

Annual Governance Statement – Improvement Update**Report by Gary Fairley Chief Officer Corporate Solutions****Report for Noting****1 Recommendations**

Audit Committee are asked to note 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.

2 Purpose of Report/Executive Summary

At its meeting on 22 June 2020 the Audit Committee, 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.

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3 Background

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE framework, sets out the Council's governance arrangements and systems of internal control, 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.

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' 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.

An annual review of the adequacy and effectiveness of the Council's overall governance framework is carried out with the output of this being the Annual Governance Statement, which is presented as an integral part of the Financial Statements.

For 2019/20 the collective review activity identified areas where improvement in governance arrangements could be made to enhance compliance with the Council's Local Code of Corporate Governance and to demonstrate Best Value, including financial sustainability, financial management and service transformation.

The final 2019/20 Annual Governance Statement highlighted that significant progress had been made in terms of the improvement actions agreed as follows:

1. The medium term financial strategy was approved by Council in June 2019.
2. The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party Business Transformation Steering Group (BTSG) is driving forward the medium term financial strategy including supporting transformation plans. Throughout the Covid-19 pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.
3. The workforce strategy was approved by Council in December 2019 and further work, as part of the Covid-19 recovery phase, is now taking place to ensure that workforce planning reflects both the medium term financial strategy and the Council's future plans.
4. The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020. Supporting capital projects were approved by Council in June and August 2020.

5. The Council is continuing to implement financial planning arrangements to address remaining budget gaps, underpinned by robust financial budgeting and monitoring arrangements with a quarterly financial monitoring board now meeting to scrutinise in year and future year savings.
6. The Compact has been developed in partnership with the Third Sector in light of the outcome of consultation work through Services with Communities and will be presented to Council in October 2020.
7. Work is underway with elected members in light of the recommendation to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

The statement also noted additional improvement actions that were agreed during the year in order to enhance compliance with the Council's Local Code of Corporate Governance:

9. Strengthen resource capacity and skills in the Procurement function to better support service managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to demonstrate delivery of value for money.
10. 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.
11. Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems.
12. Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.
13. In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee, or Council where appropriate. Unfortunately, the reporting process did not improve to the extent anticipated and therefore it is essential moving forward that both CMT and Audit Committee are given their place in terms accurate and timeous reports being provided to allow full analysis and scrutiny of financial matters which will help to ensure greater transparency of practice and stronger governance.

The aim of all these actions being to improve governance arrangements in 2020/21.

The update provided by this report builds on that provided in December 2020 and encompasses all of the thirteen items above.

4 Update on Improvement Actions

AGS 1: Medium Term Financial Strategy (MTFS)

In addition to the position reported in December 2020, the Council agreed on 28 February 2021, on the recommendation of the BTSG, the 2021/22 budget.

As reported previously BTSG unanimously endorsed the adoption of a corporate solution to secure financial balance for the 2021/22 and 2022/23 budgets. Therefore in setting the budget in February members did not have to consider further service reductions when determining the budget, representing a significant departure from previous years.

The adoption of the corporate solution for the 2022/23 budget, the remaining budget that falls within the term of this Council, allows officers to commence work on developing a MTFS for the term of the next Council for consideration after the elections in May 2022.

AGS 2: Relationships between members and between members and officers and AGS 7: Member scrutiny

The introduction of cross-party working groups represents positive progress. These working groups support development of relationships between members themselves and provides access to appropriate officers, which adds depth to their scrutiny role outside formal committees. As referenced above, the cross-party BTSG has been fundamental to securing recommendations to Council in respect of the 2021/22 budget and also in continuing to drive forward the medium term financial strategy.

During the pandemic, to support members' transition to a virtual meeting environment, a new protocol and reporting template were introduced. The return to the delivery of critical service provision and the suspension of a range of Council meetings was supported by the Chief Executive's weekly meeting with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.

In December 2020, an update on the Elected Member Development Programme was presented to CMT. Themes for the development programme were identified through elected member engagement, with further consultation taking place with members to inform the detailed programme to be delivered. Personal development plans have been issued, with a number of members having completed these, and briefings/seminars have been delivered. A central record of attendance is held to better inform elected member development.

It is recognised that in the run up to the Scottish Government Elections in May 2021 there will be increased political debate between the political groups of elected members within the Council. It is important that the quasi-judicial and scrutiny roles of some specific committees are respected.

As the Council enters the final twelve months of its current term it is important that efforts continue to further strengthen the relationships between members themselves, and between members and officers, and that this extends to the essential role of the members of the Audit Committee to constructively support scrutiny activity.

AGS 3: Workforce plans

The Council's Workforce Strategy was refreshed and presented to Council in December 2020. Service workforce plans were expected to be updated to reflect both MTFs and new leadership structure but this has been disrupted by the focus on the response to the pandemic.

Services are currently preparing new service plans reflecting the new leadership structure, route map and approved Nesta recommendations all of which will positively inform service workforce plans. Whilst not necessarily captured in documented workforce plans, a number of key actions are being progressed to strengthen our workforce planning arrangements as outlined below:

- Work is ongoing with Nesta to transform the way we deliver neighbourhood services. This work involves considering the content of job roles to ensure the delivery of both customer service excellence and job enrichment; development of career pathways within and across teams; and more visible entry routes into Midlothian Council for those who may face barriers to employment opportunities.
- With the introduction of 1140 hours in the early years sector, much work continues to be undertaken on introducing modern apprenticeships into the Council to ensure this growth area is resourced.
- Within the Midlothian Health and Social Care Partnership, an interim workforce plan will be submitted to the Scottish Government by 30 April 2021 examining the existing workforce plans for service areas, reviewing what the strengths, opportunities and challenges are with the current workforce to compile a strategic direction with outcome focussed actions to deliver an effective and efficient workforce.
- Much work has also been undertaken within Building Standards, with Midlothian contributing to the national work in this area.

The agreement of the 2021/22 budget, as set out above, provides greater certainty on which to develop these service specific plans.

AGS 4: The capital programme

On 23 February 2021 the updated General Services Capital Plan was agreed. This includes pipeline projects, investment in essential infrastructure, new schools and continued new build social housing; and will see investment of £0.8 billion over the period of the plan. The plan also includes two successful bids for projects in Learning Estate Investment Programme Phase 2 with three new build secondary schools and one refurbishment.

In recognition of the extent of the forward investment the Council has appointed two Heads of Development and is further strengthening its capacity to support the delivery of the programme.

The Capital Plan and Asset Management Planning Board maintains oversight of the capital plans and oversees the delivery of the wide range of investment projects provided for in the plans. The board has implemented a gateway review and reporting process (at this point for all projects over £1m). This has subsequently been complemented by the roll out of project flash reports to allow BTSG oversight of progress in delivering capital projects and to keep all members informed of progress in their ward. The gateway review process is designed to strengthen the overall governance of projects, provides a means to more effectively monitor projects against the agreed milestones and allows risks to be monitored and managed effectively. Whilst the framework is in place, work continues to ensure it is fully embedded across all £1m plus projects to ensure consistency.

AGS 5: Financial planning arrangements and financial budgeting and monitoring arrangements

Financial Monitoring CMT meetings continue to take place with those meetings receiving both the draft quarterly financial monitoring report and appendices for scrutiny and challenge. Also, where appropriate, additional information which outlines the basis of financial projections and the key risks associated with these is also provided.

Financial Strategy meetings attended by the Chief Executive, Executive Director Place, Chief Officer Corporate Solutions and Financial Services Manager continue on a fortnightly basis and provide a forum to review and refine the financial strategy and address issues as they emerge.

To support the wider scope assessment for Financial Management and Financial Sustainability (and the Annual Governance Statement) work has commenced on a self-assessment against the CIPFA Financial Management Code. The Code provides guidance for good and sustainable financial management in local authorities and by complying with the principles and standards within the code, the Council will be in a better position to demonstrate financial sustainability and be a step closer to securing a green rating as part of the wider scope assessment by EY.

Although the Code comes into effect from April 2020, in recognition of the pressures facing local authorities, 2021/22 will be the first full compliance year so we have a shadow year to work towards full implementation. Adoption and compliance with the Code is not just a finance team issue, but is for the whole leadership team, therefore an approach similar to that adopted for the review of the Code of Corporate Governance will be taken to collate evidence and engage with CMT.

AGS 6: Compact with the Third Sector and AGS 8: Community empowerment

The updated Compact was presented and agreed in October 2020.

Community councils have taken ownership of neighbourhood plans in rural communities where they are now a standing item on agendas. Some community councils have co-opted community groups to membership through the powers in the revised constitutions. In respect of the Citizen's Panel an additional 350 children and young people took part in a modified citizen's panel process.

Four community asset transfers have now been agreed and three formal participation requests have been received. Town centre master planning in Mayfield is being led by five anchor community organisations supported by the Council.

A place standard approach involving residents in defining core issues in their communities has been undertaken in Bonnyrigg, Mayfield, Gorebridge, Dalkeith and Penicuik. The Bonnyrigg place standard weekend engagement event involved slightly over 2,500 people.

The Midlothian Integrated Joint Board undertook an extensive public engagement process to devise its most recent plan. Stakeholder joint planning groups continue to influence planning of adult health and social care services. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

AGS 9: Procurement

The actions reported in December 2020 included:

- Strengthening the capacity and skills in the Procurement Team by recruiting an additional Procurement Officer.
- Regular meetings in place across the Directorates.
- An update on the position with expired contracts, noting that twelve had been identified as requiring retendering and in this regard the Procurement team were supporting service leads to progress these and had ensured that interim arrangements were appropriate.

Since December 2020 further additional capacity has been secured through the recruitment of a second Procurement Assistant, who will start on completion of their notice period in May 2021. The additional capacity provided by this appointment will assist in ensuring that the provider fitness checks arrangements put in place are sustainable (a recommendation arising from the Following the Public Pound 2018/19 audit). From the 20/21 fitness provider checks, 14 remain outstanding (11 Adult Health & Social Care, 3 Children Services). Work is ongoing to complete these checks and it is acknowledged that providers in these services areas have experienced significant challenge over th

last year which has impacted on their ability to meet the expected deadlines. Provider fitness checks for 2021/22 have also commenced.

The procurement officers meet regularly with the service managers in their respective categories across all three divisions. This enables service managers to identify future procurement needs and all parties to agree procurement strategies and timetabling as well as allowing discussion on current contract performance.

Despite the impact of the pandemic on capacity across services, positive engagement continues with Scotland Excel to develop plans for the future delivery of the procurement service and ensure there is sufficient capacity to deliver an effective and efficient service. It was hoped to secure resources directly from Scotland Excel to provide the capacity and skills to take forward a range of key actions however this has proved to not be feasible.

To support the continued improvement of the Council's procurement arrangements and to ensure that our focus and investment is targeted on the right areas, a Strategic Procurement Review from Scotland Excel was commissioned and completed with a final report provided on 12 March 2021.

This review set out the following three options for the Council to consider:

- Add additional resource to the team in its existing form and governance
- Develop a strategic partnership and operate a shared procurement service with another organisation's procurement team
- Develop a strategic partnership with Scotland Excel to deliver a transformation programme

As previously reported attempts to develop a strategic partnership and operate a shared procurement service with neighbouring Councils has proved unsuccessful so this option has been discounted in the short term.

On receipt of the draft report from Scotland Excel recruitment of a Procurement Manager commenced, recognising the need to further strengthen capacity to maintain and develop the service and to progress the strategic partnership with Scotland Excel to deliver a Procurement transformation programme. Recruitment interviews are scheduled for 23 April 2021.

A meeting with the Chief Executive of Scotland Excel took place on 30th March 2021 to discuss the findings of the report and discuss the way forward with continued support from the Scotland Excel team. The Procurement Review Report will form the basis for the immediate action plan to be progressed by the Procurement Manager when in post.

The 2019/20 Internal Audit report on the procurement and management of contracts identified that contract and supplier management processes require to be strengthened, including a system to manage contracts, resource to monitor and manage contractors, and sufficient performance measures built into every contract for adequate monitoring. This aspect of procurement activity was covered by the Scotland Excel report which acknowledge that Contract and Supplier Management (CSM) as a key development area for the Council.

The report states that *“it is widely recognised that CSM is an area of considerable weakness within the public sector generally. For local authorities this is clear from the most recent results from the Procurement & Commercial Improvement Programme (PCIP), where the CSM section is the lowest rated subject area and, in considering historical results from previous assessments is the least advanced area over the last number of years. In line with national trends, Midlothian Council did not score well in areas relating to CSM and should prioritise this as an area for improvement.*

There are three main operating models of CSM within Local Authorities:

1. Central Procurement Only

In this model, CSM is undertaken by the central procurement team. Whilst this allows for greater control, it does entail significant procurement resource to operate effectively.

2. Delegated Services Only

In this model, CSM is undertaken by the service areas. Whilst this reduces pressure on central procurement resource, it is more difficult to control to ensure that CSM is being conducted appropriately.

3. Hybrid Model

A hybrid model allows for a mix of the two approaches outlined above. In a Scotland Excel Cross Sector workshop, it was found that 68% of organisations adopt a hybrid model with input from central procurement and service teams”.

Scotland Excel recommend that a corporate approach to CSM is developed. If we consider CSM by value, 98 suppliers represent 80% of the total influential spend for Midlothian Council and Scotland Excel suggest that this would be a good place to start CSM activity. This will progressed by the new Procurement Manager alongside the work to progress the actions arising from the last PCIP assessment (in preparation for the next assessment).

The areas covered by the Scotland Excel report provide external assurance on where the focus should be as regards the activity required to further improve the Council’s procurement arrangement and supports the developed and implementation of these in a way which ensures that the necessary improvement actions are defined and can be implemented successfully to secure continuous improvement.

AGS 10: Enhance the performance management framework

The Performance team is now the Continuous Improvement Team in order to drive continuous improvement, utilising the Customer Service Excellence Standard.

The self-evaluation calendar of activity was agreed by CMT in March 2020, however programme delivery was suspended given the focus on critical service delivery. In September 2020 a revised 2020/21 calendar and approach for CMT was agreed, with the intention to revisit and refresh the previously identified service level self-evaluation programme, reflecting the changes introduced by the new Senior Leadership restructure. Activities relating to progressing both areas were impacted by the further lockdown introduced late 2020.

Given the period of time and significant structure changes introduced since identification of the previous self-evaluation programme a refresh/re-engagement session focusing on the Midlothian Excellence Framework (corporate self-evaluation model) was delivered to Leadership Forum on 30 March 2021.

Following the Leadership Forum self-evaluation session, CMT agreed that a future programme of self-evaluation be developed and that this would be informed by self-evaluation being a key element of the Service Plans for 2021/22, currently being developed for presentation to June Council. In addition, CMT members will consider and identify examples of good practice reflecting self-evaluation to be shared across the Council.

Continuous improvement activity has continued during this time. In February 2021 the Building Standards Customer Service Excellence assessment took place with the service continuing to meet Customer Service Excellence standard and achieved three additional compliance plus ratings.

In addition, an update on the Best Value Assurance Report was presented to Council in December 2020 outlining the ongoing progress against the action plan.

AGS 11: Financial Regulations

The effective financial governance arrangements adopted from the onset of the pandemic, and as summarised in the report to Audit Committee in December 2020, remain in place.

This has been particularly relevant given the 80+ individual grant funding streams that have been rolled out by Scottish Government. These bring a significant additional reporting and accounting burden, some where the Council acts as “agent” in making payments to recipients on behalf of Government, which increases the complexity of the 2020/21 financial year end and preparation of accounts.

It was acknowledged in the December report that the Council's Financial Regulations would benefit from an update. As an interim measure these have been updated to reflect changes in the Council's Leadership structure and the wider changes, as indicated by EY, will be

now be undertaken in the early part of 2021/22 as priority has been given to concluding the budget and the additional complexities for closure of financial year 2020/21.

AGS 12: Leadership training for officers

In 2019/20 Midlothian successfully ran an Uplifting Leadership Programme for approximately 50 members of the Council's Leadership Forum. In 2020/21 the Resilient Leadership Programme consisting of core and supplementary modules, has helped our leaders to have greater confidence in who they are and what they do, being prepared for uncertainty, seeing opportunity and taking decisive actions. Discussions are currently underway on the content for our 2021/22 leadership programme.

A post within the HR team will be advertised in the early summer with a focus on leadership development, highlighting the investment the council is making in developing its leaders and leaders of the future.

Much progress has also been achieved in our management development programme. Funding was secured via the Flexible Workforce Fund in 2019/20 to run a series of management development modules. Enhanced funding has been secured for 2020/21 allowing a bespoke management development programme to be run, starting in June, in partnership with Edinburgh College.

In response to the pandemic, work continues to be undertaken to develop the suite of on-line learning available to our workforce.

AGS 13: Alignment of meeting dates

As reported in December 2020 the schedule of meeting dates now fully supports the quarterly financial monitoring reports being presented to a dedicated Financial Monitoring meeting of CMT and the three treasury management reports being presented to Audit Committee for consideration before being reported to Council.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

There are no direct resource implications arising from this report. The continued areas of improvements will be met from existing resources.

5.2 Digital

There are no direct digital implications arising from this report.

5.3 Risk

There are no specific risk arising from this report. The progress outlined in the report strengthens the Council's governance arrangements and in turn supports effective mitigation of risk.

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

There have been no changes to policies which require an IIA to be completed.

5.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Maintaining financial governance and effective internal controls is central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

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

Effective Financial Governance is a core principal of Best Value.

A.5 Involving Communities and Other Stakeholders

There has been no external engagement in preparing this report.

A.6 Impact on Performance and Outcomes

In the main the arrangements set out in the report do not have a direct impact on performance or outcomes.

A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

A.8 Supporting Sustainable Development

No direct impact.