020. Discussions were held thereafter with relevant members of CMT to update the evidence to demonstrate good governance which reflects the current operating environment, thus revising one Local Code principle at a time. The CMT considered the collated revised Local Code of Corporate Governance at its meeting on 16 December 2020 and again on 24 February 2021 for sign-off in order to finalise the updated Local Code.
- 5.3** The updated Local Code, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), was scrutinised and endorsed for approval by the Audit Committee on 9 March 2021 and was approved by Council on 23 March 2021.
- 5.4** The main changes to the Local Code cover:
- Comprehensive evidence against each of the seven principles of good governance and sub-principles;
 - Updates to strategies, plans and processes which reflect the current operating environment;
 - Further developments in community and citizen consultation and engagement activities; and
 - Enhancements arising from audit and inspection findings, and other planned changes.

6 Annual Assurance Process 2020/21

- 6.1** The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 6.2** The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.² Its Terms of Reference includes 'To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances'.

¹ CIPFA 'the role of the head of internal audit in public service organisations' (2019)

² CIPFA guidance note for local authorities 'Audit Committee' (2018)

- 6.3** The CMT undertook a full self-evaluation of the Local Code of Corporate Governance in consultation with the Internal Audit function. 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 as set out in the Local Code. In addition, the self-evaluation identified areas of further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code.
- 6.4** Progress with implementation of actions regarding previously identified improvement areas of governance has also been evaluated.
- 6.5** The draft Annual Governance Statement 2020/21 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.
- 6.6** It is the Chief Executive's opinion that, although there are areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered adequate.
- 6.7** The draft Annual Governance Statement 2020/21 is informed by the assessment of compliance against the Local Code, written assurance statements from the Executive Directors and Chief Officers/Heads of Service, Internal Audit annual opinion and findings and recommendations, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

7 Report Implications (Resource, Digital, Risk and Equalities)

7.1 Resource

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), on which Midlothian Council's Local Code of Corporate Governance is framed, is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Core principle of good governance "E. Developing the entity's capacity, including the capability of its leadership and the individuals within it" is included within the CIPFA/SOLACE Framework. Workforce and elected member development are a key part of the good governance framework within the Council's Local Code of Corporate Governance.

7.2 Digital

There are no digital implications arising from this report.

7.3 Risk

The review and update of the Local Code of Corporate Governance during 2020/21 ensures that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis. The draft Annual Governance Statement 2020/21 details areas where additional work would further enhance the internal control environment, or improve risk management and corporate governance arrangements.

Core principle of good governance “F. Managing risks and performance through robust internal control and strong public financial management” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its updated Local Code of Corporate Governance.

7.4 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 application of equalities legislation within practices is set out in Midlothian Council’s Local Code of Corporate Governance to demonstrate compliance of core principle of good governance “A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law” which is included within the CIPFA/SOLACE Framework.

7.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives as set out in the Single Midlothian Plan (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).

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 embedded in the Council's Local Code of Corporate Governance 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 overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), on which Midlothian Council's Local Code of Corporate Governance is framed, is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

This will enable the Council to fulfil its obligations to provide best value service delivery to its citizens.

A.5 Involving Communities and Other Stakeholders

Core principle of good governance “B. Ensuring openness and comprehensive stakeholder engagement” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

The Council’s Corporate Management Team was engaged in the review and finalisation of the updated Local Code of Corporate Governance (approved by Council on 23 March 2021), and the update of the evidence to demonstrate good governance which reflects the current operating environment.

A.6 Impact on Performance and Outcomes

The annual self-assessment and the identification of improvement actions as evidenced through the draft Annual Governance Statement 2020/21 are designed to enhance the internal control environment, and risk management and corporate governance arrangements.

This demonstrates the core principle of good governance “G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability” included within the CIPFA/SOLACE Framework.

A.7 Adopting a Preventative Approach

Core principle of good governance “D. Determining the interventions necessary to optimise the achievement of the intended outcomes” is included within the CIPFA/SOLACE Framework. Prevention governance arrangements are a key part of the good governance framework within the Council’s Local Code of Corporate Governance.

A.8 Supporting Sustainable Development

Core principle of good governance “C. Defining outcomes in terms of sustainable economic, social, and environmental benefits” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

Draft Annual Governance Statement 2020/21

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2021, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Due to the Covid-19 Pandemic, on 16 March 2020 Group Leaders agreed that Standing Order 19.2 be implemented for any emergency decisions required at the start of the Pandemic. This was in place from 24 March to 15 June 2020. Council and Committee meetings recommenced, using a virtual platform on 16 June 2020. During this period, from 24 March to 15 June 2020 the Corporate Incident Management Team met daily and the Chief Executive met weekly with the Leader and Depute Leader, the Administration and with Group Leaders. All meetings were held using the virtual platform. All 19.2 decisions taken during this period were reported to Group Leaders weekly and were also reported to the first available meeting of Council on 16 June 2020.

Scope of Responsibility

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Midlothian Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

The system can only provide reasonable and not absolute assurance of effectiveness.

Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework defines the seven core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- 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; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), has been updated during 2020/21 to reflect the changes in corporate governance during 2020/21 and was approved by Council in March 2021.

The Council's Governance Framework

The key elements of the Council's governance arrangements, as set out in the Council's Local Code of Corporate Governance, include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in standing orders and scheme of delegation for officers, scheme of administration, and financial regulations.

Codes of conduct are in place for and define the high ethical values and standards of behaviour expected from elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Standards Committee is responsible for dealing with matters relating to conduct and ethical standards.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties was provided during the year to the Council by the Head of Adult Health and Social Care (Chief Social Work Officer). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc. The CSWO reports annually on the statutory work undertaken, regulation and inspection, workforce issues and significant social policy themes.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. At the onset of the pandemic, Council meetings were suspended. Standing Order 19.2 was implemented for any emergency decisions from 24 March to 15 June 2020. Council and Committee meetings recommenced on 16 June 2020 using a virtual platform.

Unless confidential, decisions made by Council or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council's Medium Term Financial Strategy and Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan.

Asset management planning and capital investment at a strategic level is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision.

The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities.

Implications are considered during the decision making process within the standard report template covering Resources, Risk, Single Midlothian Plan and Key Priorities, Impact on Performance and Outcomes, Adopting a Preventative Approach, Involving Communities and Other Stakeholders, Ensuring Equalities, Supporting Sustainable Development, and IT issues.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report template.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community including the achievement of 'social value' (community benefits) through service planning and commissioning.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the relevant appraisal processes in place during the year.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Induction Programme is periodically supplemented by training events, seminars and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit.

F. Managing risks and performance through robust internal control & strong public financial management

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.

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.

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.

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.

The Council has an approved strategy to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively.

A Medium Term Financial Strategy 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.

G. Implementing good practices in transparency, reporting, & audit to deliver effective accountability

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2020/21. This is based on work carried out by an in-house and shared services team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Quarterly Performance Reports were presented to the Performance, Review and Scrutiny Committee for monitoring the achievement of strategic priorities and key performance indicators.

The Annual Accounts and Report for 2020/21, setting out the financial position in accordance with relevant accounting regulations, are being prepared.

Review of Adequacy and Effectiveness of the Council's Governance Framework

An annual review of the adequacy and effectiveness of its overall governance framework is carried out. The output is this Annual Governance Statement which is presented to the Audit Committee.

The Corporate Management Team undertook a full self-evaluation of the Local Code of Corporate Governance during the year in consultation with the Internal Audit function. 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 as set out in the Local Code, which was approved by Council in March 2021.

The review was further informed by assurances from: assessment of compliance against the Local Code; written assurance statements from the Executive Directors and Chief Officers/Heads of Service; Internal Audit annual opinion, findings and recommendations; External Audit, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where improvement in governance arrangements can be made to enhance compliance with the Council's Local Code of Corporate Governance and to demonstrate Best Value.

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the 8 recommendations made in order to demonstrate Best Value.. A follow up Best Value Report was presented to Council in November 2020 and a further report is scheduled for June 2021.

In response to the Pandemic the Council has undergone significant transformation. In June 2020, Council approved the Midlothian Route Map. To support this strategic recovery route map the Council have been working together with Nesta and the *Listen and Learn* Report was approved in September 2020. In addition Council also approved a new Economic Renewal strategy and an accelerated Capital programme as part of the Council's commitment to supporting Economic Recovery.

During 2020/21 the Council has also developed and sustained more constructive relationships between members and between members and officers. During the Pandemic the Chief Executive met weekly with the three group leaders. The cross party Education group is also a highly effective example of cross part working. In addition, the cross-party Business Transformation Steering Group is driving forward the medium term financial strategy and the Midlothian Route Map in response to the Pandemic, and new Transformation Boards are in place to support the delivery of this work .

Further action is required in respect of the remaining 4 recommendations;

- 1) The workforce strategy was approved by Council in December 2019. The Pandemic has resulted in significant changes to the workforce and the digital solutions now implemented. As a result workforce planning and digital by default approaches continue to be developed to support the Midlothian Route Map which includes a Remote Working Transformation Board which is chaired by the Chief Officer, Corporate Solutions. Workforce is also being addressed through the Hub and Spoke Board in moving towards local by default service delivery and the Digital First Board in support of 21st Century ways of working.
- 2) The Council is continuing to implement financial planning arrangements to address budget gaps, and a balanced budget was set for 2021/22, as approved by Council in February 2021, with a Corporate Solution proposed for 2022/23.
- 3) Progress has been achieved with elected members in light of the recommendation to exercise appropriate scrutiny and to develop Professional Development Plans. This is also supported by Seminars and Briefings which complement Council and Committee meetings. Further work is ongoing for members to fully take ownership for personal development plans and access relevant training opportunities.
- 4) Reviews are progressing under the new leadership to continue to build on positive elements of community empowerment. In 2021 Midlothian was awarded the IESE Certificate of Excellence for the Kindness Midlothian Campaign which was led by the Community Planning Partnership. Development of future models for working with communities in designing and delivering services is progressing with Nesta, a social innovation foundation, as outlined in the Listen and Learn report, particularly in relation to the transformation of Neighbourhood Services.

A formal report on the progress with the Best Value action plan is scheduled to be presented to Council in June 2021.

In addition, there are other areas for improvement actions (below) that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

- 5) Review and update the Financial Regulations and Financial Directives and associated guidance to reflect changes arising from organisation structures and systems and embed arrangements to support regular review and updating. Review and update the Scheme of Delegation, Standing Orders and Scheme of Administration, in preparation for the term of next Council and to ensure that they remain appropriate and reflect the current management structure. A cross party Standing Orders working group is currently in place.
- 6) Ensure that the action taken to strengthen resource capacity and skills in the Procurement function provides the necessary support to Service Managers, strengthens compliance with the Council's procurement strategy and procedures, and further improves contract monitoring to demonstrate delivery of value for money and to consistently ensure integrity and compliance with high ethical standards expected by the Council. A new Procurement Manager has been appointed in order to lead transformation of this service area and will take up post in September 2021.
- 7) Continue to refine quarterly monitoring reports for both revenue and capital to improve the robustness of scrutiny and transparency of performance against financial plans.
- 8) Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
- 9) Provide ongoing training for managers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.
- 10) Ensure that the Strategic Boards, supporting the work of the Business Transformation Board and the cross-party Business Transformation Steering Group secure the required outcomes at the required scale and pace.
- 11) 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.

In addition, Health Boards and their partner local authorities have a statutory duty under the Public Bodies (Joint Working) (Scotland) Act 2014 to review the integration scheme every five years. The review of the integration scheme has been delayed as a consequence of the pandemic and it has been agreed that the current scheme is continuing until the new scheme is agreed. Partners have agreed this, any governance issues with this (e.g. any expected changes that have not been able to be implemented) and the next steps and timeframe for completing this process.

Conclusion and Opinion on Assurance

The conclusion from the review activity outlined above and our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

Dr Grace Vickers
Chief Executive
mm 2021

Derek Milligan
Leader of the Council
mm 2021

Midlothian Council

**Review of Treasury Management
Year ended 31 March 2021**

June 2021

1. Executive Summary

Background

This report has been prepared as part of our response to our annual wider scope risk assessment process. External auditors in the public sector have a wider remit under the Code of Audit Practice, than those in the private sector, including aspects of governance and financial management.

All councils operate a treasury management service to ensure that cash flow is adequately planned. Midlothian Council ("the Council") secures borrowing to ensure that cash is available to meet spending commitments within the capital plan as they fall due. The management of the treasury function also allows the investment of temporary surplus funds balancing risk, liquidity and returns.

The strategy considered and endorsed by Audit Committee and approved by Council is that of cash backing its useable reserves, ensuring adequate security of the sums invested is critical as a loss of principal would result in a loss to the General Fund balance.

In December 2020, the Council received adverse media attention due to their fixed-term deposit of funds placed on 3 April 2020 with the London Borough of Croydon Council. On 11 November 2020, Croydon Council issued a statutory section 114 (3) notice in accordance with the Local Government Finance Act 1988. Under English regulations, this notice indicates that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

Focus of our review

The increased attention and scrutiny of treasury management, along with specific concerns expressed by members of the Audit Committee, led to our consideration of treasury management as an area of increased focus as part of our wider scope audit procedures in 2020/21. This report summarises the finding of our review, which focuses on whether the Council's Treasury Management and Investment Strategy is in line with the principles of key guidance from CIPFA and whether the Council can demonstrate that strategies have been applied in practice. We also considered quality and completeness of treasury management reporting to management, Audit Committee and Council against the requirements established in guidance.

Summary of findings

Our review identified that:

- The Council's policies and procedures reflect the requirements within CIPFA's Treasury Management Code and Prudential Code. A planned update in 2020/21 should be subject to scrutiny by the Audit Committee;
- While it is more challenging to perform robust due diligence checks on local authorities, the Council has developed a draft checklist to provide an audit trail of the decision making process and checks performed;
- Annual, mid-year and outturn reports on Treasury Management are considered by the Council and the Audit Committee and cover the key requirements of the Codes; and
- Training for elected members has been provided but we noted that areas of challenge and scrutiny by audit committee members have not been as fully minuted as they could be.

2. Introduction

Background

The Council is required to operate a balanced budget, and in general the cash raised during the year will meet cash expenditure. Part of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Temporary surplus funds are invested in counterparties commensurate with the Council's risk appetite, as set out in the Treasury Management and Investment Strategy.

A key element of the treasury management service is the funding of the Council's capital plans. Capital planning provides projections of the longer term borrowing needs of the Council, to ensure that the Council can meet its capital spending obligations.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. As the Council cash backs its general reserves, ensuring adequate security of the sums invested is critical as a loss of principal would, in effect, result in a loss to the General Fund balance.

Relevant Codes of Practice (the Codes)

Under statutory guidance, all local authorities in the Scotland are required to have regard to CIPFA's Treasury Management Code and Prudential Code when carrying out their duties. The Treasury Management Code provides a framework to:

- ▶ manage the Council's investments and cash flows;
- ▶ manage the risks associated with banking, money market and capital market transactions; and
- ▶ pursue optimum performance in a way that is consistent with those risks.

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.

Treasury Management and the application of the Prudential Code are areas of increased focus in local government across the UK as a result of controversy in relation to a misinterpretation of the existing rules. A small number of English councils have engaged in "debt for yield" activities, borrowing to fund purchases or commercial activities solely to make an investment return.

Consultation documents outline a number of key areas of potential change to the relevant Codes and as a result, key changes are likely to be made to the Council's policies and procedures in late 2021/early 2022.

In response to the recommendation of the UK Parliament's Public Accounts Committee and the substantial increase in commercial investment seen in some English authorities, CIPFA proposes to strengthen the provisions within both the existing Prudential and Treasury Management Codes. The closing date for responses to consultations was 12 April 2021 and current expectations are that the revised codes will be published towards the end of the calendar year for 2021/22 implementation.

Expected areas of change to the Codes

We expect that the revised Prudential Code will explicitly prohibit debt-for-yield investment unless incidental to the main function of borrowing, for example to support local regeneration. In addition, there are likely to be updated requirements to assess the affordability of commercial activity within local authority capital strategies and new prudential indicators on affordability - external debt charged to net service expenditure (NSE) ratio, and commercial income to net service expenditure.

Proposals in relation to Treasury Management include amendments to highlight the importance of all treasury management staff and elected members having the required skills and knowledge to be able to undertake their duties and responsibilities. This may include a comprehensive knowledge and skills schedule for both staff and elected members. There may also be guidance to recommend that decisions and strategies for more complex treasury management functions should be reviewed by a dedicated committee.

2. Areas of Focus

There is no implication that the Council has undertaken any controversial “debt for yield” activities.

The Council has not suffered any loss in respect of the deposit placed with the London Borough of Croydon Council.

Focus at Midlothian Council

In December 2020, Midlothian Council (the Council) received adverse media attention due to their fixed-term deposit of funds placed on 3 April 2020 with the London Borough of Croydon Council, which issued a statutory section 114 (3) on 11 November 2020.

Background to Section 114

Under the Local Government Finance Act 1988, which applies only to England and Wales, Section 114 (3) requires:

“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.”

When a Section 114(3) notice has been issued it means that no new expenditure is permitted for the Council, with the exception of that funding statutory services, including safeguarding vulnerable people, but that existing commitments and contracts will continue to be honoured.

Note that Section 114 does not apply to Scotland - instead the requirement to set a balanced budget is established in s108(2) of the Local Government (Scotland) Act 1973 and s93(3) of the Local Government Finance Act 1992.

The increased attention and scrutiny of treasury management and the application of the Prudential Code within local government, along with specific concerns expressed by members of the Audit Committee, has led to our consideration of treasury management as an area of increased focus as part of our wider scope audit procedures in 2020/21. We 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.
- ▶ Whether the Council can demonstrate that strategies have been applied in practice through the consideration of a sample of transactions in year. This will consider whether the appropriate due diligence was undertaken in advance of borrowing and investments decisions.
- ▶ The Council’s process for appointing their current treasury management advisers and reviewing and considering the advice received.
- ▶ The quality and completeness of treasury management reporting to management, Audit Committee and Council.

Compliance with the Codes

We have reviewed the Council's arrangements against the current Codes. The Treasury Management Code requires councils to have detailed treasury management practices statements which are considered best practice and should therefore only be amended to suit the Council's individual circumstances. The practices cover a number of areas including risk management, performance measurement, decision making and analysis and cash and cash flow management.

The Council has adopted the treasury management practices outlined in the Treasury Management Code and an internal audit review provided substantial assurance that comprehensive policies and procedures are in place.

The Council has treasury management practices statements in place, which were updated and reviewed to reflect the most recent revision of the Treasury Management Code in 2017. 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."

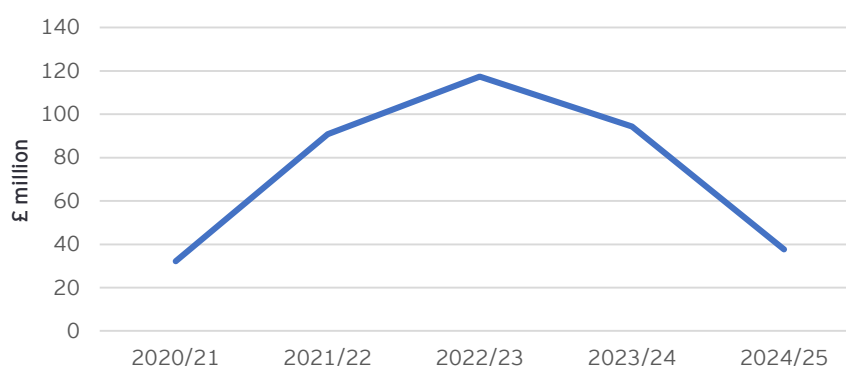
The Code also states that the body responsible for scrutiny, such as an audit committee, will have responsibility for the scrutiny of treasury management policies and practices. However, while the practice statements were made available to elected members, they were not formally considered or scrutinised at committee level. We consider that the next revision of the practice statements, expected to be in late 2021 or early 2022, should be subject to review and consideration by the Council's Audit Committee.

Recommendation 1: The Audit Committee should scrutinise the detailed Treasury Management Practices Statements, along with the revised Code expected later in 2021.

The Council outlines its consideration of its borrowing and investment strategies within the annual Treasury Management and Investment Strategy. We consider the reporting requirements of the Code below.

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. As a result, Exhibit 1 notes that the Council's borrowing requirement is expected to rise by £117 million in 2022/23.

Exhibit 1: The Council has committed to significant external borrowing over the next five years to fund its capital investment ambitions



Source: Midlothian Council Treasury Management and Investment Strategy 2021/22

The Council has historically managed to achieve one of the lowest weighted average borrowing rates when compared to other Scottish local authorities. The loans fund rate for the Council in 2020/21 is estimated to be 3.1%, against the 2019/20 weighted average across the sector of 3.7%.

The borrowing strategy sets out the prioritised borrowing methods the Council could use, as well as setting limits on certain types of borrowing and the debt maturity structure. The Council currently forecasts that the vast majority of borrowing will be secured via the Public Works Loans Board (PWLB). This is in line with the Council's strategy to secure long-term borrowing to fund capital investment, to take advantage of historically low long-term interest rates.

The Council participates in CIPFA's special interest group, the Treasury Management forum. The forum collates treasury management performance indicators for all Scottish local authorities. The indicators for 2019/20 highlight that the Council had the second lowest weighted average borrowing and investment (loans fund) rate across all Scottish mainland authorities in 2019/20. The Council estimated that the savings achieved by using the actual interest rate against the sector average in Scotland equated to around £2.2 million in 2019/20.

We found that the Council has adopted each of the prudential indicators, and has responded to our 2018/19 recommendation to provide additional treasury management training to support elected members to perform their scrutiny role. Link Asset Services and the Council's Treasury Management team provided a training session in November 2019, and more recent training was again provided by Link Asset Services in February 2021.

Due diligence arrangements

As part of our consideration of treasury management arrangements, we selected a sample of investment transactions secured during 2020/21 to assess whether the Council can demonstrate that strategies have been applied in practice. In assessing the transactions, we had regard to the relevant Treasury Management Practice Statements (refer to Exhibit 2).

Exhibit 2: Extracts from the Treasury Management Code

TM Practice 3 (TMP3): Decision Making and Analysis

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TM Practice 4 (TMP4): Approved Instruments, Methods and Techniques

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Source: CIPFA Treasury Management Code, and adopted within Midlothian Council's Treasury Management Practices

We selected a sample of deposits to review, which included money market funds, and short-term deposits with other local authorities and a high street bank.

We had no findings as a result of our testing of deposits with money market funds/banks. However, common due diligence checks including credit reference and counterparty limits are rarely relevant for deposits with other local authorities.

Recommendation 2: The Council has developed a draft investment checklist to provide further evidence of due diligence checks performed. This should be completed to strengthen the audit trail in support of TMP 3.

The Council has established a draft investment checklist to ensure that a written record of due diligence consideration is maintained in future, in line with TMP 3. We note that while the checklists are complete and indicate the checks that had been performed for the deposits tested, the Council would acknowledge that the work to capture the information in the checklists format was completed retrospectively for the deposits placed in 2020.

In respect of the deposits tested with local authorities, we found evidence that checks performed included review of the most recently available financial statements and Treasury Management Strategies of proposed counterparties. In the case of the Council's deposit with the London Borough of Croydon, the Council's treasury management team sought further information from Link Asset Services to allow it to assess a number of potential counterparties that were active in the market at the time. Link provided information and assurance in relation to Croydon Council's Revolving Investment Fund and the purposes of borrowing through the inter authority market, which the Treasury Management team took into account as part of the overall due diligence work undertaken.

As a result of the decision making process and additional information provided over a period of 3 working days the Council elected to place a deposit with Croydon Council. We note that the yield offered increased over the decision making period. The final yield offered on 19 March 2020 of 1.85% (compared to 1.48% on Tuesday 17 March 2020) was a consequence of the inter-LA lending market improving, which was linked to the movement in the equivalent 2.5-3 year PWLB rates over this period.

We note above that there are no credit reference checks available in relation the majority of local authorities. We further note that the ability to complete due diligence procedures on local authorities is further impacted by the timeliness of publicly available financial information. For example, the NAO has recently reported that the delays in auditors delivering opinions in time for accounts publication deadlines in England fell from 57% in 2018-19 to 45% in 2019-20.

In addition, we understand through our discussion with council officers that typically deposit decisions are required to be made quickly or offered deposits may be withdrawn.

Nonetheless, the treasury management team has developed an updated draft investment checklist (Appendix B). The purpose of the checklist is to further strengthen the documentation of the due diligence checks carried out and to use information sourced to flag potential counterparties who are engaged with “debt for yield” activities or are otherwise considered to be higher risk in the local government context. The draft checklist would provide additional evidence of compliance with TMP 3.

We have reviewed the draft checklist and provided comments to management. These include reference to the importance of the auditors judgements and recommendations in relation to value for money within the NAO’s Code of Audit Practice for English local authorities. This would include reporting of significant weaknesses in arrangements as part of the Annual Audit Letter that are not reflected within the audit opinion.

Appointment of Treasury Management advisors

Like many other councils in Scotland, the Council uses Link Asset Services as treasury management advisors. During the review of treasury management arrangements in 2018, the Council’s internal auditors noted that following the expiry of the advisory contract in 2015, the service was not competitively tendered. A ‘Non-Competitive Action form’ was completed retrospectively in response to the internal audit report. During discussions with the finance team, we note that there are only two advisors within the Scottish market and the contract remains at a relatively low value.

We note that the contract with Link includes the provision of information on counterparty creditworthiness. The services provided do not include the provision of specific advice on the financial standing of individual local authorities or a determination as to the appropriateness or otherwise of placing a deposit with specified local authority. However, the Treasury Team advise that Link Asset Services provide as much detail as available to clients on all aspects of the clients Treasury activities. As very few local authorities have credit ratings, and there is a time lag in the provision of key financial information, it is unlikely that specific advice on the financial standing of specific local authorities could be provided by Treasury advisors as part of a contractual requirement. In our view, the draft checklist (section 3 item 6) should be adjusted so that it is clear that while additional information obtained from Treasury advisors can contribute to the decision making basis, accountability for choosing counterparties remains with the Section 95 Officer.

We noted that council officers and Link advisors have regular discussions on aspects of the Councils treasury management activities, including possible options for borrowing and deposits and advice on specific trades. While, given the nature of these discussions, there is no detailed record maintained, we recognise that the introduction of a checklist would enhance the audit trail of the decision-making process.

Recommendation 3: The Council should amend the draft checklist to clarify that the accountability for decision making continues to rest with Council officers.

Treasury Management Reporting

The Treasury Management Code stipulates a number of key documents that the Council should receive and scrutinise, including an annual report on the strategy and plan to be pursued in the coming year; a mid-year review; and an annual report on the performance of the treasury management function.

The Council annual Treasury Management and Investment Strategy is considered in line with budget arrangements. We note in particular that the presentation of the Council's Treasury Management and Investment Strategy at the 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.

The Investment Strategy notes the Council's investment priorities as the security of capital and liquidity of its investments, and sets a limit on longer term, fixed rate investments. The Counterparty List details the approved banks and other financial institutions with which the Council can undertake short-term investments.

Proposed Prudential Indicators, as recommended in CIPFA's Prudential Code, are also considered within the report. As a result, we were satisfied that the reporting undertaken throughout 2019/20 and 2020/21 met the requirements of the Code.

As regular attendees at the Audit Committee, we have noted regular discussion and challenge during consideration of the Treasury Management annual and mid-year reports. Specific actions have been undertaken in response to challenge including, for example, the development of training sessions for members of the committee. However, the minutes of meetings did not fully reflect the full substance of the scrutiny applied, including the topics of matters raised by committee members.

Recommendation 4: The Council should ensure that the scrutiny and challenge applied to treasury management activities are minuted to reflect the substance of the matters raised.



Appendices

A - Action Plan

B - Local Government Counterparty Decision draft checklist

A. Action Plan

We have graded these findings according to our consideration of their priority.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation	Management response / Implementation timeframe
1	The Treasury Management Code states that the body responsible for scrutiny, such as an audit committee, will have responsibility for the scrutiny of treasury management policies and practices. However, while the practice statements were made available to elected members at the time of the last refresh, they were not formally considered or scrutinised at committee level.	The Audit Committee should scrutinise the detailed Treasury Management Practice ⁷ statements along with the revised Code expected later in 2021. <i>Grade 3</i>	In common with most other Council's the detailed practice statements were made available to elected members for scrutiny by providing them in the members library. The next revision of the Practice Statements will however be included as part of the Audit Committee agenda papers when the revisions arising from the review of the prudential code are made. Responsible Officer: Chief Officer Corporate Solutions (S95 Officer) Implementation date: February 2022 (subject to timing of revisions to prudential code being published)
2	The Council should further strengthen the audit trail in support of compliance with Treasury Management Practice 3 by maintaining, as part of the draft checklist a comprehensive audit trail of checks completed on local authority investment options. We note that the Council has developed a comprehensive investment checklist to evidence due diligence checks on local authorities and that this is now in use.	The Council should further strengthen the audit trail to ensure that evidence of due diligence checks is maintained in accordance with TMP 3. <i>Grade 2</i>	The draft investment checklist provides a documented trail of the due diligence checks carried out in respect of potential local authority counterparties and records the time critical decisions made. The recommendation further strengthens the audit trail on these checks and is agreed. Responsible Officer: Chief Officer Corporate Solutions (S95 Officer) Implementation date: Already Implemented and will be updated to reflect this report.

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation	Management response / Implementation timeframe
3	We note the wording of the draft checklist could give rise to the potential for a lack of clarity in respect of the status of information and advice in relation to counterparty creditworthiness in respect of the inter authority lending market.	<p>The Council should amend the draft checklist to clarify that the accountability for decision making continues to rest with Council officers.</p> <p><i>Grade 2</i></p>	<p>Agreed. The checklist will also provide a means of capturing advice and information in respect of specific trades/counterparties.</p> <p>Responsible Officer: Chief Officer Corporate Solutions (S95 Officer)</p> <p>Implementation date: Already Implemented and change has been made to checklist.</p>
4	As regular attendees at the Audit Committee, we have noted regular discussion and challenge during consideration of the Treasury Management annual and mid-year reports	The Council should ensure that the scrutiny and challenge applied to treasury management activities are minuted to reflect the substance of the matters raised.	<p>Agreed. Democratic Services will ensure that the minutes of Audit Committee meetings, commencing with the meeting on 22 June 2021, reflect the substance of the scrutiny applied in respect of Treasury Management reports including, the matters raised by committee members.</p> <p>The review and approval of the minutes of meetings at the following meeting also provides the opportunity for committee members to ensure the minutes reflect the substance of the scrutiny applied.</p> <p>Responsible Officer: Chief Officer Corporate Solutions (S95 Officer)</p> <p>Implementation date: Minutes of the meeting held on 22 June 2021 which will be presented to Audit committee in September 2021 for approval.</p>

B. Local Authority Counterparty: draft checklist

PROPOSED LOCAL AUTHORITY COUNTERPARTY DECISION – TEMPLATE CHECKLIST

Appraisal Date: xx/xx/xxxx
Counterparty: XXX Council
Documents Checklist:- Statement of Accounts: XXXX (Un/Audited/Un/Qualified) Medium Term Financial Strategy/Plan: XXXX (date) Financial Monitoring: XXXX (date) Treasury Management & Investment Strategy: XXXX (date) Other: (Title) XXXX (date)

SECTION 1: Compliance with approved TMSS				
Indicator	Criteria	Value	Meets Requirement (Yes/No)	Notes
1. Permitted counterparty per TMSS	Counterparty must be local authority			
2. Max maturity period per TMSS	Tenor/maturity period must be less than or equal to 5 years	XX years		Must be less than or equal to 5 years (investments with another Local Authority)
3. Deposits greater than 1 year per TMSS	Total Existing Deposits + Proposed Deposits must be <= £70.000 million	EXX million Proposed STD EXX million Existing STD EXX Total STD		

SECTION 2: Additional Criteria				
Indicator	Criteria	Value	Meets Requirement (Yes/No)	Notes
1. Overall size and scale	Net Cost of Services (NCS) >= Midlothian Population >= Midlothian	NCS: £XXX million Population: XXX,XXX		Midlothian 2019/20:- NCS: £197 million Population: 91,000
2. Levels of investments and commercial agenda *	Does not intend to buy commercial assets outwith the borough/local authority area primarily for yield (source from budget & monitoring capital plans). Has not bought such commercial assets primarily for yield in last 2 sets of audited account statements months (statement of accounts, TM reports & outturn capital plans). Excludes purchase of assets and financing schemes applicable to service delivery, housing, and regeneration under the prudential regime*.	Statement of Accounts Treasury Management Reports MTFS Capital Plans		

* This includes capital projects in neighbouring districts or the authority's wider economic area, where these projects are for service delivery, housing or preventative action, or regeneration. See PWLB Future Lending Terms and Conditions for further detail

SECTION 3: Background information on potential counterparties			
Indicator	Checks	Values	Notes
1. Overall Borrowing Position & Extent of Exposure to Short Term Borrowing & Overall Market Movements	Ratios STB vs NCS STB vs PPE STB vs LTA S/LTB vs PPE S/LTB vs LTA		
2. Level of Uncommitted General Fund Reserve	General Fund Uncommitted Reserve >= 2% of Net Revenue Budget		
3. Latest Audited & Published Accounts	Unqualified/Qualified Auditors Annual Report review		
4. Section 114 Notice / Capitalisation Directive	Any Section 114 notices issued Any capitalisation directives granted		
5. TMIS Review			
6. Link Treasury Solutions advice on financial standing of Local Authority			
7. Other Relevant Information			

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ey.com

Annual Treasury Management Report 2020/21

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendations

The Audit Committee is invited to consider this report before the final report is presented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2020/21.

2 Purpose of Report/Executive Summary

The purpose of the report is to inform members of the Audit Committee of the Treasury Management activity undertaken in 2020/21 and the year-end position.

Date: 11 June 2021

Report Contact:

Gary Thomson, Senior Accountant

gary.thomson@midlothian.gov.uk

0131-271-3230

3 Background

The main points arising from treasury activity in 2020/21 were:

- The pooled internal loans fund rate for General Fund and HRA was 3.10% in 2020/21, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
- Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.70%, this would have generated loan charges in 2020/21 of £18.3 million. The Council's actual 2020/21 loan charges for General Services and HRA were £16.5 million, representing a cash saving (compared to the Scotland average) of £1.8 million in 2020/21;
- Total new long term borrowing taken in the year amounted to £15.000 million, this being a maturity loan from PWLB drawn on 28 April 2020 with a loan tenor of 46.5 years at an interest rate of 1.17% utilising the HRA discounted borrowing rate;
- Total long term borrowing maturing in the year amounted to £9.282 million, comprising the following:-
 - One £8.400 million Maturity Loan with PWLB matured on 14 December 2020 (original tenor 9 years at an interest rate of 2.98%);
 - £0.040 million of PWLB Annuities of various tenors and interest rates;
 - £0.641 million of Annuity and EIP, and £0.201 million of interest free loans.
- The average rate of interest paid on external debt was 3.31% in 2020/21, down from 3.44% in 2019/20 and reflecting the historically low interest rates secured on longer-term PWLB borrowing in 2020/21;
- Three deposits were placed with local authorities, which replaced existing/maturing deposits with financial institutions and which continues the approved strategy of cash backing the Council's reserves;
- The average rate of return on deposits was 0.97% in 2020/21, exceeding the benchmark of 0.65% for the seventeenth year in succession;
- Cash balances in instant access accounts throughout the year were significantly higher than normal and reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, in particular schemes to support local businesses; (b) advanced Revenue Support Grant payments and Early Years Capital Grant payments in 2020/21, and (c) the impact of Covid on the Council's cashflow due to rephasing of capital expenditure plans.

- No debt rescheduling was undertaken during 2020/21.

A detailed report “*Annual Treasury Management Review 2020/21*” on the activity during 2020/21 is attached as Appendix 2.

The Treasury Portfolio at the start and end of the financial year is shown in Tables 1 and 2 below.

Table 1: Loan Portfolio at 1 April 2020 and 31 March 2021

Loan Type	Principal Outstanding 1 Apr 2020 £000's	Principal Outstanding 31 Mar 2021 £000's	Movement £000's
PWLB Annuity	637	597	-40
PWLB Maturity	228,824	235,424	+6,600
LOBO	20,000	20,000	0
Forward Starting Loans	18,831	18,191	-640
Temporary Market Loans	0	0	0
Salix Loans	785	583	-202
Total Loans	269,077	274,795	+5,718

Table 2: Deposits at 1 April 2020 and 31 March 2021

Deposit Type	Principal Outstanding 1 Apr 2020 £000's	Principal Outstanding 31 Mar 2021 £000's	Movement £000's
Bank Call Accounts	11,476	26,470	+14,994
Money Market Funds	14,901	29,818	+14,916
Bank Notice Accounts	14,985	14,985	0
Bank Fixed Term Deposit Accounts	30,000	0	-30,000
Other Local Authorities	40,000	60,000	+20,000
Total Deposits	111,363	131,273	+19,910

4. Other Issues

The Code recommends that Treasury reports are presented to and scrutinised by Audit Committee in advance of being considered by Council.

The report is being presented to Audit Committee on 22 June 2021 and subsequently to Council, and will be updated to reflect any comments that the Audit Committee have.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

Treasury Management activity during the year, in accordance with the approved strategy, has once again been effective in minimising the cost

of borrowing and maximising the return on deposits within the parameters set by the strategy for the year.

Although benefits from Treasury Management activity continue to accrue there are no direct financial implications or other resource issues arising from this report.

The loan charges associated with Capital Expenditure and Treasury Management activity during 2020/21 are reported in the Financial Monitoring 2020/21 – General Fund Revenue report elsewhere on today's agenda.

5.2 Digital

None.

5.3 Risk

As the Council follows the requirements of CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include further written Treasury Management Practices, which define the responsibilities of all staff involved.

5.4 Ensuring Equalities (if required a separate IIA must be completed)

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

5.5 Additional Report Implications

See Appendix A

Appendices:-

Appendix 1: Loans Fund Rate Comparison with other Scottish Local Authorities

Appendix 2: Annual Treasury Management Review 2020/21

Appendix 3: Deposit Benchmarking Analysis 2020/21

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

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

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 Asset Services, the Council's appointed Treasury Consultants.

A.6 Impact on Performance and Outcomes

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 placement of deposits. 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.

Appendix 1:-

Loans Fund Pooled Rate Comparison 2019/20

Loans Fund Rate	2019/20
All Scottish Councils	Pooled Rate
West Dunbartonshire	2.58%
Midlothian	2.95%
Aberdeenshire	3.00%
Perth & Kinross	3.07%
Dumfries & Galloway	3.16%
East Lothian	3.18%
North Lanarkshire	3.45%
Inverclyde	3.50%
Dundee City	3.57%
Argyll & Bute	3.57%
Aberdeen City	3.58%
East Renfrewshire	3.72%
Falkirk	3.77%
East Ayrshire	3.80%
Glasgow City	3.87%
West Lothian	3.87%
Highland	3.89%
Renfrewshire	3.93%
South Ayrshire	3.94%
South Lanarkshire	3.96%
Scottish Borders	4.05%
North Ayrshire	4.06%
East Dunbartonshire	4.06%
Stirling	4.16%
Moray	4.19%
Edinburgh City	4.37%
Angus	4.42%
Clackmannanshire	5.10%

The Pooled Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average “loans fund rate” figure for each authority, as noted in the final column above.

Appendix 2

Annual Treasury Management Review 2020/21

Midlothian Council
June 2021

Contents

- 1 The Council's Capital Expenditure and Financing 2020/21
- 2 The Council's overall borrowing need
- 3 Treasury Position as at 31 March 2021
- 4 The Strategy for 2020/21
- 5 The Economy and Interest Rates
- 6 Borrowing Rates in 2020/21
- 7 Borrowing Outturn for 2020/21
- 8 Deposit Rates in 2020/21
- 9 Deposit Outturn for 2020/21
- 10 Performance Measurement
- 11 Conclusion

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 11/02/2020);
- a mid-year, (minimum), treasury update report (Council 15/12/2020);
- an annual review following the end of the year describing the activity compared to the strategy, (this report);

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they are reported to the full Council.

1. The Council's Capital Expenditure and Financing 2020/21

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 1: Capital Expenditure + Financing			
	2019/20	2020/21	2020/21
	Actual	Budget	Actual
	£000	£000	£000
General Fund			
Capital Expenditure	30,977	63,765	25,570
Available Funding	26,062	41,790	15,612
Borrowing Required	4,915	21,975	9,958
HRA			
Capital Expenditure	24,936	81,128	15,632
Available Funding	11,951	5,489	9,241
Borrowing Required	12,985	75,639	6,391
General Fund and HRA			
Capital Expenditure	55,913	144,893	41,202
Available Funding	38,013	47,279	24,853
Borrowing Required	17,900	97,614	16,349

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Scheduled Debt Amortisation (or loans repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the minimum loan repayment each year through an additional revenue charge.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

Table 2: Council's Underlying Borrowing Requirement			
	31-Mar-20	2020/21	31-Mar-21
CFR:	Actual	Budget	Actual
	£000	£000	£000
Opening balance	£ 274,582	£ 299,486	£ 283,384
Add Borrowing Required	£ 17,900	£ 97,614	£ 17,900
Less scheduled debt amortisation	£ (9,098)	£ (9,182)	£ (8,170)
Closing balance	£ 283,384	£ 387,918	£ 293,114

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next three financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21. The table below highlights the Council's gross borrowing position against the CFR (excluding PFI schemes). The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-20	2020/21	31-Mar-21
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 269,077	£ 346,660	£ 274,795
CFR	£ 283,384	£ 387,918	£ 293,114

The authorised limit – this Council has kept within its authorised external borrowing limit as shown by the table below. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2020/21
Authorised limit - borrowing	£551,806
Operational boundary - borrowing	£387,918
Maximum gross borrowing position	£293,495
Average gross borrowing position	£281,385

3. Treasury Position as at 31 March 2021

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2020/21 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position						
	31 March 2020 Principal	Rate/ Return	Average Life (Yrs)	31 March 2021 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 229,462	3.43%	30.27	£ 236,021	3.30%	31.36
Market	£ 24,616	2.89%	30.70	£ 23,774	2.92%	30.09
Total Fixed Rate Debt	£ 254,078	3.38%	30.31	£ 259,795	3.27%	31.24
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	31.71	£ 15,000	4.63%	31.71
Total Variable Rate Debt	£ 15,000	4.63%	32.71	£ 15,000	4.63%	31.71
Total debt/gross borrowing	£ 269,078	3.47%	30.45	£ 274,795	3.34%	31.27
CFR	£ 283,384			£ 293,114		
Over/ (under) borrowing	£ (14,306)			£ (18,319)		
Deposits						
Fixed Rate Deposits						
In House	£ 70,000	1.43%	1.71	£ 60,000	1.62%	1.41
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Deposits	£ 70,000	1.43%	1.71	£ 60,000	1.62%	1.41
Variable Rate Deposits						
In House	£ 26,378	0.59%	0.18	£ 71,272	0.13%	0.11
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Deposits	£ 26,378	0.59%	0.18	£ 71,272	0.13%	0.11
Total Deposits	£ 96,378	1.20%	1.29	£ 131,272	0.81%	0.70

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio					
	31-Mar-20		2020/21	31-Mar-21	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Under 12 months	£ 9,230	3%	0% to 50%	£ 1,471	1%
12 months to 2 years	£ 1,490	1%	0% to 50%	£ 1,465	1%
2 years to 5 years	£ 3,720	1%	0% to 50%	£ 3,624	1%
5 years to 10 years	£ 14,560	5%	0% to 50%	£ 23,923	9%
10 years to 20 years	£ 63,229	23%	0% to 50%	£ 53,308	19%
20 years to 30 years	£ 14,265	5%	0% to 50%	£ 13,421	5%
30 years to 40 years	£ 90,534	34%	0% to 50%	£ 95,534	35%
40 years to 50 years	£ 67,049	25%	0% to 50%	£ 77,049	28%
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	2%
Total	£ 269,077	100%		£ 274,795	100%

The maturity structure of the Council's deposits was as follows:

Table 7: Maturity Structure of Deposit Portfolio		
	31-Mar-20	31-Mar-21
	£000	£000
Deposit		
Under 1 Year	£ 81,363	£ 71,272
Over 1 Year	£ 30,000	£ 60,000
Total	£ 111,363	£ 131,272

The exposure to fixed and variable interest rates on debt was as follows:-

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-20		2020/21	31-Mar-21	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Fixed Interest Rate Exposure	£254,077	94%	0% to 100%	£ 259,795	95%
Variable Interest Rate Exposure	£ 15,000	6%	0% to 30%	£ 15,000	5%
Total	£ 269,077	100%		£ 274,795	100%

4. The Strategy for 2020/21

During 2020/21, the Council maintained a partial under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure to finance capital investment.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PVLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PVLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PVLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PVLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

Return on funds placed on deposit which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending.

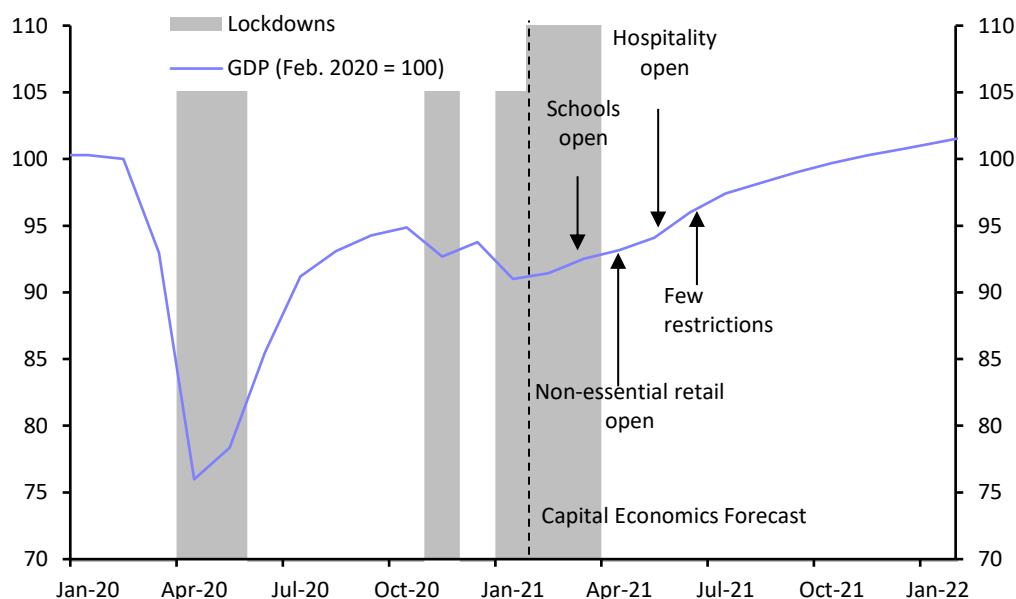
The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy.

The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

While the Council has taken a cautious approach to depositing funds, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5. The Economy and Interest Rates

UK. Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the **Government** and the **Bank of England** took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were

concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

USA. The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a \$1.9trn (8.8% of GDP) stimulus package in March on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a \$2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

EU. Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be

delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. **The ECB** did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB is able to maintain this level of support.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

Japan. Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

World growth. World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, 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.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides

governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

6. Borrowing Rates in 2020/21

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.



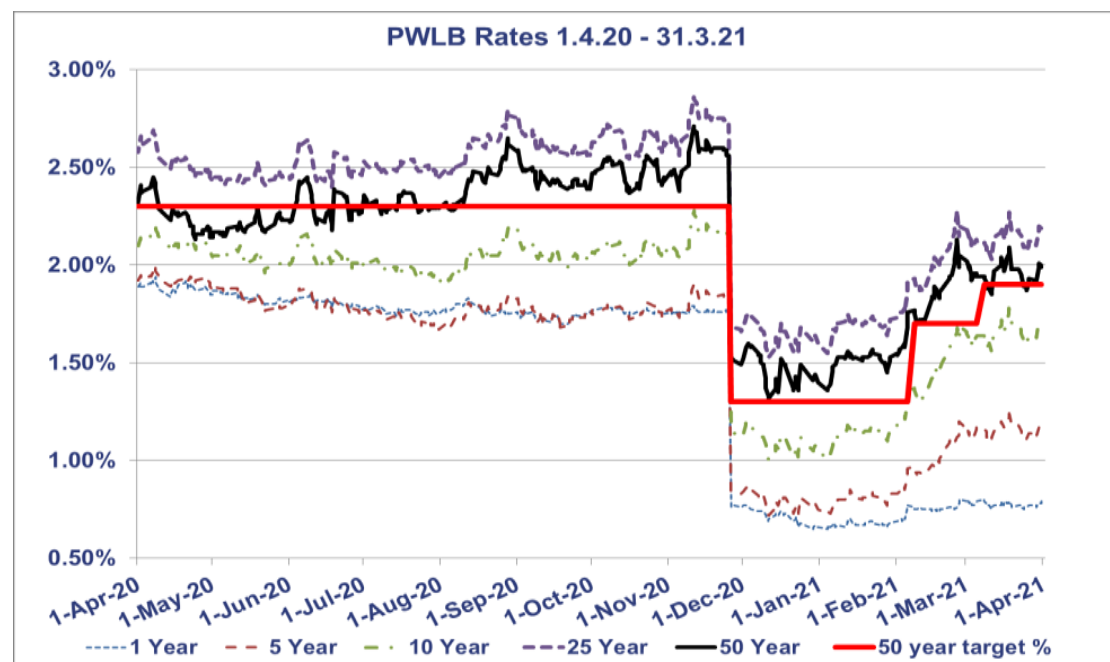
Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:-

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB 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)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

7. Borrowing Outturn for 2020/21

New Treasury Borrowing:-

New loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:-

Table 9: New Loans Taken in Financial Year 2020/21						
Lender	Date Taken	Principal £000's	Interest Rate	Fixed/ Variable	Maturity Date	Term (Yrs)
PWLB Maturity	28 Apr 2020	£ 15,000	1.17%	Fixed	28 Oct 2066	46.50
Market	Various	£ 14,500	0.15%-0.25%	Variable interest rate	Various	0.08-0.11
Total		£ 29,500				

Maturing Debt:-

The following table gives details of treasury debt maturing during the year:-

Table 10: Maturing Debt in Financial Year 2020/21						
Lender	Date Repaid	Principal £000's	Interest Rate	Fixed/ Variable	Date Originally Taken	Original Term (Yrs)
PWLB	14 Dec 2020	£ 8,400	2.98%	Fixed	14 Dec 2011	8.00
Salix	Various	£ 201	0.00%	Fixed	Various	7-8 years
Deutsche Pfandbriefbank	Various	£ 357	2.63%	Fixed	29 Jun 2017	28.00
Deutsche Pfandbriefbank	Various	£ 283	2.73%	Fixed	15 Nov 2018	25.50
Market	Various	£ 14,500	0.15%-0.25%	Variable interest rate	Various	0.08-0.11
Total		£ 23,741				

Rescheduling:-

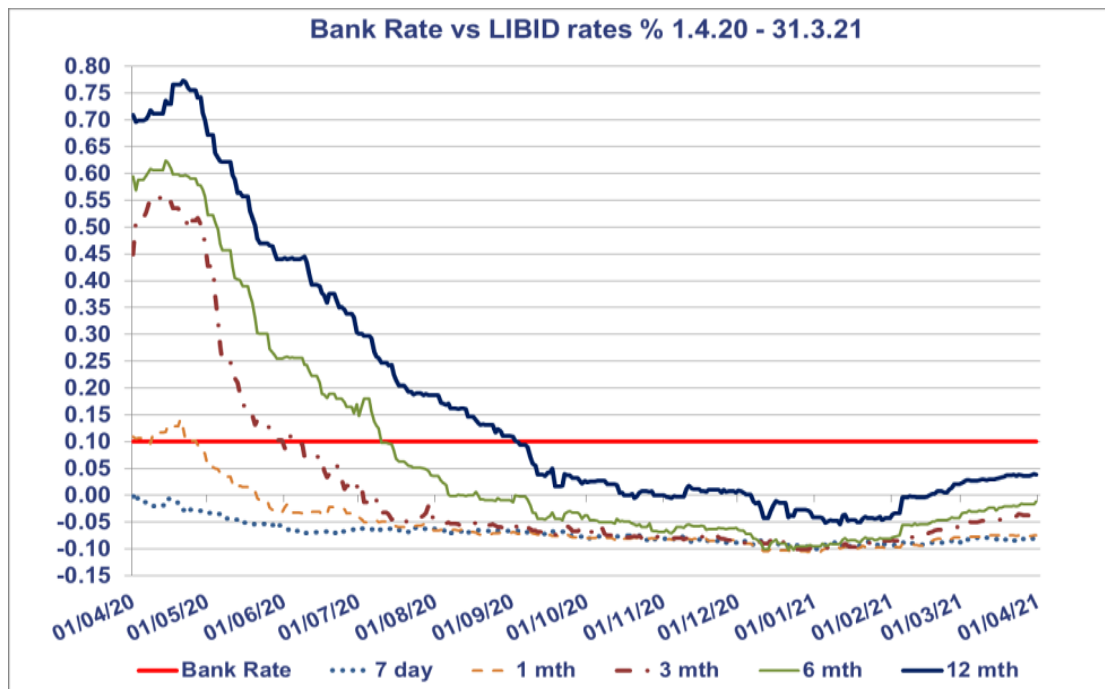
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of debt transactions:-

The average interest rate payable on external debt decreased from 3.44% at the start of 2020/21 to 3.34% at the end of 2020/21. The average life of debt within the loan portfolio lengthened from 30.33 years to 31.16 years.

8. Deposit Rates in 2020/21

Money market fund rates started the year between 0.45%-0.78%, trending at base rate levels throughout the year, and mirroring the decreases in bank rate, with a slight lag due to the longer durational element of money market fund portfolios.



9. Funds on Deposit Outturn for 2020/21

Deposit Policy:-

The Council's policy for placing deposits is governed by Scottish Government Investment Regulations, which have been implemented in the annual investment strategy approved by the Council on 11 February 2020. This policy sets out the approach for choosing counterparties, and for financial institutions is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The position at 31 March 2021 was as follows:-

Table 11: Breakdown of Deposits by Counterparty at 31 March 2021			
Counterparty	Deposit Start Date	Deposit End Date	Principal Outstanding 31 Mar 2021 £000's
Royal Bank of Scotland	Instant Access Call Account		26,470
MMF - Aberdeen Liquidity Fund	Instant Access Money Market Fund		14,908
MMF - Federated	Instant Access Money Market Fund		14,908
MMF - Legal & General	Instant Access Money Market Fund		2
Santander	180 Day Notice Account		14,985
Wokingham Borough Council	25-Mar-20	24-Mar-23	15,000
Medway Council	30-Mar-20	30-Mar-22	15,000
London Borough of Croydon Council	03-Apr-20	03-Oct-22	13,000
Stoke on Trent City Council	06-Apr-20	06-Apr-23	2,000
London Borough of Waltham Forest Council	30-Apr-20	29-Apr-22	15,000
Total Deposits			131,273

Deposits placed by the Council:-

The Council maintained an average balance of £133.2 million of internally managed funds. The internally managed funds earned an average rate of return of 0.97%. The comparable performance indicator is the average 12-month LIBID un-compounded rate, which was 0.65%.

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities.

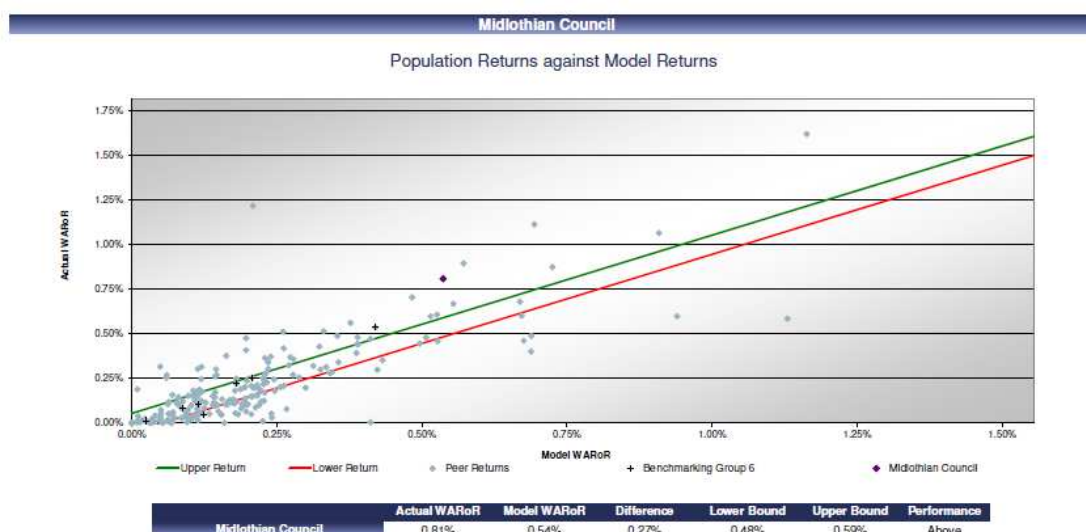
Loans Fund Rate

Combining the interest paid (earned) on external debt (deposits) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 2.95% for 2019/20 was the second lowest Loans Fund Rate amongst all mainland authorities in Scotland (see Appendix 1).

The comparative Loans Fund Rate for 2020/21, of 3.10%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Deposit Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Link. This service provided by Link provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's funds on deposit as at 31 March 2021, the Weighted Average Rate of Return (WARoR) on deposits of 0.81% against other authorities is shown in the graph below:-



** Models for 30 June 2020, 30 September 2020 and 31 December 2020 are attached as Appendix 3.*

As can be seen from the above graph, Midlothian is performing above the Link model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit

Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Debt Performance

Whilst deposit performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. In this respect, the relevant figures for Midlothian are incorporated in the table in Section 3.

11. Conclusion

The Council's overall cost of borrowing continues to benefit significantly from the approved strategy and the proactive Treasury Management activity undertaken.

The cost of long term borrowing has been maintained by taking up opportunities to borrow from the PWLB at low interest rates.

A better than average return on deposits has been achieved for the sixteenth consecutive year and Midlothian continues to perform above the Link model benchmarks and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

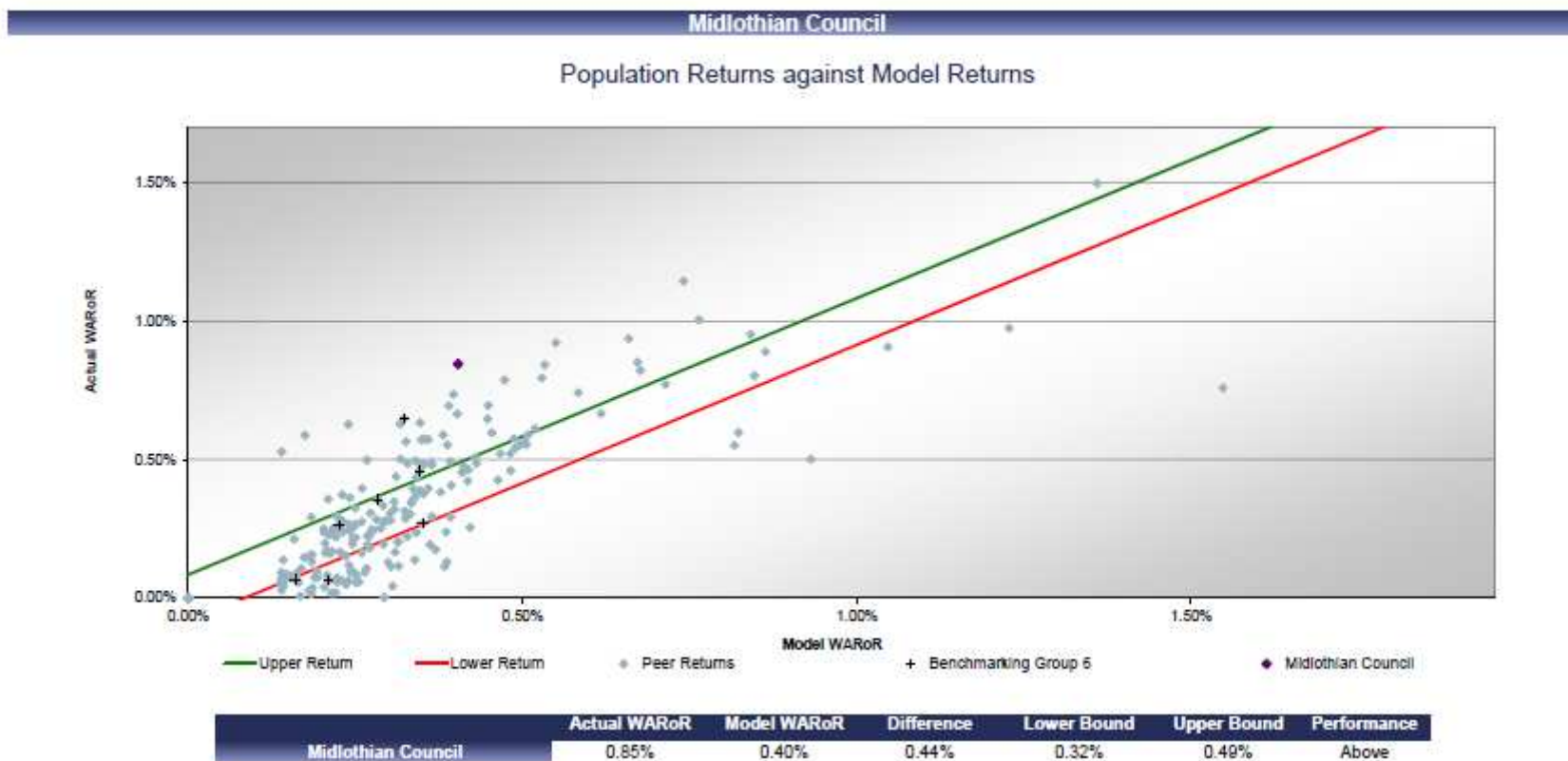
Overall Midlothian's Loans Fund Rate of 3.10% for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

Appendix 3

Midlothian Council Deposit Portfolio return as at 30 June 2020



Midlothian Council Deposit Portfolio return as at 30 September 2020



Midlothian Council Deposit Portfolio return as at 31 December 2020

