Notice of meeting and agenda

Audit Committee

Venue: **Council Chambers, Midlothian House, Dalkeith, EH22 1DN**

Date: **Tuesday, 15 March 2016**

Time: **11:00**

John Blair
Director, Resources

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Further Information:

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

Audio Recording Notice: Please note that this meeting will be recorded. The recording will be publicly available following the meeting, including publication via the internet. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

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 Declarations 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 Minutes of Previous Meeting

5 Public Reports

6 Private Reports

THE COMMITTEE IS INVITED (A) TO CONSIDER RESOLVING TO DEAL WITH THE UNDERNOTED BUSINESS IN PRIVATE IN TERMS OF PARAGRAPHS 8 AND 10 OF PART 1 OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973 - THE RELEVANT

REPORT IS THEREFORE NOT FOR PUBLICATION; AND (B) TO NOTE THAT NOTWITHSTANDING ANY SUCH RESOLUTION, INFORMATION MAY STILL REQUIRE TO BE RELEASED UNDER THE FREEDOM OF INFORMATION (SCOTLAND) ACT 2002 OR THE ENVIRONMENTAL INFORMATION REGULATIONS 2004.

6.1 Internal Audit Report - Review of Controls Operating over Tendering of Contracts - Private

MINUTES of **MEETING** of the **MIDLOTHIAN COUNCIL AUDIT COMMITTEE** held in the Council Chambers, Midlothian House, Buccleuch Street, Dalkeith on Tuesday, 8 December 2015 at 11.00 am.

Present: - Mr Smaill (Independent Chair); Councillors Baxter, Bryant, Milligan, Muirhead, Pottinger and de Vink.

1. Declarations of Interest

There were no declarations of interest.

2. Minutes

The Minutes of Meeting of 29 September 2015 were submitted and approved.

3. National Review of Community Planning by Audit Scotland

There was submitted report, dated 20 November 2015, by the Community Planning and Performance Manager, concerning a national review of Community Planning by Audit Scotland in 2014, which had concluded that there was a need to re-focus the approach to Community Planning through reaching agreement on a statement of ambition and the expectations of Community Planning Partnerships (CPPs) and the method of be assessing success; and that the Scottish Government ought to demonstrate a more systematic approach to outcomes, etc. Audit Scotland had made recommendations for Community Planning Partnerships:-

(a) to strengthen the effectiveness of the leadership, challenge and scrutiny role at CPP Board level;

(b) to streamline local partnership working arrangements and ensure they were aligned with local improvement priorities;

(c) to ensure that local Community Planning arrangements were clear about who was responsible for:-

 (i) agreeing the priorities of the CPP and SOA;

 (ii) allocating resources and coordinating activity;

 (iii) implementing activity; and

 (iv) scrutinising performance and holding partners and others to account for their performance;

(d) to work with the new health and social care integration joint boards to develop services that met the needs of local people and supported SOA priorities;

(e) to set clearer improvement priorities focused on how they would add most value as a partnership, when updating their SOA;

(f) to use local data on the differing needs of their communities to set relevant, targeted priorities for improvement; and

(g) start to align and shift partners' resources towards agreed prevention and improvement priorities.

The Community Planning and Performance Manager was heard in relation to the position as it affected Midlothian, during which he confirmed, *inter alia*, the intention to ingather information and move towards evidence based good performance.

Decision

To note the report.

(Action - Community Planning and Performance Manager)

4. Risk Management, Update for 1 July 2015 – 30 September 2015

There was submitted report, dated 25 November 2015, by the Risk Manager, on the 2015/16 quarter 2 update, from 1 July to 30 September 2015.

In his report, the Risk Manager highlighted the critical and high corporate risks facing the Council, including the need to produce balanced budgets during periods of financial restraint ; Corporate Change and Transition; the Integration of Health and Social Care; Risk Management Development; and measures taken to share information on the relative Corporate Risks.

Appended to the report was the quarterly update.

The Risk Manager was heard in amplification of his report, during which, in response to concerns about the potential recurrence of problems associated with the ingress of gas in Housing Developments eg at Newbyres Crescent, Gorebridge, he confirmed that, in respect of new housing developments, recently introduced regulations provided for the installation of a protective membrane to prevent such recurrences; and concurrent improvements had been made in the planning process to cover similar situations.

Decision

(a) To note the report ; and

(b) To note the assurances which had been given.

(Action: Risk Manager).

5. National Fraud Initiative 2014 / 15

There was submitted report, dated 30 November 2015, by the Internal Audit Manager, providing an update on the completion of the biennial National Fraud Initiative (NFI) data matching exercises for 2014/15.

In his report the Manager advised, *inter alia*, that £16,153 in overpaid benefits and discounts had been identified and that a further 26 cases had been referred for further investigation to the Department of Work and Pensions..

Decision

To note the report.

6. Progress Update – Internal Audit

There was submitted report by the Internal Audit Manager providing:-

(a) a summary of the work undertaken by Internal Audit since April 2015; and

(b) an update on progress with the current Audit Plan as approved by the Audit Committee on 17 March 2015.

In his report, the Manager confirmed which projects had been completed since April 2015; the works in progress; the Audits from 2015/16 which had not yet commenced; the effect of his appointment as Chief Internal Auditor of the Joint Integrated Board for Health and Social Care; and resulting proposed additional audits in 2015 / 16.

Decision

(i) To note the work completed by the Internal Audit Section;

(ii) To note progress with the current Plan; and

(iii) To note that the Internal Audit Manager intended to report back if the support to the Integrated Board impacted on the delivery of the Council's Internal Audit Plan.

(Action: Internal Audit Manager).

7. Review of Controls Operating over House Rents

There was submitted report, by the Internal Audit Manager concerning a Review of Controls Operating over House, Garage and Garage Site Rents which addressed the adequacy of billing, charging and collection, arising out of which only minor elements of risk had been identified; and a small number of issues had been identified and management actions had been agreed to address these.

Decision

(a) To note the report and that the audit had been considered good; and

(b) To approve the relative recommendations**.**

(Action: Internal Audit Manager).

8. Financial Monitoring 2014/15

With reference to paragraphs 18, 19 and 20 of the Minutes of Council of 3 November 2015, there was submitted report, dated 9 November 2015, by the Director, Resources, concerning:-

(a) Financial Monitoring 2015/16 and the General Fund Revenue Material Variances;

(b) the Housing Revenue Account (HRA), Revenue Budget and Capital Plan 2015/16, reasons and investments; and

(c) the General Services Capital Plan 2015/16 to 2020/21.

Appended to the report were the relative reports by the Head of Finance and Integrated Service Support.

The Director commented on the report and confirmed that Council had agreed, *inter alia*:-

(i) To note, in respect of the General Fund Revenue, the projected overspend of £1.363m; movement of the a general reserve to £16m since Quarter 1; and

(ii) To note, in respect HRA Revenue Budget and Capital Plan, the underspend of £0.5m ; and

(iii) To note the monitoring position for Quarter 2; and approve the addition of the Footpath at Stobhill Primary School at a cost of £22,000.

The Head of Head of Finance and Integrated Service Support, was heard in amplification of his reports.

Decision

To note the reports.

(Action: Head of Finance and Integrated Service Support)

9. Treasury Management Mid-Year Review Report 2015/16

With reference to paragraph 21 of the Minutes of Council of 3 November 2015, there was submitted report, dated 9 November 2015, by the Director, Resources, concerning the Mid-Year Review of Treasury Management in 2015/16.

Appended to the report was report, dated 20 October 2015, by the Head of Finance and Integrated Service Support.

The Director commented on anticipated capital requests, PWLB rates, etc and confirmed that Council had agreed:-

(a) To note that the Financial Services team had achieved a better than benchmark return on investments for the period to 15 October 2015;

(b) To note the report and treasury activity undertaken in the period to 15 October 2015;

(c) To note the forecast activity during the second-half of the year and the illustration of some of the potential options available for investment; and

(d) To approve the revisions to the Prudential Indicators.

The Head of Head of Finance and Integrated Service Support, was heard in amplification of his report.

Decision

To note the report. for its interest,

(Action: Head of Finance and Integrated Service Support)

10. Exclusion of Members of the Public

In view of the nature of the business to be transacted, the Committee agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraph 6 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

(a) Review of Controls Operating Over Commercial Lets – to note the report and approve the relative Management Action Plan; and

(b) Internal Audit Recommendations – to note the report; and that Internal Audit would continue to monitor completion of the outstanding issues and report to the Committee.

The meeting terminated at 12.10 pm.

Audit Committee
Tuesday 15 March 2016
Item No. 5.1

Midlothian Council

External Audit Plan
For the financial year ending 31 March 2016

February 2016 [Draft for discussion]

Contents

1. Introduction

Our Plan

Audit Scotland appointed Grant Thornton UK LLP as auditor of Midlothian Council (the Council) for the 5-year period 2011-12 to 2015-16. This appointment is made under the Local Government (Scotland) Act 1973.

This Audit Plan sets out an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260, for the benefit of those charged with governance (the Audit Committee in the case of the Council).

This plan summarises:

- Our responsibilities as external auditors (Section 1)
- Our audit approach (Section 2)
- Our understanding of the Council (Section 3)
- The identification of risk impacting on the audit of the financial statements, and our assessed level of materiality (Section 4)
- Our approach to the audit of governance (Section 5)
- Our approach to reviewing the Council's value for money, financial management and financial sustainability arrangements (Section 6); and
- Audit timings, our team and proposed fees (Section 7).

The Plan is intended to help to aid discussion with the Audit Committee, including the consequences of our work, issues of risk and the concept of materiality, and to identify any areas where you may request us to undertake additional procedures. The contents of this Plan have been discussed with management.

Our responsibilities

We are required to meet the requirements of the Code of Audit Practice ('the Code') which is approved by the Accounts Commission and the Auditor General for Scotland.

The Code requires that we undertake our audit in accordance with:

- relevant legislation (the Local Government (Scotland) Act 1973 and the Local Government (Scotland) Regulations 2014)
- Statements of Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board
- the CIPFA Code of Practice on Local Authority Accounting
- other guidance issued by Audit Scotland

We are required to provide an opinion on the financial statements and confirm the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government framework. Under the Code we are also required to review and report on your financial management and sustainability, governance and transparency arrangements, and Best Value and performance. The following sections of this report set out our approach to delivering these responsibilities.

2. Our audit approach

Our audit approach is fully tailored to the wider requirements of public sector audit, including Scottish public sector requirements (as set out in the Code). Set out below is an overview of our approach:

Planning

- Updating our understanding of the Council through discussions with management and review of reports presented to the full Council and Council Committees
- Documenting our understanding of the key risks impacting your financial statements and determining materiality
- Contributing to the Local Scrutiny Plan with other regulators in the Local Area Network
- Working with the Council's internal auditors to ensure that key risks are addressed by audit, but that we do not duplicate areas of work.

Interim Audit Work

- Reviewing the design and implementation of internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Reviewing governance and performance management arrangements against good practice standards.

Substantive Procedures

- Reviewing and advising on material disclosure issues in the financial statements
- Performing analytical review as appropriate
- Performing sample testing of income and expenditure balances
- Verifying all material income, expenditure and balances, taking into consideration whether audit evidence is sufficient and appropriate
- Performing detailed testing on journals through computer aided audit techniques, using IDEA software to extract large and unusual transactions and to verify the completeness of journal listings.
- Reviewing the Annual Governance Statement for compliance with the CIPFA Code of Practice on Local Authority Accounting and whether disclosures are consistent with information gathered from our audit work.

Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view of the financial position of the Council
- Determining an audit opinion
- Reporting to those charged with governance through our Annual Report to Members and attendance at the Audit Committee.

All of our findings are reported to officers. Material or significant findings are formally reported to the Audit Committee.

3. Understanding Midlothian Council

In planning our audit, we need to consider the key business challenges and opportunities that the Council are facing. We set out a summary of our understanding below.

Risk / Challenge	Our response
1. Continuing financial pressures • The Council received an update on the Financial Strategy 2016-17 to 2020-21 in February 2016. This paper focuses on the financial projections for 2016-17, in light of the Local Government Settlement announced in December 2015. • The Council have predicted a shortfall of £7.631 million in 2016-17 based on a freeze in Council Tax, the impact of the agreed pay award and inflationary pressures. The Council have identified £3.758 million of savings to date and will present a full budget to the Council on 8th March outlining more savings proposals in detail. • The Council have acknowledged that maintaining services within budget will be increasingly challenging over the next five years. The Delivering Excellence Framework aims to support the repositioning of services while maintaining financial sustainability.	• We will review the in year financial management of expenditure and savings against budget. • We will review the Council's approach to ensuring the Council is financially sustainable through the Delivering Excellence Framework. • We will review the Council's approach to long term financial planning and sustainability. • We will consider management's judgements with regards to the going concern in light of the financial plan and assess for reasonableness.
2. Collection rates • In 2013-14 Internal Audit identified some concerns with regards to the collection of debt due to the Council, particularly relating to Council Tax. • The Council took action to strengthen their income collection policies and maximise income in 2014-15. While Council Tax collection rates improved by 0.3% to 93.82% in 2014-15, they remained below the national average of 95.5% and performance continues to be ranked within the lowest quartile in the Local Government Benchmarking Framework. • The debtor balance outwith Council Tax also contain a proportion of older balances which are provided for in the accounts. The Bad Debt Provision for sundry debtors was 29% of the balance at the year end. • The collection of older debt across all income streams remains an area for improvement at the Council. • In light of the financial pressures facing the Council it will become increasingly important that all income due is received by the Council in a prompt and cost efficient manner.	• We will review the Council's progress and action taken to maximise income and improve the collection of debt. • We will review the Council's approach to providing for doubtful and bad debt. • We will review the reasonableness of management assumptions when providing for bad debt.
3. Political uncertainty • Politics is an integral part of local government and in the coming years there is scope for significant change in the political landscape, with national and local elections occurring in 2016 and 2017 respectively. • The Scottish Parliamentary elections are due to take place in May 2016 and could result in a change of national priorities and financial allocations. • At a local level the elections in 2017 could result in political changes which may make delivery of current plans uncertain. This may make decisions relating to transforming services and savings proposals harder.	• We will review the Council's approach to scenario planning when considering long term financial planning. • As part of our work on governance and transparency we consider the scrutiny and decision making processes at the Council. in respect of medium term financial planning. • We will review the Council approach to reviewing and approving savings options.

Developments relevant to the Council and the audit

In planning our audit work we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code and associated guidance

Risk / Challenge	Our response
1. Financial Reporting • The CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) has been updated for changes in 2015-16. The most significant change relates to the adoption of IFRS 13- Fair Value Measurement which will impact the methodology applied to value surplus assets. Surplus Assets are required to be held at 'Fair Value' which is the price that would be received when selling the asset in an orderly transaction in the principal market. All other assets are held at current value. • The CIPFA Code will be updated in 2016-17 to reflect changes in accounting for highways network assets. The assets have been held at depreciated historic cost in the past, however, CIPFA consider that current value is a more appropriate measurement base and there is an expectation that highways network assets will be measured on a depreciated replacement cost basis from 2016-17. This is likely to have a significant impact on the value of the Council's balance sheet.	We will assess whether: • the Council complies with the requirements of the CIPFA Code through discussions with management and our substantive testing • the Council has liaised with their Valuer to ensure surplus assets are considered in year and have been valued in line with the Code • the Council Valuer provides appropriate assurance at the year end over surplus assets • the Council are making preparations for the changes with regard to highways network assets.
2. Legislation • The Community Empowerment Bill was passed in June 2015 and aims to make provision about the achievement of national outcomes through increased community involvement and collaborative decision making. The Midlothian Community Planning Partnership is developing a plan to identify the needs of community groups and build capacity across the Council. • The Local Government Pension Scheme (Scotland) Regulations 2014 provides for members to accrue pension on a career average revalued earnings basis rather than on a final salary basis. However, there are regulations in place to protect the benefits accrued by members of the scheme before April 2015	• We will monitor progress on the development of the community plan and compliance with the Community Empowerment Bill. • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.
3. Health and Social Care Integration • The Public Bodies (Joint Working) (Scotland) Act 2014 established a framework for integrating health and social care. A requirement of the Act was that an Integrated Joint Board should be established by 1 April 2016. • The first meeting of the Midlothian Integration Joint Board (the IJB) was in August 2015 and a Chief Officer and Chief Finance Officer have been appointed. • The key driver for the establishment of integrated joint boards is to create a more effective service which will deliver against outcomes. The Council has created a strategic plan which outlines the vision of the IJB and it's priorities for delivery. • The IJB are currently working on due diligence and financial assurance in order to ensure there are adequate budgeting arrangements in place for April 2016.	• We will monitor progress towards integration. • We will review and comment on the governance arrangements for the IJB. • We have been appointed as external auditors to the IJB and will conduct full audit testing on the 2015-16 financial statements of the IJB.
4. Other requirements • The Council completes the following grant claims and returns on which audit certification is required: - Criminal Justice Social Work - Education Maintenance Allowance - Non-Domestic rates - Housing Benefit • The Council submits a Whole of Government Accounts pack each year. In 2014-15 the Council were marginally below the audit threshold, however, we were required to submit an abbreviated assurance statement for the Council	• We will certify grant claims and returns in accordance with the Accounts Commission requirements. • We will review the Whole of Government Accounts guidance in the current year to establish the threshold and audit requirements. If the group accounts exceed the threshold we will conduct a full audit in line with Scottish Government and National Audit Office guidance.

4. Our audit of the financial statements

Introduction

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and it's expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- The part of the remuneration report which is subject to audit has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014

Determining materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the financial statements as a whole as a proportion of the gross revenue expenditure of the Council.

For purposes of planning the audit we have determined overall materiality to be £4.536 million (being 1.5% of gross revenue expenditure).

ISA 320 also sets out a requirement to consider performance materiality, which is an amount set by the auditor at less than materiality to reduce the probability that the aggregate of uncorrected and undetected materiality exceeds materiality. Performance materiality is the maximum amount of a misstatement that the audit team can accept in an individual account. We would therefore expect any individual misstatement above this level to be adjusted.

At the planning stage we have set our level of performance materiality at £2.721 million (being 60% of overall materiality).

Under ISA 540, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £165k.

We will consider whether the established levels of materiality are appropriate during the course of the audit and will advise you if we revise this.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

- Cash and cash equivalents: although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance. It is therefore considered material by nature and differences over £1k will be considered material.
- Disclosures of senior management salaries and allowances in the remuneration report: there is a statutory requirement for these disclosures and they attract a high degree of public interest. Materiality has been set in line with the required disclosure level i.e. any differences which would impact the disclosed bandings will be considered material.
- We consider the materiality of related party transactions from the perspective of the Council and the related party. Transactions which would not be material to the Council but would be material to the related party should be disclosed in the financial statements.

Our identification of significant audit risks

There are two presumed significant risks which are applicable to all audits under ISA (UK &I) 240. However, as shown in the table below, we have rebutted the risk around revenue recognition leaving one significant risk applicable to the Council.

	Significant Risk	Description of risk	Work planned
1	Management override of controls	Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
2	The revenue cycle includes fraudulent transactions	Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	We identified a number of income streams at the Council comprising: taxation and non-specific grant revenues, housing rental income and fees, charges and other income. Each revenue stream has been considered with regard to the risk factors set out in ISA (UK&I) 240 and the nature of the identified revenue streams. We have rebutted the risk of fraudulent revenue recognition for the reasons outlined below. • there is little incentive to manipulate revenue recognition • the tax and non-specific grant amounts are based on set rates collected monthly and the grant revenue aligns to the award letter and payment profile. There is a predictable pattern of revenues which suggests there is limited opportunity to manipulate reported revenues. • housing rents are based on annual rental agreements with a predictable pattern of expenditure. The processes is sufficiently removed from senior management which reduces the opportunity to commit fraudulent activity. • fees, charges and other income are generally managed outwith the finance team but are subject to close monitoring of income levels. The fees and charges are sufficiently removed from senior management to reduce the opportunity for fraudulent activity.
3	Valuation of property, plant and equipment is not correct	The Council revalues it's assets as part of a five year rolling programme. In 2015-16 a new revaluation programme is planned to ensure the requirements of the Code are met in full. The Code requires that the Council ensures the carrying value at the balance sheet date is not materially different from current value. This is a significant judgement which is informed by the Council's in house valuers and should be disclosed accordingly in the financial statements.	• Review of the competence, experience and objectivity of management experts used • Review of the Council revaluation programme to ensure all assets are covered within the 5 year period required by the Code • Review of the valuer's processes and assumptions for the calculation of the estimate • Review instructions issued by the finance team to the valuer and the scope of their work • Discussions with the valuer regarding the basis for the valuations and challenge of key assumptions • Testing of the revaluations in year to ensure correct input into the Council's asset register and financial statements.

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Other audit risks identified

Set out below is our response to the other risks of material misstatement which we identified where the likelihood of material misstatement can not be reduced to remote, without gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a significant risk and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

Other reasonably possible risks	Description of risk	Work planned
Operating expenses	**Operating expenses are understated or not recorded in the correct period** The Council is responsible for the delivery of a range of services to the local area such as education, housing and social care. In 2014-15 the cost of delivering these services was £302 million, a 10% decrease on last year. Purchasing is decentralised across service lines with the budgetary responsibility with the heads of service to ensure monies are recorded correctly.	• We will use our interim visit to review and walkthrough the controls and processes in place over purchase ordering, procurement and general payment and recording of expenditure • Reconciliation of the creditors system to the general ledger and financial statements • Testing of year end transactions for unrecorded liabilities.
Employee remuneration	**Employee remuneration expenses are understated** Employee costs is the largest source of expenditure. Payroll represents 39% of gross expenditure in 2014-15. There is a large number of transactions processed throughout the year and the Council relies on numerous controls to ensure that the employee costs are recorded correctly in the financial statements.	• Review and walkthrough the processes and controls in operation for payment of staff • Analytically review payroll expenses in comparison to expectations and investigate any significant variances • Substantive testing of employee remuneration accruals against expectation • Review the relevant disclosures relating to staff costs within the financial statements.
Welfare benefit	**Welfare benefit expenditure improperly computed** In 2014-15 the Council paid £26.8 million for housing benefits. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits are awarded and recorded correctly.	• Review and walkthrough of the processes and controls in place to calculate, pay and record benefit expenditure • Analytically review the benefit expenditure in comparison to auditor expectations and investigate any significant variations • Sample testing of housing benefit payments using the HB Count module • Testing the reconciliation between the benefits system and the amounts recorded in the financial statements.

5. Governance and transparency

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour within the organisation. The Council is responsible to ensure proper arrangements are in place for:

- compliance with applicable guidance
- ensuring the legality of activities and transactions
- monitoring the adequacy and effectiveness of these arrangements in practice

The Code of Practice gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements.

We will review and, where applicable, report findings relating to financial governance, strategic financial planning and financial control. Specifically we will consider:

- the systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- the standards of conduct, and arrangements in relation to the prevention and detection of corruption
- risk management procedures
- the financial position of the Council.

Governance Structures

The Council have developed a local Code of Corporate Governance based on the CIPFA/ SOLACE Framework. Compliance with the Code of Corporate Governance is monitored on an annual basis and in 2014-15 the Council identified a number of areas for improvement including:

- compliance with the new International Framework of Good Governance in the Public Sector
- full compliance against the new CIPFA code of practice on Managing the Risk of Fraud and Corruption.

We will consider the progress made with improving the governance framework as part of our responsibilities under the Code of Practice.

Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records the governance ethos of the Council, and assurances around the achievement of the vision and strategic objectives of the Council. The AGS summarises the internal control framework, arrangements for risk management, financial governance and accountability. During 2014-15, we concluded that the disclosures within the Council's AGS were clear and comprehensive and included major developments such as the Council's response to gas problems at Newbyres.

Under the Code of Audit Practice, we are required to review and report on the AGS annually. We will assess the Council's external reporting of governance, through the 2015-16 Annual Governance Statement and management commentary in the accounts against best practice.

We will use the Code and the principles from the Delivering Good Governance in Local Government framework, the key source of guidance on governance for local government bodies, to assess compliance against good practice. This will enable us to identify areas where the Council is performing well and areas where there is scope to improve the clarity and impact of reporting.

Our work with internal audit

Each year, we consider the work of the Council's internal auditors to ensure that our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function.

We also seek to ensure that we co-ordinate our work and avoid duplication of effort. The internal audit plan for 2015-16 covers key areas within governance and risk and internal control systems including:

- Financial strategy
- Welfare reform
- Tendering of contracts

We have not identified any areas in the current year where we will seek to place reliance on the work of internal audit. We have, however, reviewed the internal audit reports issued to date and note that their work has not identified any weaknesses which would impact our audit approach.

Fraud and Irregularity

The term fraud refers to intentional acts of one or more individuals among management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the Council to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

6. Value for money, financial sustainability and financial management

Best Value

Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of 'Best Value' in the use of resources. The objective of Best Value is to ensure that bodies deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent
- achieving sustainable development in how the Council operates
- ensuring equal opportunities in the delivery of services.

Audit Scotland are currently working on a revised approach to auditing Best Value across the sector. As this is the final year of the Audit Scotland appointments we will focus on ensuring a smooth transition and preparing for the new approach. A key element to this will be a baseline survey provided by Audit Scotland covering all key areas of Best Value.

Following the Public Pound

A Ministerial Direction issued under Section 51 of the Local Government (Scotland) Act 2003 outlines that local authorities have a statutory responsibility to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound (the Following the Public Pound Code).

The principles of the Following the Public Pound Code are aligned to the broader duty to achieve Best Value. As auditors we have a responsibility to consider the Council's arrangements to comply with the Following the Public Pound Code. This will become increasingly important as local authorities look into alternative delivery models.

In 2014-15 we noted that the Council had established a Co-Production Panel to conduct an exercise to review the grant allocation to community groups. The panel also reviewed the monitoring arrangements to ensure alignment with the Single Midlothian Plan priorities. The Panel developed a range of recommendations and an implementation plan.

We will continue to review and comment on the Council's work against the requirements of the Following the Public Pound Code in 2015-16.

Local Scrutiny Plan

The Local Area Network (LAN) of external scrutiny bodies continues to work together to develop a shared risk assessment and Local Scrutiny Plan for the Council. The Local Scrutiny Plan 2015-16 was published in March 2015 and confirmed that there were no significant concerns relating to Midlothian Council.

We are currently engaged, with the LAN, in a refresh of the Council's Local Scrutiny Plan. The shared risk assessment and scrutiny plan is being reviewed based on all recent work undertaken by scrutiny partners, including our findings within our Annual Report to Members 2014-15.

Performance Information

Audit Scotland continues to stress the critical role of self-evaluation and good quality performance information in allowing councils to demonstrate that they are delivering efficient and effective services.

Statutory Performance Indicators (SPIs) are one of the key ways that council performance is measured and reported to the public. In 2014-15 the Council's performance indicators showed a mixed performance with some service areas meeting all targets and others with 'alerts' on the performance targets.

The Council also report on the Local Government Benchmarking Framework indicators. In 2013-14 the results showed a mixed picture with the Council attaining results evenly across each performance quartile. The 2014-15 results were published in February 2016 and have not yet been considered by the Council.

As part of our audit we are required to consider the arrangements for collecting and publishing information on SPIs. Our work is informed by the Statutory Performance Indicators Direction.

The Accounts Commission is currently considering the strategy for the local audit of SPIs and aims to issue the new Direction by 31 December 2015. We will conduct our audit in line with the guidance issued by Audit Scotland.

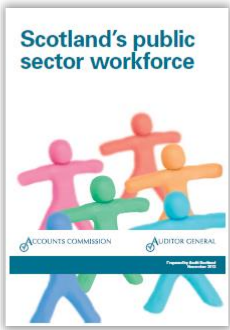
Audit Scotland national reports: impact

Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland.

Each year, Audit Scotland ask us to review the local impact of national studies at each local government body. There is an expectation that the Council will review national reports at a committee level and action them accordingly. As external audit we are required to consider:

- whether the Council has discussed the national report at committee level
- whether the Council has carried out a self-assessment against the national report
- whether an action plan has been developed as a result of any self- assessment.

In 2015-16 auditors are expected to report on a targeted follow-up of Scotland's Public Sector Workforce report, which was published in November 2013, on selected public sector bodies. We are awaiting confirmation that the Council are included in the targeted follow-up work. Any follow up work will be based o a pro-forma questionnaire provided by Audit Scotland.



National Fraud Initiative

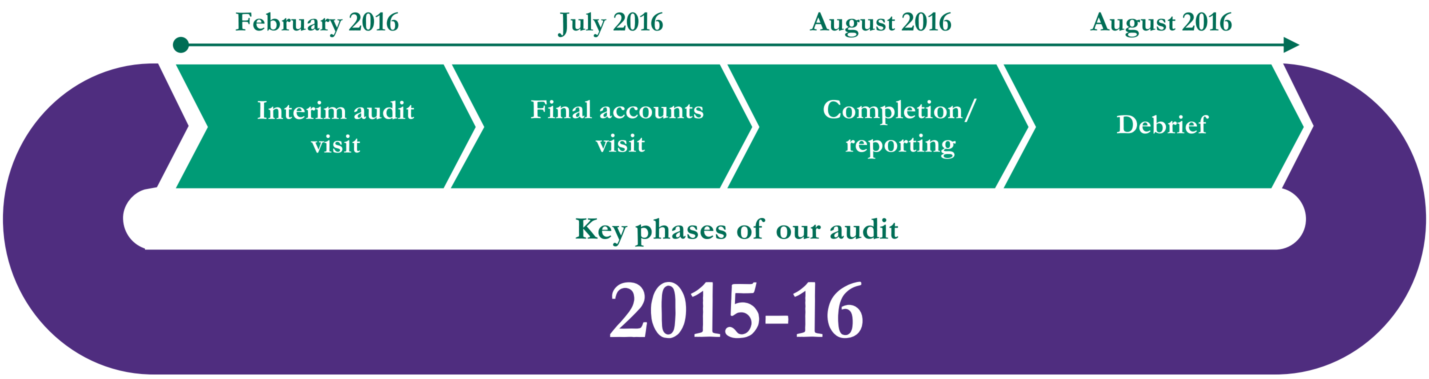
The Council is participating in the NFI 2014-15. Data was submitted data in late 2014 and matches were received for investigation in early 2015. Our Annual Audit Report noted the Council had investigated 95% of the 3,302 matches from the NFI exercise.

Audit Scotland has asked us to monitor the Council's participation and progress during 2014-15 and 2015-16. We have been asked to complete an NFI audit questionnaire for each body participating in the NFI by 29 February 2016.

The information provided by auditors will form the basis of Audit Scotland's NFI report to be published in May 2016.

7. Logistics and our team

The audit cycle



Our team

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Date	Activity
December 2015	• Planning
February 2016	• Issue Audit Plan to Officers
February 2016	• Interim site visit • Submit National Fraud Initiative return and current issues return to Audit Scotland
15 March 2016	• Audit Plan presented to Audit Committee
May 2016	• Submit annual fraud return to Audit Scotland
July 2016	• Year end fieldwork
July 2016	• Certify Education Maintenance Allowance and Criminal Justice Social Work Grants
July 2016	• Submit technical database return to Audit Scotland
August 2016	• Audit findings clearance meeting with Director of Finance • Annual Audit Report issued to officers
20 September 2016	• Report audit findings to those charged with governance (Audit Committee) • Sign financial statements opinion • Submit Statutory Performance Indicators pro-forma and minimum dataset to Audit Scotland • Submit WGA Assurance statement
October 2016	• Certify Non-Domestic Rates Return
November 2016	• Certify Housing Benefit Grant Claim

Fees, non audit services and independence

Fees

	£
Midlothian Council (including Grant certification)	241,760
Total audit fees	**241,760**

Fees for other services

Service	Fees £
None	Nil

2015-16 Audit Fee

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for local government bodies. Audit Scotland requires that the agreed fee is within the limits of the indicative fee range.

Your fee for the 2015-16 external audit is £241,760 representing a 1% increase compared to the prior year. This is below the rate of inflation and therefore represents a decrease of 0.6% in real terms.

Our fee assumptions include:

- our fees are exclusive of VAT
- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- the Council will not provide more than 3 versions of the accounts – 1) first completed draft of the full financial statements and annual report 2) second version including all our agreed adjustments (financial and disclosure) for us to validate and 3) final version for approval/signing. If more than 3 versions are produced and we are required to review these, and this leads to inefficiencies and additional costs being incurred for our team, as well as inefficiencies from your perspective. We reserve the right to charge you an additional fee to reflect this time, if the upfront timetable agreed with you, is not met

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. Whilst we are independent of the Council, we draw attention to our external audit appointments to local authorities in Appendix A of this report who may be in receipt of funding. At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

9. Appendices

Contents	Page

Appendix A-An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified a risk of material misstatement in the financial statements. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. The International Standards on Auditing identify two overall significant risks inherent in any financial statements. These are separately disclosed in the significant risks table on page 9.

Other– Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake extended substantive testing. Cycles where we have identified a reasonably possible risk of material misstatement are outlined in full on page 10 along with full details of the proposed testing

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the financial statements is not material we do not carry out detailed substantive testing.

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Net Cost of Services Operating Expenditure	Yes	Operating expenses are understated	Medium	Other	Net cost of services was in 2014-15 was £302m (including staff costs) with a high volume of transactions being processed through the system. We have therefore assessed the inherent risk as medium.	✓
Net Cost of Services Staff Cost	Yes	Employee Remuneration accruals are understated	Medium	Other	The Council reported staff costs of £118m (56% of the net cost of services). There is therefore a high number of monthly transactions which represents a significant proportion of running costs. Based on this information we have assessed the inherent risk as medium.	✓
Net Cost of Services Housing Benefit	Yes	Welfare benefit improperly computed	Medium	Other	During 2014-15 we identified some inaccuracies in the processing of housing benefit claims. The inherent risk has therefore been assessed as medium.	✓
Net cost of services and other revenues	Yes	Revenue is fraudulently recognised	Low	None	We have considered the nature of the revenue streams at the Council and concluded that risk of fraud arising from revenue recognition can be rebutted.	✓

An audit focused on risks

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Net Cost of Services Housing Rents	Yes	Operating expenses are misstated	Low	None	Housing Rents are made up of a high volume of transactions at a low value. The inherent risk of material misstatement is therefore deemed to be low.	✓
Surplus/ Deficit on the revaluation of non-current assets	Yes	Revaluation measurements not correct	Low	None	The values of fixed assets are updated as part of the year end processes which comprises a low volume of high value transactions. We have therefore assessed inherent risk of material misstatement as low.	✓
Return on Pension Assets	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	×
Actuarial losses on Pension Assets and Liabilities	Yes	Fair value measurements not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Property, Plant and Equipment	Yes	Valuation measurements are not correct	High	Significant	Property, Plant and Equipment is valued on a rolling five year programme with the potential for material movement in the value of assets. Given prior year adjustments we have assessed the inherent risk associated with revaluation of assets as high.	✓
Heritage Assets	No	Valuation measurements are not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Intangible Assets	No	Allowance for amortisation not adequate	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Long term investments	No	Fair value measurements not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×

An audit focused on risks

Section of the financial statements	Material (or potentially material) balance?	Description of Risk	Inherent risk	Material misstatement risk identified?	Inherent Risk Assessment	Will substantive testing be carried out?
Inventories	No	Inventory prices and quantities are not valid	Low	None	In the 2014-15 accounts the balance disclosed was below materiality and therefore the risk is deemed to be low.	×
Debtors (long and short term)	Yes	Recorded debtors are misstated	Low	None	Debtors is comprised of a high volume of routine low value transactions. We therefore assess the inherent risk associated with debtors to be low	✓
Assets held for sale	No	Revaluation measurements are not correct	Low	None	The balance is below materiality therefore risks are deemed to be low.	×
Cash and cash equivalents	Yes	Cash misappropriated	Low	None	Handled cash is comprised of a high volume of low value transactions therefore we have deemed inherent risk to be low.	✓
Borrowing (long and short term)	Yes	Debt obligations not reflected accurately	Low	None	Borrowing is comprised of a low volume of high value transactions. We therefore assess the inherent risk of material misstatement to be low.	✓
Trade and Other Payables	Yes	Creditors understated or not recorded in the correct period	Medium	Other	Creditors in 2014-15 were £25m with a significant of transactions occurring around the year-end. The creditors figure is comprised of a number of accruals with a high value and requiring management judgements. We have therefore deemed the inherent risk to be medium.	✓
Provisions	No	Provision is not adequate	Low	None	In the 2014-15 accounts, the amount disclosed for provisions was below materiality, with the risk deemed to be low.	×
Pension Liability	Yes	Fair Value measurements are not correct	Low	None	Actuarial valuations are provided at the year end and are recorded in the ledger through a low volume of high value transactions. The risk of material misstatement is therefore deemed to be low.	✓
Reserves	Yes	Reserves are not correctly recorded	Low	None	The balance is comprised of a very low volume of high value transactions therefore inherent risk is deemed to be low.	✓

Audit Committee
Tuesday 15 March 2016
Item No 5.2

Risk Management, Update

Report by Chris Lawson, Risk Manager

Purpose of Report

1 The purpose of this report is to provide the Audit Committee with a review of the Strategic Risks, Issues and Opportunities facing Midlothian Council.

2 Background

Corporate Risks

2.1 Audit Committee have requested regular reporting on the Council's Strategic Risks. During Quarter 3 of 2015/16 the Council's Risk Manager has worked with Council Services to revise the Corporate Risk Register and establish a new Strategic Risk Profile. This has been achieved by creating a clear delineation between Future Risks, Risks specific to Single Midlothian Plan priorities, Current Issues and Opportunities.

2.2 The reason for creating this segregation between risk groupings is to allow a clearer view of those issues which the Council is currently dealing with separate to those risks or opportunities which have not yet been realised, thus enabling this information to better inform future Council decision making.

2.3 The Strategic Risk Profile report is attached as Appendix 1. The range of strategic risks has expanded from the previous quarterly report to reflect the views of the Corporate Management Team.

2.4 It is acknowledged that the Strategic Risk Profile requires regular updating to ensure it continues to reflect the operating context of the Council. The risks associated with the Single Midlothian Plan will be reviewed following the update to the Single Midlothian Plan due to be reported to the Council meeting on 22 March 2016.

2.2 The Strategic Risk Profile Summary

Strategic Risks	Likelihood	Impact	Score	Evaluation
Balancing budget in future years	4	4	16	High
Corporate change and transition	4	4	16	High
Climate change impacts	5	3	15	Medium
People risk	3	4	12	Medium
Strategic Risks	**Likelihood**	**Impact**	**Score**	**Evaluation**
Integration of health and social care	3	4	12	Medium
Governance and standards	3	4	12	Medium
Legal and regulatory compliance	3	3	9	Medium
Working with other to deliver outcomes	3	3	9	Medium
Asset condition	3	3	9	Medium
Internal control environment	3	3	9	Medium
Business continuity	2	4	8	Low
Corporate policies and strategies	2	3	6	Low
Single Midlothian Plan Risks	**Likelihood**	**Impact**	**Score**	**Evaluation**
Early years and child poverty	3	4	12	Medium
Positive destinations	4	3	12	Medium
Economic growth	2	4	8	Low
Issues	**Likelihood**	**Impact**	**Score**	**Evaluation**
Balancing budget 2016/17	5	5	25	Critical
Corporate change and transition	3	4	12	Medium
Integration of Health and Social Care	3	4	12	Medium
Strategic Opportunities	**Likelihood**	**Impact**	**Score**	**Evaluation**
Shawfair	5	4	20	High
Borders rail	5	4	20	High
Bush Development Penicuik	5	4	20	High
Review of Pay and Grading	4	4	16	High
City deal	3	5	15	Medium

2.3 Strategic Risks – Rated High

2.3.1 Balancing Budget in Future Years

The Council’s Financial Strategy core objective is to secure the Council’s continued financial sustainability during what is and will continue to be an extended period of significant public sector financial constraint coupled with increasing service demands and increasing customer expectations.

In response to these challenges the Council has a Financial Strategy covering the period to 2021. In order to ensure the Services provided meet the needs of service users and are as efficient as possible the Council are implementing the Delivering Excellence framework, which is intended to bring forward savings options in addition to ensuring service user needs are met.

The Council received a Financial Report at its meeting on 8 March 2016 with financial projections for 17/18 - 20/21 which incorporated future projections on grant settlements.

2.3.2 Corporate Change and Transition

Service areas continue to address the financial and service challenges the Council faces through the activity of the transformation programme and the Delivering Excellence framework. Both are clearly focused on reshaping services to deliver improved customer outcomes, achieve service efficiencies and create sustainable change across the Council. The Transformation programme and the Delivering Excellence framework is not without its challenges and success requires a sustainable shift in culture, more innovative, entrepreneurial and collaborative thinking across the Council underpinned by strong leadership.

2.4 Strategic Issues – Rated Critical and High

2.4.1 Balancing Budgets 2016/17

The financial position for 2016/17 is exceptionally challenging. Predicted expenditure for the year is £199.7m with income from government grant and council tax estimated at £192.1m. This leaves a budget shortfall of £7.6m.

Council was advised of a range of measures being taken to address the shortfall leaving a gap of £3.873m still outstanding at its meeting on 9 February 2016. At the special Council meeting on 8 March 2016 Council considered a series of savings proposals to address the remaining budget gap and to agree a budget for the financial year starting on 1 April 2016.

Strategic Opportunities

The opportunities arising from Shawfair, Borders rail, Easter Bush and City Deal are included within the strategic risk profile as they directly or indirectly support the delivery of the Council’s key strategic priorities.

3 Report Implications

3.1 Resource

There are no direct resource implications in this report although individual risks will have associated resource implications which are considered within the Risk Registers.

3.2 Risk

Corporate Risks are generally those that impact on all parts of the Council. Service Managers recognise the presence of risk and action is being taken to manage and respond to risk on an ongoing basis.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

3.4 Impact on Performance and Outcomes

The purpose of the Council's risk management approach is to support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

3.5 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks where appropriate.

3.6 Involving Communities and Other Stakeholders

Consultation has taken place with Senior Managers responsible for corporate risk management.

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

Senior Managers ensure the sustainability of the Council, which entails identifying, understanding and managing Corporate Risks.

3.9 IT Issues

No additional issues other than those relating to the Risk Register.

4 Recommendations

Audit Committee is invited to:

Note the Strategic Risk Profile update report and consider the current response to the risks and opportunities highlighted.

8 March 2016

Report Contact: Chris Lawson Tel No: 0131 271 3069
chris.lawson@midlothian.gov.uk

Background Papers: **Appendix 1** Strategic Risks Profile Report Quarter 3 2015/16

Appendix 1

Strategic Risk Perspective
Quarter 3 2015/16

Strategic Risks

SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	**Risk cause** Future Scottish Government grant settlements are expected to result in cash reductions. Policy decisions by UK and 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. **Risk event** Reduced grant settlement. Policies decisions at Government level not fully funded to Council's. Delay in project to achieve savings Cost pressures exceeding budget estimates **Risk effect** Gap in Council budget between budget commitments/ pressures and funding level.	Gary Fairley	1. The Financial Strategy to 2021. 2. Delivering Excellence framework in place to bring forward savings options. 3. Report to Council Spring 2016 with projections 17/18 - 20/21 which will incorporate future projections on grant settlements. 4. Maintaining reserves to deal with unforeseen or one off pressures.	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.A.01a	Development of Saving Proposals for 2016/17	**Q3 15/16:** Through Delivering Excellence framework - saving in future years will be reported to Council 2016.	Gary Fairley	31-May-2016	
SRP.IR.A.01b	Setting of 2016/17 budget (8 March 2016)	**Q3 15/16:** A special meeting of Council has been arranged for 8 March 2016 to consider savings proposals and to determine the Revenue Budget for 2016/17.	Gary Fairley	08-Mar-2016	

SRP.RR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**Risk cause** Lack of Strong Leadership Delays Cost creep **Risk event** Slow benefits realisation and budget savings **Risk effect** Objectives of changes not actually met Adverse impact on services Staff morale affected Government step-in	Nancy *Brown; Zoe Graham	1. Clear Leadership from Executive Team and Senior Leadership Group. 2. Project Boards for each of the key strands of Corporate Change and Transformation overseeing project delivery.	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	**Q3 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	

SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	**Risk cause** Current or new legislation applying to Midlothian Council **Risk event** Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements. **Risk effect** Council failing to meet its statutory obligations resulting in a	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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.	3	3	

	potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.03.A 1	Legal and Regulatory Compliance	**Q3 15/16:** Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2016	

SRP.RR.04 People risks

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	**Risk cause** HR Policies and Employee Terms and Conditions not creating adequate flexibility to meet service needs and or employee desires. Employees not suitably qualified or developed for the roles required of them. Statutory health and safety - duty of care over services users and employees not met. Organisational transformation activities not informed by all key stakeholders ageing work force Voluntary redundancy as part of financial management approach to respond to budget pressures Employees unclear on expected behaviours. **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. Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees	Chris Lawson; Marina Naylor	01 - Main internal controls centre on the approved People Strategy and supporting initiatives and Action Plan. 02 - HR related policies regularly reviewed 03 - Management of external factors that affect staff 04 - Significant stress awareness campaign 05 - Competency Framework 06 - Various initiatives to keep staff informed of change 07 - Absence Monitoring/Reporting. 08 - Health and Safety Risk Management/pro-action to Internal Audit recommendations/use of risk consultants for surveys/updating policies and link to PIs and day-to-day practice/specific improvements underway in driver training, down to casual users 09 - Adoption and management of a BT Project Risk Register, reviewed/updated quarterly 10 - Non-redundancy policy aimed at keeping employee base stable	3	4	

	Risk effect Negative impact on outcomes for customers/service users. Difficulties recruiting the right staff Challenges retaining quality staff Service users and employees exposed to hazards where statutory requirements exist. low skill levels low morale, especially during change non compliance with policy and procedure high absence rates Lose of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01 -A01-1	Policy Review program	**Q3 15/16:** The Policy review work is linked to the review of Pay and Grading for Non-Teaching staff and is expected to be concluded by June 2016.	Performance Officers; Marina Naylor	30-Jun-2016	
MC01-A01-2	Health and Safety Management Arrangement Development	**Q3 15/16:** The Management Arrangement development program is progressing positively with the following arrangements developed and now consulted through the 3 Divisional Consultative Groups: First Aid, Incident Reporting and Investigation, Control of Substances Hazardous to Health, Personal Protective Equipment, Hand Arm Vibration, Smoke Free, Manual Handling and Display Screen Equipment. These Management Arrangements will be presented to CMT in Q4 for formal approval.	Chris Lawson	10-Jul-2016	

SRP.RR.05 Working with others to deliver outcomes

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.05	**Risk cause** Partners not engaged or focused to deliver specific outcomes. Public Sector Reform Agenda. **Risk event** Partners prioritising activity in areas not inline with delivery of defined outcomes. Community groups afforded legal right to make case to operate vacant properties for community use. **Risk effect** Delivery of outcomes delayed or not achieved	John *Blair; Mary *Smith; Eibhlin McHugh	Key partners engaged in planning and delivery of Service outcomes, e.g. Midlothian Community Planning Partnership have developed a Single Midlothian Plan. Midlothian Integrated Joint Board (Adult and Social Care Integration) have developed and Strategic Plan.	3	3	

	Officer time to support the assessment of unsustainable business cases.					

SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	**Risk cause** General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period. **Risk event** The Regulation is expected to be agreed in the first part of 2016 with a two year lead in period. **Risk effect** The Regulations are expected to 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 which ever is greater.	Ian Wragg	1. Information Management Group	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.R.06.A0 1	Regulation Gap Analysis	**Q3 15/16:** Once the text for the General Data Protection Regulation has been agreed and approved a Gap analysis will be required. The Information Management Group will carry out this exercise and report to CMT on the implications of the new Regulation. The actions arising from this will be reflected in the Information Management Groups Action Plan.			

SRP.RR.07 Integration of Health and Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	**Risk cause** The nature of many of the Services provided under the banner of Health and Social Care are demand led. Rising numbers of people requiring care and support together arising from demographic make up and improvements in treatment increase the number of people in receipt of long	Alison White	Midlothian IJB Strategic Plan - focussed on rebalancing care.	3	4	

	term care packages. **Risk event** Unless the focus and balance of care shifts from acute treatment the costs of providing these services will continue to rise and not provide the best possible outcomes for individuals. **Risk effect** The reactive demand led service may become financially unsustainable.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A13-3	Develop an IJB risk register	**Q3 15/16**: A draft register has been prepared with input from Midlothian Council and the NHS, this will be updated with input from the IJB following the Risk Management workshop.	Tom Welsh	31-Mar-2016	
MC01-A13-4	Reviewing Service Plan	**Q3 15/16:** Adult and Social Care Service Plan 2016/17 being developed.	Alison White	29-Feb-2016	

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	**Risk cause** Many of the assets the Council own by there nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles used to deliver services. **Risk event** Many assets will deteriorate under normal conditions although roads and street lights as an example can be damaged during more extreme weather events. **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 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	Ricky *Moffat; Garry *Sheret; Gary Fairley	1. There is provisions in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy. 6. Roads asset management plan 7. Land register	3	3	

	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.RR.08.A 1	Development of Digital Strategy	**Q3 15/16:** Digital Strategy under development.	Phil Timoney	30-Sep-2016	

SRP.RR.09 Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	**Risk cause** The Council not preparing and testing arrangements to respond to Civil Contingencies Incidents. **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. **Risk effect** Censure through non compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (eg secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries	Chris Lawson	Potential sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations. 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.	2	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A06	Preparation for Partnership Working	**Q3 15/16**: The Council Emergency Response Plan will be reviewed with a view to the future partnership working in Civil Contingencies.	Chris Lawson	31-Mar-2016	

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 and employee 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	Alan Turpie	Potential 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.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A02	International Governance Standards	**Q3 15/16**: Working Group to be established to review current governance arrangements against new International Governance standard developed by CIPFA and the International Federation of Accountants.	Alan Turpie	30-Jun-2016	

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 be 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 priorities. **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 fo strategic priorities.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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.	2	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	**Q3 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	

SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	**Risk cause** Work procedures/process inadvertently create the capacity for fraud and waste to occur. **Risk event** Persons exploiting opportunities to commit fraud Waste and errors **Risk effect** Waste and loss	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	Services have been prompted to consider fraud and waste within Service Risk Registers. Internal Audit examine internal control arrangements based largely on the risk registers.	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A04	Annual Audit Plan	**Q3 15/16**: Audit team progressing with 2015/16 Audit Plan to test a range of internal controls as agreed and approved by Audit Committee.	Internal Audit	31-Mar-2016	

SRP.RR.13 Climate Change Impacts

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	**Risk cause** Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act **Risk event**	Ian Johnson	Voluntary reporting on compliance with the climate change duties (this will be a statutory requirement from 30 November 2016 onwards). Council Carbon Management Plan Approval of a Corporate Climate Change and sustainable development action plan 2016/17	5	3	

	Council Services not responding to the Climate Change Act with sufficient pace. **Risk effect** Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.13.A1	Adaptive Planning	**Q3 15/16:** Adaptive planning proposal to be brought forward to CMT.	Ian Johnson	31-Mar-2017	

SRP.SMPR.01 Economic Growth

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.01	**Risk cause** Not planning to take advantages of the developments within and beyond Midlothian's boundary. **Risk event** Midlothian not capitalising on the regional competencies. **Risk effect** Midlothian's economy not growing as quickly as it has the potential to with impacts on its communities.	Ian Johnson	Midlothian have developed responses to key economic opportunities within Midlothian arising from: 1. SHAW Fair 2. Borders Rail 3. Easter BUSH 4. Growth of Midlothian City Deal	2	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.OP.02	Inward Investment Co-ordinator post	**Q3 15/16:** Preparation for post to support bringing in investment to help realise the financial/economic benefits from the rail link, particularly within priority communities.	Ian Johnson	31-Mar-2016	
SPR.OP.03	Tourism Development	**Q3 15/16:** Dedicated post in place to support and enhance the benefits arising from the introduction of the rail link.	Ian Johnson	31-Mar-2016	
SRP.OP.A05	City Deal submission	**Q3 15/16:** City Deal submission update made in December 2015.	Ian Johnson	31-Mar-2016	

SRP.SMPR.02 Positive Destinations

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.02	**Risk Cause** Ready access to admin support **Risk Event** School Group Managers performing admin tasks **Risk Effect** Accuracy of SEEMIS figures School Group Managers detracted from main role	Grace Vickers	1. Specific post created to support Positive Destination activities. 2. Interventions where Young People are identified at risk. 3. Attitudinal shift on supporting Young People across the organisation. 4. Change to curriculum - pathway. 5. Strong Leadership 6. Working in partnership with colleges to follow up when Young Person leaves course early. 7. Opportunities for Midlothian Placements at Easter BUSH.	4	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.SMPR.02.A1	Exploring admin support options	**Q3 15/16:** Head Of Education working with ISS team to address	Grace Vickers	31-Mar-2016	

SRP.SMPR.03 Early Years and Child Poverty

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.SMPR.03	**Risk Cause** Competing priorities Increased caring duty with Children and Young People Act requiring provision for 16-21yrs **Risk Event** Direction on current work to reduce to create capacity Capacity within existing residential and MLC fostering. **Risk Effect** Capacity to support implications of Children and Young People Act Increase demand on private care placements at significantly higher cost.	Joan Tranent; Grace Vickers	1. Child Poverty Strategy. 2. Priority areas identified in Single Midlothian Plan. 3. Multi-agency working group preparing for 'Named Person' requirement. 4. Large voluntary sector support for families e.g. food banks, lunch clubs, Christmas hampers and presents, support to decorate and furnish homes. 5. Childcare Development Workers 6. Specific post created to support Positive Destination activities. 7. Interventions where Young People are identified at risk. 8. Attitudinal shift on supporting Young People across the organisation. 9. Change to curriculum - pathway. 10. Strong Leadership 11. Working in partnership with colleges to follow up when Young Person leaves course early. 12. Opportunities for Midlothian Placements at Easter BUSH.	4	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.SMPR.03.A1	Preparation for Named Person	**Q3 15/16:** Arrangements are being developed to see Children's Service record all young people on SEEMIS 5+ where Named Person duty applies. All young people under 5 will be supported through the GIRFEC Co-ordinators.	Joan Tranent	30-Jun-2017	
SRP.SMPR.03.A2	SEEMIS	**Q3 15/16:** Development work of SEEMIS is underway as part of a national requirement affecting all Scottish LA's.	Joan Tranent; Grace Vickers	31-Aug-2016	
SRP.SMPR.03.A3	GIRFEC Training	**Q3 15/16:** Arrangements underway to roll out training to schools to explain the wellbeing standards.	Joan Tranent	31-Jul-2016	

Strategic Issues

SRP.IR.01 Balancing budget 2016/17

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.01	**Risk cause** The reduced level of grant settlement offered to Midlothian Council and additional budgetary pressures including: Pay inflation, Pension reform, Demographics, Service demand. **Risk event** Scottish Government Grant settlement announcement on 16 December, Midlothian Council has identified the settlement to be £3.5M less than reported in previous budget projections. **Risk effect** To generate a balanced budget position for 2016-17 the Council must identify savings and or utilisation of reserves to meet the £3.87M remaining budget gap prior to setting the 2016-17 budget.	Gary Fairley	1. Financial Strategy reports activities to bring forward budget measures. 2. Senior Leadership Group brining forward savings proposals. 3. Special Council meeting 8 March 2016. 4. Headroom in reserves.	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.A.01a	Development of Saving Proposals for 2016/17	**Q3 15/16:** Through Delivering Excellence framework - saving in future years will be reported to Council 2016.	Gary Fairley	31-May-2016	
SRP.IR.A.01b	Setting of 2016/17 budget (8 March 2016)	**Q3 15/16:** A special meeting of Council has been arranged for 8 March 2016 to consider savings proposals and to determine the Revenue Budget for 2016/17.	Gary Fairley	08-Mar-2016	

SRP.IR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** Lack of Strong Leadership **Risk event** Delayed progress in applying Delivering Excellence framework. **Risk effect** Slow or delayed proposals/savings arising from service redesign.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Delivering Excellence Framework 2. Delivering Excellence Management Tools to support the application of the framework	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.02.A1	Applying Delivering Excellence	**Q3 15/16**: Heads of Service have been asked by the Chief Executive to set out when their Services are planning to work through the delivering excellence framework.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	

SRP.IR.03 Integration of Health and Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.03	**Risk cause** IJB not having enough flexibility to make changes Lack of clarity on additional funding from Government on IJB. **Risk event** Uncertainty on final financial settlement for IJB **Risk effect** Risk sharing protocol impacting the IJB's ability to deliver on planned changes	Eibhlin McHugh	IJB Strategic Plan setting out key transformational activity to shift the demands on services and improve outcomes for people of Midlothian.	3	4	

	Implied cost around threshold for charging £200-£350k could be deducted from £3.6m share of additional funding along with living wage etc resulting in around £1.8m for transformation activity in 16/17.					

Strategic Opportunities

SRP.IR.05 Review of Pay and Grading

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.05	**Risk cause** Investment to reduce in-work poverty need to improve flexibility and productivity. Update terms and conditions.	Gary Fairley	4. Working with Trades unions to reach a collective agreement. 5. Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.05.A1	Negotiations on pay linked to policy changes and cultural change.	**Q3 15/16:** Negotiations on pay with the Trades Unions are on going - linked to changes in Council Policy with an emphasis on cultural change.	Gary Fairley	30-Jun-2016	

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 housebuilders, employers retail and commercial interests.	Ian Johnson	Shawfair Development Group. Legal agreement with developers Secured developer contributions (Section 75) Plan for entire community: 1. Business and industrial provision, including small business incubator space. 2. Circa 4000 new homes 3. A school campus comprising Early Years, Nursery, Primary, Secondary and Life Long Learning provision 4. A new Primary school	5	4	

SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	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.	Ian Johnson	Designated Project Manager post. 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.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.OP.02	Inward Investment Co-ordinator post	**Q3 15/16:** Preparation for post to support bringing in investment to help realise the financial/economic benefits from the rail link, particularly within priority communities.	Ian Johnson	31-Mar-2016	
SPR.OP.03	Tourism Development	**Q3 15/16:** Dedicated post in place to support and enhance the benefits arising from the introduction of the rail link.	Ian Johnson	31-Mar-2016	

SRP.OP.03 Easter BUSH - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	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. Link to City Deal	Ian Johnson	Planning in place around creating Secondary Schools as centres for excellence linked to STEM. Land allocated for expansion. Easter BUSH Development Board. Troubleshooting issues - Roads Access - tackling road access through proposal in the Local Plan.	5	4	

SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	City deal provides access to Capital funding for projects aimed at accelerating economic growth to address inequalities.	Ian Johnson	1. Key projects identified. 2. Consortium submission made, including Midlothian Council in September 2015 with and update in December 2015.	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A05	City Deal submission	**Q3 15/16:** City Deal submission update made in December 2015.	Ian Johnson	31-Mar-2016	

Financial Monitoring 2015/16 and Financial Strategy 2016/17 to 2020/21

Report by John Blair, Director, Resources

1 Purpose of Report

The purpose of this report is to bring to the Committee's attention, the attached reports by the Head of Finance and Integrated Service Support, in relation to Financial Monitoring for 2015/16 and Financial Strategy for 2016/17 to 2020/21. The reports specifically relate to:

- **Financial Monitoring 2015/16 – General Fund Revenue (February 2016)**
- **General Services Capital Plan 2015/16 Quarter 3 Monitoring (February 2016)**
- **Housing Revenue Account - Revenue Budget and Capital Plan 2015/16 (February 2016)**
- **Financial Strategy 2016/17 to 2020/21(February 2016)**
- **Financial Strategy 2016/17 to 2020/21(March 2016)**
- **General Services Capital Plan 2015/16 to 2020/21(March 2016)**
- **Treasury Management and Investment Strategy 2016/17 and Prudential Indicators (March 2016)**

2 Background

These reports were considered by the Council on 9 February 2016 and 8 March 2016 as detailed above.

3 Report Implications

These remain unchanged from those highlighted in the Head of Finance and Integrated Service Support's reports appended hereto.

4 Recommendations

The Committee is invited to scrutinise for its interest the attached reports by the Head of Finance and Integrated Service Support.

Date 8 March 2016

Report Contact:
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~~Midlothian Council~~
~~Tuesday 9th February 2016~~
~~Item No: 10~~

Audit Committee
Tuesday 15 March 2016
Item No. 5.3.1

Financial Monitoring 2015/16 – General Fund Revenue

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with information on performance against revenue budget in 2015/16 and details of the material variances.

2 Background

2.1 Budget Performance

The detailed budget performance figures shown in appendix 1 result in a projected net overspend of £1.058 million which is 0.54% of the revised budget for the year.

Performance against budget has improved by £0.305 million from that reported at quarter 2. Detailed information on material variances is contained in appendix 2 which identifies each variance, explains why it happened, outlines what action is being taken to control variances and details the impact of that action.

The main areas of variance are outlined below.

Pressures
- Demand led pressures in Children's Services;
- Expenditure pressures in Residential Care Homes for older people;
- Demand led pressures for the Community Care Resource Panel;
- Homeless accommodation;
- Waste collection and disposal costs; and
- Slippage in planned Transformation Savings.

Favourable Movements
- Council Tax income received;
- Borrowing Costs associated with the General Services Capital Plan and Treasury Management savings;
- Energy costs;
- Customer Income and Running costs at Midlothian Snowsports Centre; and
- Savings in employee costs with vacant posts being held pending service reviews.

2.2 Council Transformation Programme Funding

Council approved utilisation of £5.868 million of General Fund Reserve to fund costs associated with the ongoing transformation programme. At the report date £2.697 million of this has been applied with future commitments of £0.911 million identified for the remainder of 2015/16 through to 2017/18. This leaves £2.260 million as uncommitted.

2.3 General Fund Reserve

During 2014/15 and as part of 2015/16 budget setting monies distributed by the Scottish Government were set aside for potential costs associated with new areas of service provision for young people, particularly free school meals for primary 1 to 3, the increase to 600 hours per year free childcare for 3 and 4 year olds and the extension of 600 hours free childcare to eligible 2 year olds. Service provision is now established in these areas at a significantly lower cost than funding distributed mainly due to Midlothian being well equipped to deal with service expansion in dining halls and in pre-school capacity. It is now timely to return excess funding of £1.770 million to reserves. Any service pressures that may arise in these areas in future years will be considered as part of the ongoing financial strategy.

The projected balance on the General Fund as at 31 March 2016 is as follows:

	£ million	£ million
Reserve as at 1 April 2015		21.315
Less earmarked reserves utilised in 2015/16		(5.907)
General Reserve at 1 April 2015		**15.408**
Planned movements in reserves		
Planned Enhancement	2.764	
Scottish Government Grant funding previously earmarked for specific purposes	1.770	
Supplementary Estimates	(0.329)	
Council Transformation Programme Costs	(0.539)	
One-off costs of VSER	(0.274)	
Workforce Reduction Savings from VSER	0.056	
Financial Discipline	0.416	
Borders Rail	(0.300)	
Other	0.203	
		19.175
Overspend per appendix 1		(1.058)
General Fund Balance at 31 March 2016		**18.117**

An element of the General Fund is earmarked for specific purposes and this is shown below:

	£ million
General Fund Balance at 31 March 2016	**18.117**
Earmarked for specific purposes	
Further one-off costs associated with VSER	(0.500)
Budgets earmarked for Council Transformation	(2.260)
General Reserve at 31 March 2016	**15.357**

The uncommitted General Fund Reserve at 31 March 2016 is projected to be £15.357 million. A prudent level of uncommitted reserves is seen to be between 2% and 4% of net expenditure which equates to between approximately £4 million and £8 million. The General Reserve shown is comfortably within this level. However, financial pressures currently facing the council may require utilisation of reserves to balance budgets in the short term and to allow investment in areas where longer-term savings can be achieved. There may also be substantial one-off costs associated with further Early Release schemes and the reserve may also be required as a buffer to offset any slippage in the achievement of planned savings.

3 Report Implications

3.1 Resource

Whilst this report deals with financial issues there are no financial implications arising directly from it.

3.2 Risk

Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs.

The assessment of performance against budgets by services is underpinned by comprehensive financial management and budgetary control arrangements. These arrangements are central to the mitigation of financial risk.

Ensuring that adequate systems and controls are in place minimises the risk of significant variances arising, and where they do arise they help to ensure that they are identified and reported on and that appropriate remedial action is taken where possible. The primary purpose of this report is to provide information on historic performance, however the material variances detailed in appendix 2 highlight that the financial management and budgetary control arrangements require continual review and enhancement if financial risk is to be effectively mitigated.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

☐ Community safety
☐ Adult health, care and housing
☐ Getting it right for every Midlothian child
☐ Improving opportunities in Midlothian
☒ Sustainable growth
☒ Business transformation and Best Value
☐ None of the above

3.4 Impact on Performance and Outcomes

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

3.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

3.6 Involving Communities and Other Stakeholders

No consultation was required.

3.7 Ensuring Equalities

There are no equality implications arising directly from this report.

3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.9 Digital Issues

There are no digital implications arising from this report.

4 Recommendations

It is recommended that Council note the contents of this report.

26th January 2016

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Background Papers:

MIDLOTHIAN COUNCIL

Appendix 1

GENERAL FUND OVERVIEW 2015/16

Function	**Revised Budget £**	**Outturn £**	**(Underspend) / Overspend £**
Management	1,673,310	1,673,310	0
Education Communities and Economy			
Childrens Services	14,949,940	15,564,940	615,000
Communties and Economy	4,936,483	4,721,483	(215,000)
Education	78,707,755	78,629,755	(78,000)
Health and Social Care			
Adult Social Care	38,550,772	39,692,772	1,142,000
Customer and Housing Services	12,119,407	12,181,407	62,000
Resources			
Commercial Services	16,038,978	16,006,978	(32,000)
Finance and Integrated Service Support	11,757,254	11,986,254	229,000
Properties and Facilities Management	13,597,892	13,141,892	(456,000)
Lothian Valuation Joint Board	555,551	555,551	0
Central Costs	1,384,909	1,547,909	163,000
Non Distributable Costs	1,338,436	1,338,436	0
GENERAL FUND SERVICES NET EXPENDITURE	195,610,687	197,040,687	1,430,000
Loan Charges	7,493,305	7,076,305	(417,000)
Investment Income	(180,285)	(300,285)	(120,000)
Council Transformation Programme savings target	(415,000)	0	415,000
Allocations to HRA, Capital Account etc.	(4,877,164)	(4,877,164)	0
	197,631,543	198,939,543	1,308,000
less Funding:			
Scottish Government Grant	156,319,000	156,319,000	0
Council Tax	40,000,000	40,250,000	(250,000)
Utilisation of Reserves	1,312,543	2,370,543	1,058,000

Appendix 2

Financial Monitoring 2015/16 – General Fund Revenue – Material Variances

Education, Communities and Economy

Children's Services

Description of Variance	**Reason for Variance**	**Quarter 1 £000**	**Quarter 2 £000**	**Quarter 3 £000**	**Additional information / Action taken**
Residential and day education placements	Increase in requirement for both residential and secure placements and likelihood that secure placements will continue longer than anticipated.	591	761	786	This represents a 21% overspend on the Multi Agency Resource Group Budget of £3.6 million. The group continue to challenge new demand to keep costs under control and work to progress children in secure to allow them to move to other forms of care.
Children with Disabilities	Increased expenditure on taxis and on Direct Payments.	0	95	193	There are an increased number of people using the direct payment method to pay for their care. Demand for use of taxis has also increased. Work is planned to investigate if there are more efficient ways of delivering transport. An improvement in the quality of information provided by Barnardos has led to better forecasting.
Family Placements	Increase in requirements for placements.	88	35	76	Demand led. The team are planning to implement new working practices to minimise the length of placements through a variety of methods.
Gross Overspend		**679**	**891**	**1,055**	
Offset by:					
Vacant Posts in Midlothian Residential Services	Posts held vacant due to review of residential services which is due to be completed in September 2015.	(224)	(253)	(289)	It has been possible to hold these positions vacant due to a lower number of placements. Recruitment is underway to a new structure.
Employee Vacancies and Performance Factor	Other vacancies throughout the service.	(54)	(86)	(76)	Recruitment is underway to these vacant posts.
Other non-material variances	Miscellaneous over and undespends covering the remaining areas of the	(17)	(2)	(75)	No impact on frontline service.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
	Childrens Services budget.				
Net Overspend		**384**	**550**	**615**	

Communities and Economy

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Planning Income	Reduction in projection of Planning Fees	0	0	107	Volume of work in the Planning team remains constant but there is a lower cash value associated with these than previously projected.
Environmental Health and Trading Standards Shared Services	The shared service arrangement with East Lothian council came to an end on 31st March 2015.	88	88	88	Cost sharing with East Lothian Council no longer takes place. The 2016/17 base budget reflects current arrangements.
Economic Development	Unbudgeted expenditure for the Leader Programme.	12	12	13	One-off initial set-up costs in 2015/16. From 2016/17 this programme will be funded through grant income.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Communities and Economies service budget.	50	51	12	No impact on frontline service provision.
Gross Overspend		**150**	**151**	**220**	
Offset by:					
Vacancies and Performance Factor	Vacant posts and part-year vacancies are delivering the performance factor.	(217)	(243)	(227)	Recruitment to vacant posts is ongoing and service reviews are taking place which will result in a more efficient staffing establishment.
Building Standards Income	Fee income projections exceed budget due to volume of applications.	(23)	(63)	(195)	Changes to Building Regulations in October 2015 has resulted in a higher than anticipated volume of applications that prior to changes in order to allow work to proceed under the old regulations.
Landlord Registrations	Income is projected to be higher than budget.	(19)	(25)	(13)	Demand led.
Net Underspend		**(109)**	**(180)**	**(215)**	

Education

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
PPP Contracts	Insurance costs are lower than provided for in the contract which leads to la refund from the contractor. Assumptions regarding the rate of inflation to be applied in 2015/16 were too cautious.	(67) (30)	(67) (27)	(67) (33)	Windfall Income. This will be addressed in the 2016/17 budget setting process.
Vacancies and Performance Factor	Vacant posts and part year vacancies within the service are offsetting the performance factor. The Children's Services review has resulted in part year vacancies within the Pathways service.	(33) 0	(48) (18)	(16) (13)	Recruitment to vacant posts is progressing. Recruitment to posts within the Pathways service has been completed.
Home to School Transport	Current estimates of demand are higher than set in the budget. The variance has increased significantly since quarter 2 as the cost of routes required for the new school year has become apparent.	0	(12)	157	The Travel Team is working to ensure that routes to school are commissioned or delivered at the most economically advantageous cost to the Council.
Service Training Budgets	The redesign of the Scottish Qualification for Headship Scheme and slippage in other training programmes.	0	0	(40)	No impact on frontline service.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Education Service budget.	2	(6)	(66)	No impact on frontline service.
Net Underspend		**(128)**	**(178)**	**(78)**	

Health and Social Care

Adult Social Care

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Residential Care Homes for Older People	Projected overspend mainly on staffing costs at Newbyres Village (£274k) due to the requirement to use locum staff and overtime to cover gaps in the rota.	223	261	291	The projected overspend in this year is mainly as a result of additional staff on shift cover over and above the amount allowed for in the budgeted establishment. This includes day, night and activity staff and domestic staff and is a result of the level of needs of the residents. The cost of this is around £200k. This has been partially mitigated by changes made to staffing rotas. Managers continue to actively manage sickness absence levels at the home and this will be maintained to ensure a sustained reduction. Due to staff registration requirements 10 staff were suspended and these shifts required to be covered. Management are working with the Scottish Social Services Council to get a speedy resolution. The formal phase of the staffing review is due to start in February 2016. Appropriate staffing levels will be addressed as part of this to ensure that the budget reflects the staffing requirements of the home.
Community Care Resource Panel	Assessed needs are currently more than budgeted. The budget is £28 million and is demand led and subject to demographic pressures. Individual packages of care are sometimes in excess of £100k per annum and as a consequence projections in this area can be	(362)	252	876	The Resource Panel will continue to allocate resources where a critical or substantial need has been identified. Scrutiny of all applications is ongoing to ensure effective spend to meet assessed needs. A review of resource panel procedures is currently underway and this will ensure that robust management information systems remain in place. Increased capacity within reablement will be used to carry out reviews of care packages.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
	volatile.				National Minimum Wage requirements have resulted in changes to the rates that we need to pay some of our providers for overnight support which has increased expenditure by £375k. Work is ongoing to mitigate the cost of this through care package reviews. Two young people with learning disabilities who have complex needs require support above the normal levels that are provided in order to ensure their safety and wellbeing. Projected spend includes £931k for these care packages. Work is ongoing to find more sustainable solutions to these issues which will take effect from April 2016.
Home Care / Rapid Response Team	A projected overspend on employee costs including staff travel and overtime due to the volume of care packages being provided by the Home Care service.	207	174	190	The service continues to prioritise hospital discharges and will continue to maintain a track record of facilitating discharges on time. Working patterns are being reviewed to ensure that overtime and staff travel is minimised.
Non-achievement of staffing related budget	Planned budget savings from staffing reviews will not take effect until either 2016/17 or 2017/18.	201	201	179	Timescales for reviews mean savings will not be realised as early as anticipated but are on target for 2016/17 and 2017/18.
Fieldwork Staffing	Non-achievement of performance factor and use of agency staff to cover vacancies.	109	155	98	There have been staffing changes within this service and also Adult Protection referrals have increased significantly. The service has faced challenges from increased demand and the implementation of Self Directed Support. Due to the demands on the service and pressures from waiting lists all posts require to be filled with agency staff being used to cover for vacancies. As this is a frontline service with essential staffing ratios the performance factor is being removed from the 2016/17 base budget.
Gross Overspend		**378**	**1,043**	**1,634**	

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Offset by:					
Client Income	Contributions from clients towards their care packages are higher than anticipated.	(130)	(56)	(189)	No impact on frontline service.
Public Protection	Scottish Government funding provided specifically for Adult Support and Protection requirements. Some spend relevant to this funding is in the form of care packages and is met from the Resource Panel budget.	(57)	(81)	(108)	No impact on frontline service but underspend offsets care and support costs related to protection issues.
Criminal Justice	An element of the Scottish Government funding is used to fund the management and administration of this service.	(43)	0	(50)	No impact on frontline service.
Learning and Development	Spend has been constrained to counter pressures elsewhere in the service.	(36)	(102)	(99)	No impact on frontline service and offsets cost of essential cover for front-line staff with mandatory training requirements.
Cherry Road, Community Action Team and Shared Lives	Vacant Posts	68	93	(41)	These are registered services and adequate staffing levels are a requirement of the Care Inspectorate. Cherry Road supports service users with complex needs and appropriate staffing levels must be maintained. A staffing review is now complete with 2015/16 a transitional year in terms of filling posts. As this is a frontline service with essential staffing ratios the performance factor is being removed from the 2016/17 base budget.
Other non material variances	Miscellaneous over and underspends covering the remaining areas of the Adult Social Care budget.	25	53	(5)	No impact on frontline service.
Net Overspend		**205**	**950**	**1,142**	

Customer and Housing Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Homelessness accommodation	Refurbishment works at Pentland and Midfield House have been delayed and anticipated reuse of these properties to replace existing B&B use is expected to commence in Summer 2016. Savings anticipated for 2015/16 will not be achieved.	151	209	249	The budget provided for an average 82 B and B places per week until 1st August and 36 spaces thereafter once Pentland and Midfield House were available for use. Average occupancy is currently 70 places. Action is continually being taken to reduce this with alternative options being developed across all available tenures.
Private Sector Leasing	Housing Benefit Shortfalls and Voids have resulted in a projected overspend.	0	0	60	This is consistent with 2014/15 and has been identified as a pressure in the 2016/17 Base Budget. It is due to the Welfare Reform impact on eligible costs.
Housing Allocations	Switch Placement Costs as a result of service review.	0	0	45	No Impact of frontline service.
Other non material variances	Miscellaneous variances covering the remaining areas of the Customer and Housing Service budget.	(3)	(17)	16	No impact on frontline service.
Gross Overspend		**148**	**192**	**370**	
Offset by:					
Council Tax Reduction Scheme	Council Tax Benefits granted are lower than budgeted and are consistent with 2013/14 and 2014/15 positions.	(70)	(113)	(160)	Whilst the 2015/16 budget was adjusted to reflect a decreasing trend in expenditure, it is projected that payments will decrease further than originally anticipated. This has been reviewed further when developing the 2016/17 base budget.
Housing Benefit Overpayment Recoveries	Housing Benefit overpayment recoveries are anticipated to be greater than budgeted.	(53)	(53)	(133)	This is consistent with the 2014/15 outturn position and has been reviewed when developing the 2016/17 base budget. An action plan is being developed to ensure that recoveries can be regularly and accurately accounted for as Welfare Reform changes are implemented.
Vacancies and Performance Factor	Vacant posts within the Revenues service.	0	(42)	(15)	No impact on frontline service.
Net Overspend / (Underspend)		**25**	**(16)**	**62**	

Resources

Commercial Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Waste Disposal Charges	The sale price of recyclate has dropped significantly since the budget was prepared.	110	118	145	During 2014/15 the price per tonne for recyclate reached a peak of £27.20 which was reflected in the average budget price of £20.75. To date in the current financial year the average price has been £9.66. Prices in this market are very volatile.
Trade Waste	Customers are encouraged to reduce residual waste and recycle more. As recycling is charged at a lower price to customers this has led to a drop in income.	0	94	96	Collection costs are the same for both recyclate and residual waste. A separate report is being presented to Council on Trade Waste.
Land Services	A drop in hard landscaping one-off jobs is anticipated as a consequence of an inability to recruit and retain suitable staff.	30	30	35	Total loss of income is £150k and this is offset by savings in staff costs of £120k. A recruitment exercise has now been completed.
Gross Overspend		**140**	**242**	**276**	
Offset by:					
Fuel Costs	The budget provided for an average price of £1.12 per litre. The average price to date is £0.86 per litre.	(129)	(147)	(150)	Fuel prices have been low during the recent period but can be volatile.
Bus Shelters	Reactive repairs budget.	0	0	(60)	Due to the reactive nature of works spend can vary between years.
Street Lighting Electricity	The budget provided for an average price of 9.97 pence per kwh. The average price currently being charged is 9.09 pence per kwh.	(50)	(50)	(51)	Consumption and the prevailing price will be closely monitored as the year progresses.
Waste Vehicle Costs	Need for external hires is currently less than budget due to relatively new fleet.	0	0	(47)	Budget has been reviewed as part of 2016/17 budget development.
Net Overspend / (Underspend)		**(39)**	**45**	**(32)**	

Finance and Integrated Service Support

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Mi-Future	The costs of staff in SWITCH during the year are projected to exceed budget. £66k of the projected variance relates to staff on unfunded placement. The majority of the remainder relates mainly to staff whose placements are at a lower grade than their displaced post.	166	115	115	6 months budget is moved to Switch with displaced employees. The Mi-Future team continues to work towards a satisfactory resolution for each employee in SWITCH and when compared to severance costs SWITCH remains a cost effective solution.
Archive facility - the former Hopefield Primary School	The former Hopefield Primary School was being used as an archive and also for other storage until the fire on 17th May. Alternative permanent storage arrangements with Iron Mountain have an anticipated cost of £24k in 2015/16 which is not budgeted.	77	77	24	No budget was provided as it was anticipated this facility would not be in operational use. Permanent off-site storage costs will be incorporated in the 2016/17 base budget.
Central Postages	The volume and cost of postages exceeds budget.	72	90	79	Despite changing suppliers and securing better prices the volume and mix of postages continues to exceed budget. Work continues to address this.
Protecting Vulnerable Groups and Public Sector Network disclosure checks	The volume of disclosure checks will exceed budget.	50	50	6	Work is ongoing to establish the level of retrospective checks still to be undertaken.
Employee Performance Factor	The budgeted employee performance factor is expected to be over achieved.	25	(48)	(14)	Delays in recruitment to vacant posts have resulted in a reduction to anticipated staff costs for the year.
Bank Charges	The shift towards electronic payments has led to increased transaction costs.	16	16	19	A review of bank charges is underway with the aim of negotiating lower rates with service providers.
Net Overspend		**406**	**300**	**229**	

Properties and Facilities Management

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Bonnyrigg Leisure Centre	Security and Rates costs for the former Leisure Centre.	51	25	25	Demolition and building works are now underway. A partial refund of rates has been received.
Property costs for former Loanhead Social Work centre	Building is now demolished. Property costs were incurred up to handover date to demolition contractor.	8	8	8	One-off costs.
Gross Overspend		**59**	**33**	**33**	
Offset by:					
Snowsports Income	Tubing party income and consequent impact on cafe.	(90)	(90)	(127)	First full year of operation has shown higher than expected income. This has been incorporated into 2016/17 budget development.
Ski Matting	Use of existing stock has led to an underspend.	0	0	(51)	On-going budget requirements will be reviewed.
Utilities	Energy prices are lower than budgeted.	0	0	(102)	Any spells of exceptionally cold weather in the remaining part of the financial year will impact on this saving.
Catering Staffing	Difficulty recruiting to vacancies	0	0	(95)	Efforts continue to recruit to vacant posts targeting entry level applicants where appropriate.
Catering Meal costs	Meal costs are lower than budgeted as a consequence of movements in meal numbers and also suppliers prices.	0	0	(87)	Menus are reviewed regularly to maintain economy, maximise nutritional value and minimise wasteage.
Property Investment Account	Lower than budgeted levels of voids during the year has led to higher levels of income than anticipated.	0	0	(27)	No impact on frontline service.
Net Underspend		**(31)**	**(57)**	**(456)**	

Other

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional Information / Action taken
Loan Charges	Since setting the 2015/16 budget the cost of borrowing to finance the	(197)	(477)	(417)	Projects that have slipped will now fall into 2016/17 so borrowing costs are only delayed.

	General Services Capital Plan has reduced due to: (a) Re-phasing of projects which has allowed deferral of long-term borrowing; (b) Reduction in borrowing costs through lower than forecast interest rates; (c) Increase in projected investment returns through utilisation of higher yield investment products, in accordance with investment strategy.				
Central Costs	Insurance costs – higher than budgeted estimated settlement costs for existing claims. Insurance costs – there has been an increase in premiums as a consequence of claims experience and additional coverage for a certain class of property.	110 72	190 71	92 71	Detail of these claims is being reviewed and any mitigating action required will be put in place. This will be reflected as a budget pressure in future years.
Transformation Savings - Procurement	A target of £350k for procurement savings was set for 2015/16 which mainly reflected slippage in targeted savings for previous years. It is projected that £165k of this will be achieved.	185	185	185	Procurement plans are currently being refreshed and this may identify further savings in 2015/16. Contract savings have been made or are planned for 2015/16 which impact on the Capital Account and the Housing Revenue Account.
Transformation Savings - Maximising Attendance	The target of £155k will not been achieved in 2015/16.	155	155	155	Work continues to generate savings through maximising attendance.
Transformation Savings – Income Maximisation	The Target of £75k will not be achieved in 2015/16.	75	75	75	Progress towards efficiencies in this area will be consumed into the Delivering Excellence agenda.

Investment Income	Increased dividend income from the Council's shareholding in Lothian Buses.	0	0	(120)	This has been built into the 2016/17 base budget.
Council Tax and Community Charge Income	A continued growth in Band D equivalents results in a higher than budgeted Council Tax yield.	(230)	(250)	(250)	The continued growth in Band D equivalents will be factored into Council Tax income budgets for future years.

~~Midlothian Council~~
~~Tuesday 09 February 2016~~
~~Item No: 11~~

Audit Committee
Tuesday 15 March 2016
Item No. 5.3.2

General Services Capital Plan 2015/16 Quarter 3 Monitoring

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with information on the projected performance of the General Services Capital Plan against budget for 2015/16.

2. Background

2.1 2015/16 Budget

The Quarter 2 monitoring position for the General Services Capital Plan for 2015/16 was presented to Council on 3 November 2015 and, after accounting for known rephasing of projects and project under/overspends, forecast expenditure of £20.380 million and funding of £16.865 million, therefore giving a forecast in-year borrowing requirement of £3.515 million.

2.2 Adjustments to 2015/16 Budget

Expenditure

The forecast expenditure of £20.380 million, as reported at Quarter 2, has been adjusted as outlined in Tables 1 and 2 below:-

Table 1: New Projects

Project	Description of amendment to budget	Project Budget £000's
Purchase of 7 Eskdaill Court, Dalkeith	Purchase as part of Dalkeith Town Centre feasibility	700
Electric Vehicles – Powerpoint Installation*	Charging point for electric vehicles on Council buildings	61
Corporate Telephony Services Upgrade	Upgrade to Council telephony system to maintain PSN compliance	54
Hopefield Primary School demolition**	Demolition of Hopefield Primary School (Council share of costs)	39
EWiM – Buccleuch House Ground Floor	Refurbishment of ground floor of Buccleuch House	33
Webcasting Council, Cabinet & Committee Meetings	Equipment and software to facilitate the webcasting of various Council meetings	19
Total		**+906**

** Note that this project is fully funded through Scottish Government grant*
*** Note that this project is part financed through the recovery of insurance monies.*

In addition, the upgrade to the Council's website has now been approved by Business Transformation Board, with £0.125 million to be funded out of the existing unallocated funding in the plan.

Table 2: Rephasing of project budget

Project	**Description of amendment to budget**	**Previous 2015/16 Budget £000's**	**Revised 2015/16 Budget £000's**	**2015/16 Budget Movement £000's**
New Gorebridge Primary	Detailed cashflow received from contractor	2,972	3,421	+449
New Bilston Primary	Detailed cashflow received from contractor	2,928	3,162	+234
Street Lighting Upgrades	Acceleration of spend for replacement of columns on A701	496	646	+150
Back Office – UPS devices	Asset replacement – acceleration of roll-out	10	40	+30
Saltersgate Alterations	Spend classified as revenue in 2014/15 therefore not required from 2015/16 capital budgets	159	154	-5
Woodburn Family Learning Centre	Slippage in project expenditure	327	305	-22
Lasswade High School inc. MUGA	Delay in design works for MUGA of 1 month	202	172	-30
New recycling facility – Penicuik	Slippage in works	50	1	-49
Newbattle Centre Preparatory Works	Ongoing impact of ESA 10 delay	1,140	1,050	-90
Member's Environmental Improvements	Revised profile of spend based on in-year spend to date	280	140	-140
Paradykes & Roslin Preparatory Works	Start of on-site works now programmed for April 2016 with payments linked to milestones	667	523	-144
Paradykes Primary Replacement & Loanhead Hub	Start of on-site works now programmed for April 2016	500	0	-500
Roslin Primary Replacement	Start of on-site works now programmed for April 2016	500	0	-500
Total		**10,231**	**9,614**	**-617**

This therefore gives a revised budgeted expenditure of £20.669 million for 2015/16.

Funding

In line with this, the budgeted level of funding available to finance the plan has also been adjusted from the Q2 forecast funding of £16.865 million to £17.569 million, to reflect:-

- An increase of £0.061 million in Other Contributions, reflecting the award for full funding of the installation of charging points for Electric Vehicles;
- An increase of £0.314 million in Government Grants, reflecting:-
    - A reduction of £0.022 million of the Scottish Government's Early Year's Childcare Funding, rephased into 2016/17 in line with project expenditure;
    - An increase of £0.141 million of the Scottish Government's Early Year's Childcare Funding, to part-fund the refurbishment works at Bonnyrigg Leisure Centre for the Bright Sparks Nursery; and
    - A reduction of £0.195 million in the level of General Capital Grant funding which had been earmarked to fund Public Sector Housing Grants and Contaminated Land;
- An increase of £0.329 million in the application of developer contributions, reflecting the rephasing of expenditure in the plan; and

Borrowing

The forecast level of borrowing reported at Quarter 2 was £3.515 million. Based on the rephased expenditure and funding levels outlined above, the rephased budgeted borrowing required has reduced to £3.100 million.

2.3 Quarter 3 Projected Performance against Budget

Expenditure

Expenditure to 6 December 2015 is £8.014 million with a projected expenditure outturn of £20.877 million. At this stage it is anticipated that budgets for the projects detailed in Appendix 1 will be fully spent in the current year with the following exceptions:-

Table 3: Adjustment to expenditure budget of projects

Item	**Description of adjustment to expenditure budget**	**Rephased Budget 2015/16 £000's**	**Projected Outturn 2015/16 £000's**	**Projected (Underspend)/ Overspend £000's**
Bright Sparks	Design variances required due to complex alteration to existing building	356	564	+208

It is therefore expected that there will be a net overspend against budget for the year of £0.208 million. Options to fund this are currently being explored and include the utilisation of Early Year's Childcare Funding.

Funding

Funding received to 6 December 2015 is £10.171 million with a projected total funding available to finance the capital plan in 2015/16 of £17.569 million, in line with the rephased budget.

Borrowing

The rephased budgeted level of borrowing for 2015/16 was £3.100 million. Based on the revised expenditure and funding levels as outlined above, the projected estimate of the level of borrowing required to fund the investment identified in Appendix 1 is £3.308 million. The impact of this on the Council's borrowing costs is reflected in the Financial Monitoring 2015/16 – General Fund Revenue report elsewhere on today's agenda.

2.4 Overall Position 2015/16

Based on the above, the projected performance against budget for 2015/16 is shown in the table below:-

Table 4: Projected performance against budget for 2015/16 at Quarter 3

Item	2015/16 Budget At Q2 £000's	Rephased 2015/16 Budget At Q3 £000's	Actual To 06/12/15 £000's	2015/16 Projected Outturn £000's	2015/16 Variance £000's	2015/16 Carry Forward £000's
Expenditure	20,936	20,669	8,014	20,877	208	617
Funding	16,865	17,569	10,171	17,569	0	
Borrowing Required	4,071	3,100	-2,157	3,308	208	

3. Capital Fund

The Capital Fund at the start of the 2015/16 financial year was £14.853 million. Capital Receipts of £4.317 million are forecast to be received in 2015/16 (£2.256 million to 06/12/15), and will be transferred to the capital fund. This will increase the balance in the Capital Fund to £19.170 million. Officers are currently reviewing the medium to long term strategy for the utilisation of the Capital Fund and will report back in due course.

4. Report Implications

4.1 Resource

The borrowing required to finance the planned investment in 2015/16 is projected to be £3.100 million. The loan charges associated with this borrowing are reported to Council in the Financial Monitoring 2015/16 – General Fund Revenue report presented elsewhere on today's agenda.

4.2 Risk

The inherent risk in the Capital Plan is that projects will cost more than estimated thus resulting in additional borrowing. The monitoring procedures ensure that significant variations are reported at an early stage so that remedial action can be taken to mitigate this risk.

There is also a risk that the wrong projects are prioritised, however there is an additional risk that the revenue budget cannot afford the level of borrowing currently reflected.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- [ ] Community safety
- [ ] Adult health, care and housing
- [ ] Getting it right for every Midlothian child
- [ ] Improving opportunities in Midlothian
- [x] Sustainable growth
- [ ] Business transformation and Best Value
- [ ] None of the above

4.4 Impact on Performance and Outcome

There are no issues arising directly from this report.

4.5 Adopting a Preventative Approach

There are no issues arising directly from this report

4.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

4.7 Ensuring Equalities

There are no equalities issues arising directly from this report.

4.8 Supporting Sustainable Development

There are no sustainability issues arising directly from this report.

4.9 IT Issues

There are no IT implications arising from this report.

5 Recommendations

Council is asked to:

a) Note the General Services Capital Plan Quarter 3 monitoring position for 2015/16;
b) Approve the projects as outlined in Table 1 in Section 2.2 to be added to the General Services Capital Plan.

Date 27 January 2016

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Background Papers:
Appendix 1 – Detailed General Services Capital Plan Expenditure 2015/16

Appendix 1

Detailed General Services Capital Plan Expenditure 2015/16

GENERAL SERVICES CAPITAL PLAN 2015/16 Quarter 3 Monitoring	Rephased 2015/16 Budget Q3 £000's	2015/16 Actual to 06/12/15 £000's	2015/16 Projected Outturn £000's	2015/16 Variance £000's	2015/16 Carry Forward £000's
RESOURCES					
Finance & Integrated Service Support					
Front Office - Device & Interactive Asset Upgrades	375	330	375	0	0
Back Office - Anti Virus Upgrades	0	0	0	0	0
Back Office - Server Replacement	160	41	160	0	0
Back Office - UPS Devices	40	32	40	0	0
Network Enterprise - Network Internet Connection	0	0	0	0	0
Network Enterprise - Network Assets (Power & Data)	75	15	75	0	0
IGS - Compliance - Data Encryption	0	0	0	0	0
IGS - Compliance - PCI	0	0	0	0	0
Disaster Recovery	0	0	0	0	0
Service Desk - ITMIS Service Improvement	50	0	50	0	0
Midlothian Website Development	5	0	5	0	0
IT Development (Education)	0	0	0	0	0
Committee Management System	15	10	15	0	0
Paperless Meetings	16	0	16	0	0
Business Application Upgrades inc. mobile working	100	16	100	0	0
Commercial Services					
Street Lighting Upgrades	646	518	646	0	0
Street Lighting LED Upgrade (Salix Funded)	200	178	200	0	0
Footway & Footpath Network Upgrades	1,000	41	1,000	0	0
Road Upgrades	1,521	587	1,521	0	0
A6106 Lugton	30	30	30	0	0
Millerhill Access Road / Site Services	100	15	100	0	0
Beeslack High School Safer Routes to School	0	0	0	0	0
Cycling, Walking & Safer Streets Projects	127	-11	127	0	0
Ironmills Park Steps	28	0	28	0	0
Emily Bing	13	0	13	0	0
New recycling facility - Penicuik	1	1	1	0	0
Waste Collection Vehicles	338	296	338	0	0
Food Waste Collection	526	374	526	0	0
Vehicle & Plant Replacement Programme	1,484	764	1,484	0	0
Electric Vehicles - Powerpoint Installation	61	61	61	0	0
Install Geogrid - Barleyknowe Lane	102	0	102	0	0
Bonnyrigg Skate Park	4	4	4	0	0
Newtongrange Wheeled Sports park	39	2	39	0	0
Loanhead Memorial Park	60	19	60	0	0
Riverside Park	26	0	26	0	0
20mph Limits	40	0	40	0	0
Vogrie Car Parking Barriers	33	0	33	0	0
CCTV Upgrade	93	0	93	0	0
Webcasting Council, Cabinet & Committee Meetings	19	0	19	0	0
Property & Facilities					
Stobhill Depot Upgrade	0	0	0	0	0
Property Upgrades inc. Lighting/Lightning	1,576	292	1,576	0	0
Purchase of 7 Eskdaill Court, Dalkeith	700	0	700	0	0
Primary 1-3 Free School Meals	12	2	12	0	0
TOTAL RESOURCES	**9,615**	**3,616**	**9,615**	**0**	**0**

EDUCATION, COMMUNITY AND ECONOMY	Rephased 2015/16 Budget Q3 £000's	2015/16 Actual to 06/12/15 £000's	2015/16 Projected Outturn £000's	2015/16 Variance £000's	2015/16 Carry Forward £000's
Early Years					
Woodburn Family Learning Centre	305	1	305	0	0
Further Early Years Provisions	0	0	0	0	0
Primary					
Burnbrae Primary	23	0	23	0	0
New Bilston Primary	3,162	844	3,162	0	0
New Gorebridge North Primary	3,421	1,412	3,421	0	0
Rosewell Primary Extension	104	7	104	0	0
Cornbank Primary Extension	24	-3	24	0	0
St Andrews Primary Extension	5	-13	5	0	0
Newtongrange Primary Extension	30	5	30	0	0
Paradykes & Roslin Primaries Preparatory Works	523	152	523	0	0
Paradykes Primary Replacement	0	0	0	0	0
Roslin Primary Replacement	0	0	0	0	0
Gorebridge Primary School Additional Classroom	12	12	12	0	0
Hopefield Primary School Demolition	39	164	39	0	0
Hawthornden Primary School Roof	6	6	6	0	0
Stobhill Primary School Footpath	22	22	22	0	0
Secondary					
Lasswade High School inc. 2nd MUGA	172	119	172	0	0
Newbattle Centre Preparatory Works	1,050	580	1,050	0	0
Newbattle Centre - Future Extension	0	0	0	0	0
Saltersgate Alterations	154	62	154	0	0
General					
Online Payments for Schools	45	0	45	0	0
Bright Sparks	356	271	564	0	208
PPP1 Land Acquisition	27	0	27	0	0
Children and Families					
Eastfield Children's Unit	3	3	3	0	0
Woodburn Children's Unit	0	0	0	0	0
Planning & Development					
Environmental Improvements	140	38	140	0	0
Property Asset Management System	9	0	9	0	0
Dalkeith Town Centre (TCRF??)	1	1	1	0	0
TOTAL EDUCATION, COMMUNITY AND ECONOMY	**9,633**	**3,685**	**9,841**	**0**	**208**
HEALTH AND SOCIAL CARE					
Adult & Social Care					
Care Homes	1	1	1	0	0
Penicuik Care Home Hub	33	23	33	0	0
Penicuik Care Home Hub - Fit Out	0	0	0	0	0
Highbank OPH - Adaptations (Phase II)	0	0	0	0	0
Assistive Technology	260	24	260	0	0
Travelling Peoples Site Upgrade	17	0	17	0	0
Customer & Housing Services					
Libraries Cash Management System	-1	-1	-1	0	0
TOTAL HEALTH AND SOCIAL CARE	**310**	**48**	**310**	**0**	**0**
COUNCIL TRANSFORMATION					
Purchase to Pay	32	8	32	0	0
Property Services Review / Mobile Working	43	33	43	0	0
EDRMS	12	6	12	0	0
EWiM	125	180	125	0	0
EWiM Phase 2	661	438	661	0	0
Online Housing Applications	27	0	27	0	0
Corporate Telephony Services Upgrade	54	0	54	0	0
EWiM - Buccleuch House Ground Floor	33	0	33	0	0
Unallocated	125	0	125	0	0
TOTAL COUNCIL TRANSFORMATION	**1,112**	**665**	**1,112**	**0**	**0**
GENERAL SERVICES CAPITAL PLAN TOTAL	**20,669**	**8,014**	**20,878**	**0**	**208**

~~Midlothian Council~~
~~9th February 2016~~
~~Item No: 12~~

Audit Committee
Tuesday 15 March 2016
Item No. 5.3.3

Housing Revenue Account
Revenue Budget and Capital Plan 2015/16

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with a summary of expenditure and income to 18th December 2015 for the Capital Plan and a projected outturn for both the Housing Revenue Account and Capital Plan for 2015/16.

2 Background

2.1 Revenue Account 2015/16

The underspend reported to Council on the 3rd November 15 was £0.497 million. This has increased by £0.348 million to £0.845 million, as shown in Appendix 1, and is due to:-

- Lower demand for reactive repairs due to continuous capital investment in existing stock will result in a projected underspend on repairs of £0.341 million;
- Pentland and Midfield House is now anticipated to open during 2016/17, the previously reported saving of £0.387 million at quarter 2 will now increase by £0.061 million to £0.448 million.
- The underspend on borrowing costs has increased by £0.049 million to £0.165 million due to rephasing of Capital expenditure and lower than forecast interest rates;
- Insurance claims in relation to three minor fire incidents will result in an overspend of £0.085 million.

The HRA reserve balance is projected to be £24.520 million at 31st March 2016. The longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments to 2029/30.

2.2 Capital Plan 2015/16

The revision of the Capital Plan reported to Council on 22nd September 2015 allowed for investment of £27.842 million in 2015/16 as shown in Appendix 2. £12.439 million will be required to be carried forward to 2016/17 due to:-

- Contaminated land issues and necessary remediation works on New Social Housing Phase 2 sites have resulted in delays within the programme and will result in slippage of £4.874 million;

- Difficulties in gaining access to a number of properties to carry out works will result in slippage of the Sanitary Ware Replacement Programme of £3.861 million;
- General slippage in the SHQS Repairs Programme and Upgrades of Central Heating Systems of £2.308 million and £0.903 million respectively;
- Pentland and Midfield House refurbishment works will not commence until the new financial year due to delays in obtaining House in Multiple Occupation Licences for the properties, therefore a carry forward will be required of £0.320 million and £0.040 million for the works respectively;
- Properties that previously declined Kitchen Replacements will now be revisited this will require a carry forward of £0.133 million.

There were no material variances reported to Council 3rd November 2015, however it is now anticipated that there will be an underspend of £0.868 million against the revised budget of £15.403 million due to:-

- A fall in the number of Mortgage to Rent cases being presented resulting in a projected underpsend of £0.745 million offset by a reduction in subsidy received of £0.394 million;
- The backlog of properties requiring Aids and Adaptations has reduced significantly resulting in a projected underspend of £0.123 million;
- Earlier than anticipated receipt of Affordable Housing Contribution from Scottish Government of £0.820 million;
- An increase in the level of developer contributions received for Wester Cowden of £0.507million.

The variations on capital expenditure and receipts including carry forwards will result in a reduction of borrowing required of £1.801 million for the year.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents.

Whilst the HRA reserve balance is projected to be £24.520 million at 31 March 2016, the longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- [ ] Community safety
- [x] Adult health, care and housing
- [ ] Getting it right for every Midlothian child
- [ ] Improving opportunities in Midlothian
- [x] Sustainable growth
- [ ] Business transformation and Best Value
- [ ] None of the above

3.4 Impact on Performance and Outcomes

This report links to the Corporate Priority 1a. “Provide quality, affordable housing including increasing homelessness accommodation”.

3.5 Adopting a Preventative Approach

There are no issues arising directly from this report.

3.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

3.7 Ensuring Equalities

There are no equality issues arising directly from this report.

3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.9 IT Issues

There are no IT issues arising directly from this report.

4 Summary

The summarised financial performance for 2015/16 is:

- Capital Expenditure is anticipated to be £14.535 million for the year with a projected underspend of £0.868 million;
- A net undersend of £0.845 million is projected on the Revenue Account;
- The HRA reserve at 31st March 2016 is projected to be £24.520 million.

5 Recommendations

Council is recommended to note the contents of this report.

Date 8th October 2015

Report Contact:
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Background Papers: HRA Capital Plan and Revenue Budget

MIDLOTHIAN COUNCIL

HOUSING REVENUE ACCOUNT 2015/16

Appendix 1

	Revised Budget	Projected Outturn	Variation (Under)/Over
Average No of Houses	**6,833**	**6,833**	**0**
	£000's	**£000's**	**£000's**
Repairs and Maintenance			
General Repairs	5,516	5,175	(341)
Decant/Compensation	40	46	6
Grounds Maintenance	574	576	2
	6,130	**5,797**	**(333)**
Administration and Management	4,752	4,752	0
Loan Charges	8,276	8,111	(165)
Other Expenses	2,846	2,430	(416)
TOTAL EXPENDITURE	**22,004**	**21,090**	**(914)**
Rents			
Houses	(23,294)	(23,225)	69
Garages	(504)	(504)	0
Others	(504)	(504)	0
TOTAL RENTS	**(24,302)**	**(24,233)**	**69**
NET EXPENDITURE/(INCOME)	**(2,298)**	**(3,143)**	**(845)**
BALANCE BROUGHT FORWARD	**(21,377)**	**(21,377)**	**0**
BALANCE CARRIED FORWARD	**(23,675)**	**(24,520)**	**(845)**

MIDLOTHIAN COUNCIL

Appendix 2

HOUSING REVENUE ACCOUNT CAPITAL PLAN 2015/16

	Approved Budget 201516	Carry Forward to 201617	Revised Budget 201516	Actuals to Date	Projected Outturn	Variation (Under)/Over
	£'000	£'000	£'000	£'000	£'000	£'000
FUNDING						
Net Receipts from Sales	2,310	0	2,310	1,497	2,310	0
Grants						
-Incentivising New Build	100	0	100	920	920	820
-Mortgage to Rent	612	0	612	218	218	(394)
Council Tax on Second Homes	115	0	115	0	115	0
Developer Contributions	1,678	0	1,678	407	2,185	507
Borrowing Required	23,027	12,439	10,588	4,238	8,787	(1,801)
TOTAL AVAILABLE FUNDING	27,842	12,439	15,403	7,280	14,535	(868)

APPROVED EXPENDITURE	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
New Build Houses Phase 1	305	0	305	135	305	0
New Build Houses Phase 2	12,057	4,874	7,183	3,866	7,183	0
Aids & Adaptations	473	0	473	217	350	(123)
Environmental Improvements - McNeill Terrace	132	0	132	90	132	0
Energy Assistance	499	0	499	21	499	0
Homelessness - Mortgage to Rent	1,164	0	1,164	419	419	(745)
Homelessness - Pentland House Refurbishment	341	320	21	21	21	0
Homelessness - Midfield House Refurbishment	40	40	0	0	0	0
Scottish Housing Quality Standard						
-Kitchen Replacement	313	133	180	48	180	0
-Upgrade Central Heating Systems	1,753	903	850	201	850	0
-Sanitary Ware Replacement Programme	4,661	3,861	800	534	800	0
-SHQS Repairs	6,104	2,308	3,796	1,728	3,796	0
Total Expenditure	27,842	12,439	15,403	7,280	14,535	(868)

Financial Strategy 2016/17 to 2020/21

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

This report provides Council with a further update on the Financial Strategy 2016/17 to 2020/21, specifically the 2016/17 budget position.

It includes:-

- An update on the 2016/17 Scottish Government grant settlement;
- The latest budget projections for 2016/17;
- A recommendation to consider Council Tax levels for 2016/17;
- An update on the other strands of the Financial Strategy, Delivering Excellence and the Transformation Programme;
- An update in respect of budget savings proposals;
- An update on reserves.

2 Background

A report setting out the Financial Strategy for 2016/17 to 2020/21 was considered and approved by Council on 22 September 2015, with an update reported on 15 December 2015. Today's update focuses specifically on the 2016/17 budget following the publication on 16 December 2015 of the Scottish Government's 2016/17 budget and proposed grant settlement.

The reduction in grant funding for 2016/17 reinforces the importance of the Financial Strategy and of its core objective of securing the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint coupled with increasing service demands and increasing customer expectations.

3 Scottish Government Grant Settlement

The Scottish Government's draft budget for 2016/17 together with details of the proposed local government grant settlement was published on 16 December 2015. The proposed grant settlement was subsequently amended on 24 December 2015, with further amendments made on 13 January 2016. The latest version of finance circular 7/2015 sets out the total revenue funding proposed for local government together with the individual grant allocations for each council. In total local government will receive £9,693.431 million which represents a year on year reduction of 3.31%.

The proposed settlement for Midlothian is £149.830 million with an additional £1.686 million of unallocated monies anticipated to be distributed at a later point in time bringing the total expected grant funding for 2016/17 to £151.516 million. This is £3.480 million less than previously incorporated in the budget projections.

Alongside the publication of the Scottish Government's budget, the Deputy First Minster wrote to the COSLA President, copied to all Council Leaders, confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding allocations set out in the circular. The letter proposed further discussions to consider the approach to implementing the measures set out in the budget including agreement on the scale and retention of cashable efficiency savings for local authorities' contributions for social care to the health and social care partnerships.

On 27 January 2016, following the conclusion of these discussions, the Deputy First Minster wrote again to the COSLA President, copied to all Council Leaders confirming the final details of the Local Government Finance Settlement for 2016/17. A copy of this letter is enclosed as appendix 1. The letter invites local authorities to agree the terms of the settlement and requires those Council Leaders who intend to take up the offer and agree the full package of measures to write setting out their position, including on Council Tax no later than 9 February 2016.

The Deputy First Minister's letter confirms that in order to access all of the funding involved, of £408 million, local authorities must agree to deliver all of the measures and will not be able to select elements from the package. The measures are set out in full in appendix 1 and are summarised below:-

- £250 million will be provided from the health budget to integration authorities in 2016/17 for social care. £125 million is provided to support additional spend, including making progress on charging thresholds for all non-residential services. £125 million is provided to help meet a range of existing costs faced by local authorities. This includes delivering the Living Wage of £8.25 per hour for all social care workers from 1 October 2016.

- The protection of teacher numbers. The measure for implementation of this target will be the maintenance at a national level of the pupil teacher ratio at a value of 13.7.

- To continue the Council Tax freeze for a ninth consecutive year.

Any council that does not sign up to the complete package will not receive their share of the integration funding of £250 million (£3.600 million), support for teachers of £88 million (£1.550 million) and the Council Tax freeze support of £70 million (£1.154 million). For Midlothian this amounts to £6.304 million.

The Deputy First Minster's letter also advises that where a council signs up and then does not deliver on any of the specific commitments the government reserve the right to take action to remove access to or recover that element of additional funding support.

In terms of Council Tax on its own, the conditions attached to the settlement are such that an increase of approximately 16% (equivalent to £194 per annum for a Band D property) would be required to offset the loss of government grant. In view of the conditions attached to the Grant Settlement it is recommended that Council maintain the Band D Council Tax for 2016/17 at the existing level of £1,210.

The Midlothian Integrated Joint Board's share of the £250 million is expected to be £3.600 million. Discussions with the Board's Chief Officer, Chief Financial Officer and NHS Lothian have resulted in a provisional agreement to utilise £1.800 million for additionality with the remainder contributing to cost pressures, including deliver of the Living Wage for Social Care staff from 1 October 2016, which are provided for in the revised budget shortfall. Fuller details of the proposed allocation of resources to the Integrated Joint Board will be set out in a Financial Assurance report which will be presented to the Special Council meeting called for 8 March 2016.

The expectation remains that the next Scottish Government will publish a three year budget in the autumn of 2016. Only at that point will there be clarity on the level of grant funding local government can expect for future years. Given the extent of the reduction in the 2016/17 grant, it is considered prudent to take a more pessimistic view on future year's settlements than incorporated in previous Financial Strategy reports. However given the timing and continued uncertainty on aspects of the 2016/17 settlement and the influence decisions on Income Tax and Local Taxation will have on the Scottish budget further work is required to assess the implications for the 2017/18 to 2020/21 budget projections and as such these will be reported to Council later in spring.

4 Council Tax

The budget projections set out later in this report are based on continuation of the Council Tax freeze with Band D Council Tax remaining at £1,210. They do however reflect the additional income from an increase in the number of properties. Appendix 2 sets out the Council Tax levels for 2016/17 based on a continuation of the freeze.

Whilst the Council has a statutory duty to set its Council Tax for the following financial year commencing 1 April, by 11 March it is recommended that Council sets Council Tax at today's meeting to allow the Council Tax billing to be progressed.

5 Cost of Services

Given the timing and uncertainty of the 2016/17 grant settlement attention has been focussed on updating the 2016/17 budget position given that Council has a statutory duty to determine the 2016/17 budget by 11 March 2016.

The projected budget shortfall for 2016/17 as set out in table 1 is based on the current cost of service provision for 2015/16 together with inflationary cost and other uplifts. It also provides for costs arising from the General Services Capital Plan, both by way of debt charges to finance borrowing costs and revenue implications of investment.

Table 2 provides the latest analysis of the principal year on year budget changes which reflects the following key assumptions and cost drivers. Table 3 provides a summary of the movements from the last report:

- In respect of pay the budget provides for the second year of the two year pay deal. This includes a commitment for the minimum hourly rate from April 2016 to the 2015 Living Wage of £8.25 plus 1%, which equates to £8.33 per hour. The budget also includes a provision to fund costs arising from the ongoing Review of Local Government Pay and Grading;
- The impact of Pension Reform and anticipated changes in the Council's contribution towards employee pensions;
- Incremental pay progression;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- Actual and projected forward purchasing prices for energy costs;
- Anticipated impact of contracts due for renewal during the period;
- Impact of current demand for services;
- Demographic impact of future demand for services;
- Future interest rate forecasts provided by the Council's Treasury Advisers;
- An updated assessment of the resources required in respect of Free School Meals and The Children and Young People (Scotland) Act 2014 based on actual and planned expenditure;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant, including the any amendment to the Education Bill to legislate for 25 hours of primary teacher class contact time;
- Council Tax income continues to grow in line with previous trends and planned future housing growth.

The latest projected budget shortfall reflecting the assumptions set out in sections 3 to 5 is as follows:-

Table 1: Budget Shortfall 2016/17 – 9 February 2016

	2016/17
	£m
Cost of Services	199.747
Less: Council Tax	(40.600)
Less: Scottish Government Grant	(151.516)
Budget Shortfall	**7.631**

As Council is aware, significant elements of the budget are either fixed or are challenging to change for a number of reasons including:-

- Historic decisions, for example, loan charges and unitary charge contractual payments;
- Specific conditions, for example the maintenance of teacher numbers and teacher pupil ratio; and
- Growing demand for services through demographic pressures.

In broad terms the budget shortfalls set out in table 1 arise for the following reasons:

Table 2: Analysis of Shortfall – 9 February 2016

	2016/17
	£m
Opening Shortfall / (surplus)	(2.844)
Pay Inflation and Progression	2.882
Pensions Reform	2.041
Contractual Inflation	0.713
Demographics: Care	1.060
Demographics: School Rolls	1.937
Demand pressures: Children	0.500
School Estate Investment	0.520
Waste Disposal Costs	0.171
Borrowing Costs	(0.511)
Food Waste Collection	0.302
Scottish Government Grant	2.900
Council Tax Income	(0.600)
Financial Discipline	(0.416)
Decriminalised Parking and Traffic Wardens	0.112
Home to School Transport Service Demand	0.157
Re-profiling of Homeless service re-provision	0.108
Share of £250m for Social Care	(1.700)
Other Changes	0.299
Total	**7.631**

Table 3: Analysis of Changes since Last Report – 9 February 2016

	2016/17
	£m
Previous Reported Shortfall	**4.950**
Movements:	
Scottish Government Grant	2.900
Share of £250m for Social Care	(1.700)
Pay Inflation and Progression	(0.492)
Contractual Inflation	(0.300)
Demographics: Care	0.132
Demographics: Schools	1.349
Demographics: Children	0.112
Decriminalised parking and Traffic Wardens	0.112
Home to School Transport Service Demand	0.157
Re-profiling of Homeless service re-provision	0.108
Other Changes	0.303
Projected Shortfall	**7.631**

6 Financial Strategy

6.1 Delivering Excellence

The Delivering Excellence framework approved by Council on 23 June 2015 supports the repositioning of services to ensure they have a greater emphasis on and achieve better outcomes for those most disadvantaged and vulnerable in the community. The framework focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability.

The framework sets out an approach that provides the means to:

- Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services;
- To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms or approaches; and
- To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners.

Actions which contribute to the Financial Strategy, particularly for later years will be developed through the framework.

6.2 Transformation Programme

The existing Transformation Programme is essential to the delivery of sustainable change and delivery of the Council's Financial Strategy. It remains a major focus with a continued drive towards delivering on the agreed outcomes and targets for programme which includes:

- Customer Service;
- Education;
- Services to Communities;
- Children's Services; and
- Integrated Service Support.

The savings targets incorporated in the Financial Strategy have been updated to reflect the current profile of savings.

Table 4: Council Transformation Programme Cumulative Additional Savings – 9 February 2016

	2016/17
	£m
Children's Services	0.224
Services to Communities	0.250
Education	0.473
Customer Service	0.175
Integrated Service Support	0.840
Totals	**1.962**

The savings targets set out in table 4 and are predicated on the outcomes of the reviews and any subsequent decisions taken by Council and so remain indicative.

6.3 Asset Management

The position remains as previously reported.

6.4 Efficiency and Financial Discipline

As reported on 15 December 2015 the Chief Executive had asked each Director to bring forward savings options for consideration. To date this has identified operational savings as summarised in appendix 3 which total £0.674 million in 2016/17 rising to £1.022 million in later years.

6.5 Budget Savings

Officers are continuing to develop savings proposals which would impact on the 2016/17 budget. Given the impact of the grant settlement and subsequent receipt of final proposals on 27 January 2016 it is considered prudent to delay determination of the budget. Accordingly, the Director Resources has called a Special meeting of the Council on 8 March 2016 to give consideration to savings proposals and to determine the Revenue Budget for 2016/17. The savings proposals will be reported to the meeting of the Business Transformation Steering Group (BTSG) on 22 February 2016 for its consideration before the Special meeting of Council.

6.6 Summary of Financial Strategy

The final projections incorporating impact of the various strands of the Financial Strategy are as follows in table 5. A service by service analysis of the 2016/17 draft budget is attached as appendix 3.

Table 5: Financial Strategy 2016/17 – 9 February 2016

	2016/17 £m
Budget Shortfall (Table 1)	7.631
Less Strands:	
Impact of 2015/16 approved savings	(0.987)
Transformation Programme (6.2)	(1.962)
Asset Management (6.3)	(0.135)
Operational Efficiency and Financial Discipline (6.4)	(0.674)
Remaining Budget Gap	**3.873**

On 16 December 2014 Council approved that any remaining budget gap for 2016/17 be offset from the budgeted surplus which would be transferred to reserves. At that time the anticipated remaining budget gap for 2016/17 was £2.223 million.

7 Governance and Timeline

Each element of the Financial Strategy continues to have clear governance in place to ensure the timely delivery of the work stream, with proposals being reported through Business Transformation Steering Group and then to Council as appropriate.

The timetable outlined in previous Financial Strategy reports provided for budget decisions and Council Tax for financial year 2016/17 to be agreed by Council today and for updated projections and indicative budgets to be set out for later years.

As indicated earlier given the timing of the 2016/17 settlement further work is required to update the 2017/18 to 2020/21 budget projections and these will be reported to Council later in the year.

To facilitate Council Tax billing for 2016/17 it is recommended that Council set a Council Tax for 2016/17 at today's meeting and that savings proposals and determination of the 2016/17 budget are considered at the Special Council meeting on 8 March 2016. This enables members to meet the statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

Furthermore in terms of governance, members are also reminded that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax. Members are required to disclose the fact this section of the act applies to them and not vote on any question with respect to the matter.

8 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the key priorities of Early Years, Positive Destinations and Economic Growth. The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities and the Financial Strategy sets out for partners the parameters the Council is working within and provides a means to better facilitate the sharing of budget and resource planning information. The Delivering Excellence framework and Transformation Programme have a key role in ensuring that resources are directed towards the priorities set out in the Midlothian Single Plan.

9 Reserves

The latest projection of useable reserves as at 31 March 2016 as reported elsewhere on today's agenda are as follows:-

Table 6: Useable Reserves – 31 March 2016

	Total	Uncommitted
	£m	£m
General Fund Reserve	18.117	13.134
HRA Balance	24.520	2.224
Capital Fund	19.170	19.170
Repairs and Renewal Reserve	3.000	0.000
Total Useable Reserves	**64.807**	**34.528**

It is necessary for the Council to retain reserves to meet unplanned or unforeseen costs. In terms of the General Fund, Council agreed on 4 February 2014 that a prudent level of general reserve be around £8.000 million or 4% of net expenditure. Whilst the General Reserve exceeds this level the financial pressures facing the Council will require utilisation of reserves to balance budgets in the short term and to allow investment in areas where longer-term savings can be achieved. There will also be substantial one-off costs associated with further staff release and the reserve may also be required as a buffer to offset the risks associated with slippage in savings plans.

The uncommitted balance on Capital Fund is retained to provide for unforeseen capital expenditure and to provide flexibility between financial years, its utilisation is subject to annual review.

The repairs and renewal reserve is fully committed. An update on the position with the HRA balance is encompassed in a separate report on today's agenda.

10 Report Implications

10.1 Resources

Whilst this report deals with financial issues there are no financial implications arising directly from it.

10.2 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge. The following key risks and issues are highlighted in the context of this report and future years financial prospects;

- The delivery of the conditions attached to the 2016/17 grant settlement;
- The resource implications associated with charging thresholds for non residential Social Care services;
- Decision by Scottish Government on future years grant settlements and grant distribution;
- The next Scottish Governments response to the commission on Local Tax Reform;
- Non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Future year pay award settlements and the implications of future years Living Wage increase;
- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Cost pressures exceeding budget estimates;
- Impact of Welfare Reform and pension changes;
- The costs of implementation of national policies varying from the resources provided by government; and
- Capital investment requirements and associated cost.

The Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the Delivering Excellence framework setting out the early identification of future saving proposals.

10.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

☐ Community safety
☐ Adult health, care and housing
☐ Getting it right for every Midlothian child
☐ Improving opportunities in Midlothian
☒ Sustainable growth
☒ Business transformation and Best Value
☐ None of the above

10.4 Impact on Performance and Outcomes

The Financial Strategy is central to the way Council allocates and uses its limited resources and as such has fundamental implications for service performance and outcomes. Earlier budget projections indicated that in 2020/21 the Council would have available in the region of £200 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

10.5 Adopting a Preventative Approach

Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, an effective Financial Strategy in turn allows resources to be prioritised to support prevention.

10.6 Involving Communities and Other Stakeholders

The Delivering Excellence Community Engagement report approved by Council on 22 September 2015 set out proposals for engagement and consultation on the service and financial challenges Council faces and the options which will emerge to address these. This will be adapted to highlight the implications of the 2016/17 grant settlement on the Council budget and the measures taken to address this.

In addition, there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges.

10.7 Ensuring Equalities

There are no equality implications arising directly from this report. As part of the development of budget proposals to be considered on 8 March 2016 each proposal which affects people will have an EQIA prepared together with the overarching EQIA encompassing the revenue budget.

10.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report.

10.9 IT Issues

There are no direct IT implications arising from this report.

11 Summary

The report provides:-

- An update on the 2016/17 Scottish Government grant settlement;
- The latest budget projections for 2016/17;
- A recommendation to maintain a Band D Council Tax of £1,210 for 2016/17;
- An update on the other strands of the Financial Strategy, Delivering Excellence and the Transformation Programme;
- An update in respect of budget savings proposals;
- An update on reserves.

12 Recommendations

Council is recommended to:-

a) Note the update in respect of the Scottish Government Grant Settlement as set out in section 3;

b) In view of the conditions attached to the Grant Settlement set a Band D Council Tax of £1,210 as set out in appendix 2;

c) Note the operational savings summarised in appendix 3:

d) Note that, subject to recommendations b) and c) the remaining budget gap for 2016/17 is £3.873 million as summarised in section 6.6;

e) Note that a further Financial Strategy update for 2016/17 will be reported to the Special Council meeting on 8 March 2016 and that a further update, setting out revised projections for 2017/18 to 2020/21 will be presented to Council in the spring.

Date 01 February 2015

Report Contact:
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Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP

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The Scottish Government
Riaghaltas na h-Alba

LEGACY 2014
XX COMMONWEALTH GAMES
SCOTLAND

Councillor David O'Neill
President
COSLA
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

27 January 2016

Dear David

I write now to confirm the final details of the Local Government Finance settlement for 2016-17, following the conclusion of our partnership discussions to consider the package of measures contained in my initial letter of 16 December 2015.

This funding package is focussed on delivery of our joint priorities to deliver sustainable economic growth, protect front-line services and support the most vulnerable in our society.

I have considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included in this letter. My aim throughout our extensive discussions has been to reach an agreement with councils around the implementation of these commitments. I invite local authorities to agree the terms of the settlement.

The measures set out in the settlement offer must be viewed as a package to protect shared priorities and intensify a journey of reform. In order to access all of the funding involved, of £408 million, local authorities must agree to deliver all of the measures set out below and will not be able to select elements of the package.

Integration Fund

The offer being made is that £250 million will be provided from the Health budget to integration authorities in 2016-17 for social care:

> That of the £250 million, £125 million is provided to support additional spend on expanding social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change.

That of the £250 million, £125 million is provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. This includes our joint aspiration to deliver the Living Wage for all social care workers as a key step in improving the quality of social care. The allocation of this resource will enable councils to ensure that all social care workers including in the independent and third sectors are paid £8.25 an hour. This assumes that private and third sector providers will meet their share of the costs. The Government would prefer implementation on the 1 April but we accept COSLA's point that preparatory work will be required to ensure effective implementation. We therefore agree to an implementation date of 1 October. In 2016-17, Councils can allocate up to £125 million of their 2015-16 costs of providing social care services to Integrated Joint Boards including the uprating of staff to the Living Wage. This will ensure an overall benefit to the provision of health and social care of £250 million. To ensure transparency for the flow of funding support for local authorities and delivery of the Living Wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority Section 95 Officer.

Teacher Numbers

The Scottish Government has been consistent that the protection of teacher numbers is a central part of our priority to raise attainment. Following our discussions and the further representations COSLA has made, the Scottish Government have agreed that the measure for the implementation of that target, against a forecast that pupil numbers will increase over the coming academic year, will be the maintenance at a national level of the pupil teacher ratio.

The objective will be to maintain the pupil teacher ratio nationally at a value of 13.7 (the same level as in 2015) in local authority schools as shown in the Teacher and Pupil Census published in December 2016 and the teacher and probationer commitments in 2016-17. In order to support delivery, the Scottish Government will continue to monitor these commitments throughout the year.

Council Tax Freeze

The Scottish Government was elected on a commitment to freeze the council tax for the entirety of this Parliamentary session and is committed to delivering this policy. Many local authorities have a commitment to freeze the Council Tax over a similar timescale. Against the questions of the wider revenue-raising challenges raised in the Budget the Scottish Government believes that it is important to provide protection for household incomes in what has been a very financially challenging period for many households.

The Scottish Government has now received the report from the Commission on Local Tax Reform and the Government believes now is not the time to dispense with the protection the freeze offers. Looking ahead we will be bringing forward plans for reform of the present Council Tax, reflecting the principles of the report, and we are committed to working in partnership with local government on the implementation of that.

For 2016-17 individual local authorities will again require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

Any council that does not sign up to the complete package will not receive their share of the Integration Funding (£250 million), support for teachers (£88 million) and the council tax freeze support (£70 million). Should that be the case, steps will be taken to recover the latter two elements that have been distributed from the individual council's allocations in the local government finance settlement in-year.

If in the event, however, a council that does sign up then does not deliver any of the remaining specific commitments on council tax freeze, social care spend, including delivery of the £8.25 per hour Living Wage or national teacher targets then the Scottish Government reserves its position to take action to remove access to or recover that element of the additional funding support earmarked to deliver each of the remaining specific measures. In the case of pupil teacher ratio not being maintained nationally then the Scottish Government reserves its position to recover monies allocated to individual authorities whose pupil teacher ratio rises. This action will be proportionate and apply only to that element of the funding for a specific measure that a local authority subsequently does not deliver as set out in the paragraph above.

I will require those Council Leaders who intend to take up the offer and agree the full package of measures to write to me to set out their position, including on the council tax. Given that I am setting out changes to the proposals we previously discussed, I want to give local authorities every opportunity to consider these issues in full. Leaders should therefore provide their response to me by no later than Tuesday 9 February 2016.

I fully understand the pressures on budgets, which is being felt across the whole of the public sector, but I firmly believe that the funding proposals I have set out for local government protects our shared priorities and delivers practical financial support to intensify the pace of reform. I hope you and your fellow Council Leaders can agree that in the circumstances the proposals deliver a strong but challenging financial settlement. The key to addressing this challenge is reform and local government is a key partner in our programme to reform and improve public services.

JOHN SWINNEY

APPENDIX 2

MIDLOTHIAN COUNCIL

Council Tax for Financial Year 2016/17

This statement gives details of the 2016/17 Council Tax payable in respect of a chargeable dwelling in each of the valuation bands specified in Section 74(2) of the Local Government Finance Act 1992 determined in accordance with Section 74(1) of the Act **Based on Band D Council Tax of £1,210.**

Band	**Range of Values From £**	**To £**	**Band D Proportion**	**Council Tax £**
A	-	27,000	6/9	806.67
B	27,001	35,000	7/9	941.11
C	35,001	45,000	8/9	1,075.56
D	45,001	58,000	9/9	1,210.00
E	58,001	80,000	11/9	1,478.89
F	80,001	106,000	13/9	1,747.78
G	106,001	212,000	15/9	2,016.67
H	212,001	upward	18/9	2,420.00

DIRECTORATE SUMMARY 2016/17 BUDGET OPERATIONAL SAVINGS

	INCREMENTAL				CUMULATIVE			
	2016/17	2017/18	2018/19	TOTAL	2016/17	2017/18	2018/19	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m
EDUCATION, COMMUNITIES & ECONOMY								
Education	0.063	0.037	0.000	0.100	0.063	0.100	0.100	0.100
SUB TOTAL	**0.063**	**0.037**	**0.000**	**0.100**	**0.063**	**0.100**	**0.100**	**0.100**
HEALTH AND SOCIAL CARE								
Adult and Social Care	0.134	0.137	0.100	0.371	0.134	0.271	0.371	0.371
SUB TOTAL	**0.134**	**0.137**	**0.100**	**0.371**	**0.134**	**0.271**	**0.371**	**0.371**
RESOURCES								
Commercial Operations	0.115	0.000	0.000	0.115	0.115	0.115	0.115	0.115
Finance & ISS	0.213	0.074	0.000	0.287	0.213	0.287	0.287	0.287
Property & Facilities	0.149	0.000	0.000	0.149	0.149	0.149	0.149	0.149
SUB TOTAL	**0.477**	**0.074**	**0.000**	**0.551**	**0.477**	**0.551**	**0.551**	**0.551**
TOTAL	**0.674**	**0.248**	**0.100**	**1.022**	**0.674**	**0.922**	**1.022**	**1.022**

MIDLOTHIAN COUNCIL

Appendix 1

REVENUE BUDGET 201617 SUMMARY

Service Function	Budget 2016/17 £
Management and Members	1,640,852
Education Communities and Economy	
Children's Services	15,526,823
Communities and Economy	4,313,771
Education	81,941,322
Health and Social Care	
Adult Social Care	36,593,860
Customer and Housing Services	11,938,366
Resources	
Commercial Services	15,942,812
Finance and Integrated Service Support	12,932,455
Properties and Facilities Management	13,313,382
Lothian Valuation Joint Board	555,551
Centrally Held Budget Provisions	620,895
Non Distributable Costs	1,338,436
GENERAL FUND SERVICES NET EXPENDITURE	196,658,525
Loan Charges	7,143,639
Investment Income	(300,000)
Council Transformation Programme savings targets	(1,962,000)
Operational Savings	(674,000)
Allocations to HRA, Capital Account etc.	(4,877,164)
NET EXPENDITURE	**195,989,000**
Scottish Government Grant	151,516,000
Council Tax	40,600,000
TOTAL FUNDING	**192,116,000**
BUDGET GAP	**3,873,000**

Financial Strategy 2016/17 to 2020/21

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

This report provides Council with a further update on the Financial Strategy 2016/17 to 2020/21 to allow Council to determine its 2016/17 budget.

2 Background

This update focuses specifically on the requirement for Council to determine its 2016/17 budget by 11 March 2016. The reduction in grant funding for 2016/17 reinforces the importance of the Financial Strategy and of its core objective of securing the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint coupled with increasing service demands and increasing customer expectations.

3 Scottish Government Grant Settlement

The position remains as reported on 9 February 2016.

The Midlothian Integrated Joint Board (IJB) Financial Assurance report also on today's agenda sets out the proposed allocation of resources to the IJB to deliver the services delegated by Midlothian Council and NHS Lothian. This includes the utilisation of the IJB's £3.6 million share of the £250 million provided Nationally from the Health budget for Social Care services. Accordingly it is proposed that Midlothian Council allocate £37.086 million to the IJB in respect of delegated services. It is anticipated that the IJB will subsequently issue directions to the Council with a total value of £40.686 million.

The expectation remains that the next Scottish Government will publish a three year budget in the autumn of 2016. Only at that point will there be clarity on the level of grant funding local government can expect for future years. Given the extent of the reduction in the 2016/17 grant, it is considered prudent to take a more pessimistic view on future year's settlements than incorporated in previous Financial Strategy reports. Given the timing and continued uncertainty on aspects of the 2016/17 settlement and the influence decisions on Income Tax and Local Taxation will have on the Scottish budget, further work is required to assess the implications for the 2017/18 to 2020/21 budget projections and as such these will be reported to Council later in the year.

4 Council Tax

The position remains as reported on 9 February 2016.

5 Cost of Services

The position remains as reported on 9 February 2016.

The budget shortfall for 2016/17 as set out in table 1 is based on the current cost of service provision for 2015/16 together with inflationary cost and other uplifts. It also provides for costs arising from the General Services Capital Plan, both by way of debt charges to finance borrowing costs and revenue implications of investment.

Table 2 provides an analysis of the material year on year budget changes which reflects the following key assumptions and cost drivers:

- In respect of pay, the budget provides for the second year of the national two year pay settlement. This includes a commitment for the minimum hourly rate from April 2016 to be the 2015 Living Wage of £8.25 plus 1%, which equates to £8.33 per hour. The budget also includes a provision to fund costs expected to arise from the Council's ongoing Review of Local Government Pay and Grading;
- The impact of Pension Reform and anticipated changes in the Council's contribution towards employee pensions;
- Incremental pay progression;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- Actual and projected forward purchasing prices for energy costs;
- Anticipated impact of contracts due for renewal during the period;
- Impact of current demand for services;
- Demographic impact of future demand for services;
- Future interest rate forecasts provided by the Council's Treasury Advisers;
- An updated assessment of the resources required in respect of Free School Meals and The Children and Young People (Scotland) Act 2014 based on actual and planned expenditure;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant, including the any amendment to the Education Bill to legislate for 25 hours of primary teacher class contact time;
- Council Tax income continues to grow in line with previous trends and planned future housing growth.

The projected budget shortfall reflecting the assumptions set out in sections 3 to 5 is as follows:-

Table 1: Budget Shortfall 2016/17 – 8 March 2016

	2016/17
	£m
Cost of Services	199.747
Less: Council Tax	(40.600)
Less: Scottish Government Grant	(151.516)
Budget Shortfall	**7.631**

As Council is aware, significant elements of the budget are either fixed or are challenging to change for a number of reasons including:-

- Historic decisions, for example, loan charges and unitary charge contractual payments;
- Specific conditions, for example the maintenance of teacher numbers and teacher pupil ratio; and
- Growing demand for services through demographic pressures.

In broad terms the budget shortfalls, set out in table 1 arise for the following reasons:

Table 2: Analysis of Shortfall – 8 March 2016

	2016/17
	£m
Opening Shortfall / (surplus)	(2.844)
Pay Inflation and Progression	2.882
Pensions Reform	2.041
Contractual Inflation	0.713
Demographics: Care	1.060
Demographics: School Rolls	1.937
Demand pressures: Children	0.500
School Estate Investment	0.520
Waste Disposal Costs	0.171
Borrowing Costs	(0.511)
Food Waste Collection	0.302
Scottish Government Grant	2.900
Council Tax Income	(0.600)
Financial Discipline	(0.416)
Decriminalised Parking and Traffic Wardens	0.112
Home to School Transport Service Demand	0.157
Re-profiling of Homeless service re-provision	0.108
Share of £250m for Social Care	(1.700)
Other Changes	0.299
Total	**7.631**

6 Financial Strategy

6.1 Delivering Excellence

The Delivering Excellence framework approved by Council on 23 June 2015 supports the repositioning of services to ensure they have a greater emphasis on and achieve better outcomes for those most disadvantaged and vulnerable in the community. The framework focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability.

The framework sets out an approach that provides the means to:

- Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services;
- To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms or approaches; and
- To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners.

Actions which contribute to the Financial Strategy, particularly for later years will be developed through the framework.

6.2 Transformation Programme

The position remains as reported on 9 February 2016.

6.3 Asset Management

The position remains as reported on 9 February 2016.

6.4 Efficiency and Financial Discipline

As reported on 15 December 2015, the Chief Executive had asked each Director to bring forward savings options for consideration, with savings totalling £0.674 million in 2016/17 rising to £1.022 million in later years reflected in the budget position reported on 9 February 2016. Further operational savings of £0.264 million as summarised in appendix 1 have since been identified.

6.5 Budget Savings

Officers submitted draft savings proposals which would impact on 2016/17 through 2020/21 to a meeting of the Business Transformation Steering Group (BTSG) on 22 February 2016. These proposals were noted by BTSG and the final savings proposals are set out in appendix 2 for Council consideration. Fuller details on the proposals for increase in fees and charges are set out in appendix 3. In summary the savings proposals total £1.006 million in 2016/17 rising to £1.334 million in later years.

6.6 Summary of Financial Strategy

The final projections incorporating impact of the various strands of the Financial Strategy are as follows in table 3. It is proposed that the remaining budget gap of £2.603 million be addressed through the utilisation of reserves. A final service by service analysis of the 2016/17 draft budget is attached as appendix 4.

Table 3: Financial Strategy 2016/17 – 8 March 2016

	2016/17 £m
Budget Shortfall (Table 1)	7.631
Less Strands:	
Full Year impact of 2015/16 approved savings	(0.987)
Transformation Programme (6.2)	(1.962)
Asset Management (6.3)	(0.135)
Operational Efficiency and Financial Discipline (6.4)	(0.938)
Savings Proposals (6.5)	(1.006)
Remaining Budget Gap	**2.603**
Utilisation of Reserves *	**2.603**

*Note * - On 16 December 2014 Council approved that any remaining budget gap for 2016/17 be offset from the budgeted surplus which would be transferred to reserves. At that time the anticipated remaining budget gap for 2016/17 was £2.223 million.*

7 Governance and Timeline

Each element of the Financial Strategy continues to have clear governance in place to ensure the timely delivery of the work stream, with proposals being reported through Business Transformation Steering Group and then to Council as appropriate.

It is recommended that Council determines its 2016/17 budget today so ensuring members meet the statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

8 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the Midlothian Community Planning Partnership key priorities. A new Single Midlothian Plan, setting out the Partnership's priorities themes for 2016/17, will be presented to Council on 22 March 2016, with the proposals set out in this report supporting the priority themes included in the new plan.

The Partnership continues to prioritise the available resources towards the delivery of its priority themes and the Financial Strategy sets out for partners the parameters the Council is working within and provides a means to better facilitate the sharing of budget and resource planning information. The Delivering Excellence framework and Transformation Programme have a key role in ensuring that resources are directed towards the priority themes as set out in the new Single Midlothian Plan.

9 Reserves

The position remains broadly as reported on 9 February 2016 with useable reserves as at 31 March 2016 projected as follows:-

Table 4: Useable Reserves – 31 March 2016

	Total	**Uncommitted**
	£m	**£m**
General Fund Reserve	18.117	12.754
HRA Balance	24.520	2.224
Capital Fund	19.170	19.170
Repairs and Renewal Reserve	3.000	0.000
Total Useable Reserves	**64.807**	**34.148**

The uncommitted reserves set out in table 4 reflect the proposed utilisation of reserves as set out in table 3.

It is necessary for the Council to retain reserves to meet unplanned or unforeseen costs. In terms of the General Fund, Council agreed on 4 February 2014 that a prudent level of general reserve be around £8.000 million or 4% of net expenditure. Whilst the General Reserve exceeds this level the financial pressures facing the Council will require utilisation of reserves to balance budgets in the short term and to allow investment in areas where longer-term savings can be achieved. There will also be substantial one-off costs associated with further staff release and the reserve may also be required as a buffer to offset the risks associated with slippage in savings plans.

10 Report Implications

10.1 Resources

Whilst this report deals with financial issues there are no financial implications arising directly from it.

10.2 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge. The following key risks and issues are highlighted in the context of this report and future years financial prospects;

- The delivery of the conditions attached to the 2016/17 grant settlement;
- The resource implications associated with charging thresholds for non residential Social Care services;
- Decision by Scottish Government on future years grant settlements and grant distribution;
- The next Scottish Governments response to the commission on Local Tax Reform;
- Non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;

- Future year pay award settlements and the implications of future years Living Wage increase;
- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Cost pressures exceeding budget estimates;
- Impact of Welfare Reform and pension changes;
- The costs of implementation of national policies varying from the resources provided by government; and
- Capital investment requirements and associated cost.

The Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the Delivering Excellence framework setting out the early identification of future saving proposals.

10.3 Single Midlothian Plan and Business Transformation
Themes addressed in this report:

☐ Community safety
☐ Adult health, care and housing
☐ Getting it right for every Midlothian child
☐ Improving opportunities in Midlothian
☒ Sustainable growth
☒ Business transformation and Best Value
☐ None of the above

10.4 Impact on Performance and Outcomes
The Financial Strategy is central to the way Council allocates and uses its limited resources and as such has fundamental implications for service performance and outcomes. Earlier budget projections indicated that in 2020/21 the Council would have available in the region of £200 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

10.5 Adopting a Preventative Approach
Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, an effective Financial Strategy in turn allows resources to be prioritised to support prevention.

10.6 Involving Communities and Other Stakeholders
The Delivering Excellence Community Engagement report approved by Council on 22 September 2015 set out proposals for engagement and consultation on the service and financial challenges Council faces and the options which will emerge to address these. This will be adapted to highlight the implications of the 2016/17 grant settlement on the Council budget and the measures taken to address this.

In addition, there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges.

10.7 Ensuring Equalities
There are no equality implications arising directly from this report. As part of the development of budget proposals EQIA's have been prepared together with the overarching EQIA encompassing the revenue budget which is attached at Appendix 5.

10.8 Supporting Sustainable Development
There are no direct sustainability issues arising from this report.

10.9 IT Issues
There are no direct IT implications arising from this report.

11 Summary

The report provides:-
- An update on the resources to be provided to the Midlothian IJB in respect of delegated services;
- Savings proposals for consideration;
- A proposal to utilise £2.603 million of reserves to balance the 2016/17 budget.

12 Recommendations

Council is recommended to:-

a) Approve the allocation of £37.086 million to the Midlothian Integrated Joint Board for 2016/17 in respect of delegated services;

b) Note the additional operational savings summarised in appendix 1;

c) Consider and approve the savings proposals totalling £1.006 million in 2016/17 rising to £1.334 million in later years as set out in appendix 2 and 3;

d) Subject to recommendations a) and c), approve the utilisation of £2.603 million of reserves in 2016/17 to balance the budget; and

e) Approve the 2016/17 service budget analysis as set out in appendix 4.

Date: 01 March 2016

Report Contact:
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2016/17 BUDGET OPERATIONAL SAVINGS

	INCREMENTAL				CUMULATIVE			
	2016/17	**2017/18**	**2018/19**	**TOTAL**	**2016/17**	**2017/18**	**2018/19**	**TOTAL**
HEALTH AND SOCIAL CARE	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Customer & Housing Services: Financial Discipline	0.114	0.000	0.000	0.114	0.114	0.114	0.114	0.114
RESOURCES								
Finance & ISS: Voluntary reduction in hours	0.150	0.000	0.000	0.150	0.150	0.150	0.150	0.150
TOTAL	**0.264**	**0.000**	**0.000**	**0.264**	**0.264**	**0.264**	**0.264**	**0.264**

Midlothian

Budget Overview and Savings Proposals

2016-2017

8th March 2016

Introduction

The public sector continues to face significant service delivery challenges.

Demand for public services in Midlothian continues to increase as a consequence of changes in the size and profile of the County's population, with greater numbers of young people, older people and those with physical or learning disabilities. These demands combined with continued funding constraints, inflationary cost pressures and additional legislative burdens requires services to investigate alternative ways of working and to ensure resources are used effectively. The Council must continue to prioritise expenditure on public services which prevent negative outcomes from arising and simultaneously secure maximum benefit from all available resources.

The Commission on the Future Delivery of Public Services (The Christie Commission) report highlighted that public service providers must work much more closely in partnership to integrate service provision and thus improve outcomes for residents. Midlothian Council through the Single Midlothian Plan is fully engaged in this process and on 1 April 2016 Health and Social Care services will be fully delegated to Midlothian Integrated Joint Board (MIJB), a partnership with Midlothian Council and NHS Lothian.

Midlothian Council requires making significant savings over the coming years. The projected budget shortfall for 2016/17 is £7.631 million. The Council has approved a Financial Strategy and this document supports that strategy, setting out details of the additional actions proposed to maintain the financial sustainability of the Council.

This document provides an overview of the proposed changes in services that require to be made to ensure that the Council can maintain financial sustainability and balance its budget for 2016/17. For each of the proposals an Equalities Impact Assessment has been prepared and is published online alongside these proposals.

The sections which follow set out:-

1) Background information and an overview of the budget position.
2) A summary of the proposals.
3) Detail for each of the savings proposals.

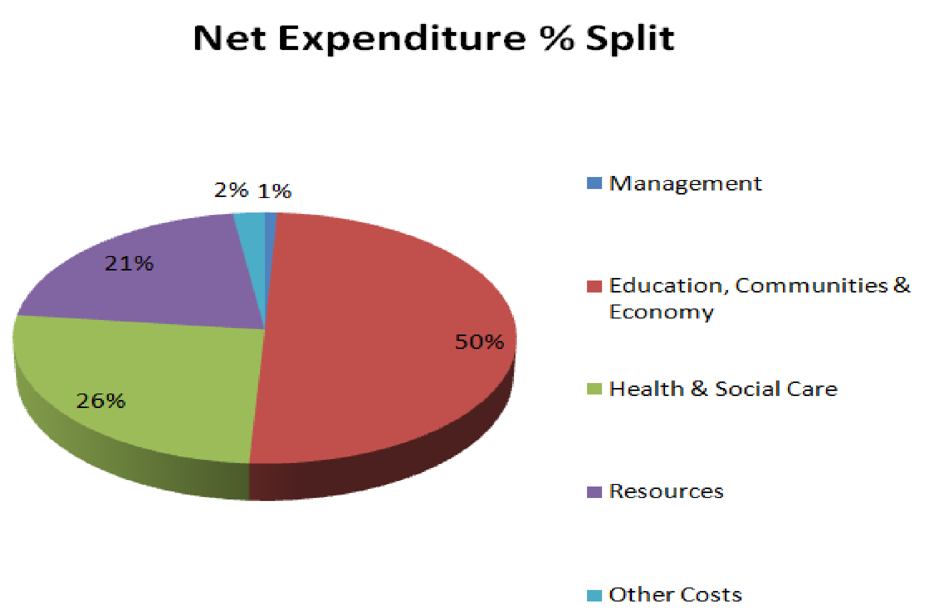
Background

The provision of Council services in Midlothian is funded through a combination of government grant, non-domestic (business) rates, Council Tax and fees and charges for some services. Income from fees and charges is netted against expenditure.

To set the savings proposals in context table 1 below summarises the Council's budgeted net expenditure for 2015/16:

Table 1: Total Budget – Net Expenditure 2015/16

Service	Budget
	£m
Management	1.588
Education, Communities and Economy	
Children's Services	16.817
Communities and Economy	2.500
Education	76.258
Health and Social Care	
Adult Social Care	37.487
Customer and Housing Services	11.989
Resources	
Commercial Operations	15.270
Finance and Integrated Service Support	11.432
Properties and Facility Management	13.241
Other Costs	
Lothian Valuation Joint Board	0.556
Central Costs	2.292
Non Distributable Costs	1.338
NET EXPENDITURE	**190.768**



Income and Expenditure

The Council's financial projections indicate that service expenditure will continue to rise with income falling over the period to March 2021.

For 2016/17, income from Scottish Government and Council Tax is projected to be as set out in table 2. These reflect the continuation of a Council Tax freeze with Band D Council Tax remaining at £1,210 and reflecting the additional income from an increase in the number of properties.

Table 2: Revenue Budget 2016/17 Income

	2016/17
	£m
Council Tax	40.600
Scottish Government Grant	151.516
Total Funding	**192.116**

The overall projection results in the following budget shortfall which the Council needs to address to maintain financial sustainability:

Table 3: Revenue Budget 2016/17 - Budget Shortfall

	2016/17
	£m
Planned Expenditure	199.747
Expected Income	192.116
Savings Requirement	**7.631**

How will this be achieved?

The Councils Financial Strategy incorporates a series of work strands which aim to transform service delivery and to secure financial sustainability, table 4 provides details of the financial impact of the Council's existing Transformation Programme and an overview of current work strands.

Table 4: Current Strands 2016/17

		2016/17
		£m
Transformation Programme:-		
• Integrated Service Support	0.840	
• Customer Service	0.175	
• Education	0.473	
• Services to Communities	0.250	
• Children's Services	0.224	
Totals		1.962
Impact of 2015/16 Savings		0.987
Asset Management		0.135
Operational Savings		0.938
TOTALS		**4.022**

Service savings proposals of £1.006 million in 2016/17 rising to £1.334 million are set out in the following pages and these will be progressed alongside the existing work strands already approved by the Council. These will further reduce the projected budget in 2016/17 and beyond. In order to achieve a balanced budget for 2016/17 it is proposed to utilise reserves of £2.603 million in the year.

The overall position incorporating the proposals on the following pages is as follows.

Table 5: Revenue Budget 2016/17 - Overview

	2016/17
	£m
Planned Expenditure	199.747
Expected Income	192.116
Savings Requirement	**7.631**
Current Savings Plans (table 4)	(4.022)
Proposals on following pages	(1.006)
Remaining Gap	**(2.603)**
Transfer to/from earmarked reserves	(2.603)
	0.000

REVENUE BUDGET 2016-17
BUDGET SAVING PROPOSALS – SUMMARY

Education, Communities and Economy		
Communities and Economy		**£m**
1	Out of Hours Noise Service	0.028
	Total Communities and Economy	**0.028**
Education		
2	0.5% One Off Budget reduction to DSM	0.000
3	Change DSM scheme to reduce cost of teacher absence	0.100
	Total Education	**0.100**
	Total Education, Communities and Economy	**0.128**

Health and Social Care		
Customer and Housing Services		**£m**
4	Midlothian Community Policing Team	0.250
	Total Customer and Housing Services	**0.250**
	Total Adult and Social Care	**0.250**

Resources		
Commercial Operations		**£m**
5	Bulky uplift charges	0.062
6	Efficiency savings in winter maintenance	0.050
7	Members Environmental Improvements	0.054
8	Increase burial charges	0.141
	Totals Commercial Operations	**0.307**
Finance and Integrated Service Support		
9	Introduce some projected slippage into the General Services Capital Plan which will impact on in-year debt costs	0.400
	Totals for Finance and Integrated Service Support	**0.400**
Property & Facilities Management		**£m**
10	Sport & Leisure - Increase ToneZone monthly charges	0.060
11	Sport & Leisure - Increase Golden Years monthly charges	0.025
12	Sport & Leisure-Casual income price increases	0.009
13	Increase cost of school meals in Primary & Secondary schools by £0.15	0.095
	Totals Property & Facilities Management	**0.189**
	Totals Resources	**0.896**

Council Wide		**£m**
14	Fees and Charges	0.060
	Council Wide Fees and Charges	**0.060**
	Overall Total	**1.334**

Budget Savings Proposals	**2016-17**	**2017-18**	**2018-19**	**Total**
	£m	**£m**	**£m**	**£m**
Cumulative savings				
Communities and Economy	0.028	0.028	0.028	0.028
Education	0.219	0.194	0.100	0.100
Children's Services	0.000	0.000	0.000	0.000
Adult and Social Care	0.000	0.000	0.000	0.000
Customer and Housing Services	0.000	0.250	0.250	0.250
Commercial Operations	0.221	0.261	0.307	0.307
Finance and Integrated Service Support	0.400	0.400	0.400	0.400
Property & Facilities Management	0.078	0.157	0.189	0.189
Council Wide: Fees and Charges	0.060	0.060	0.060	0.060
TOTALS	**1.006**	**1.350**	**1.334**	**1.334**

1: Communities & Economy – Out of Hours Noise Service	
Directorate	Education, Communities and Economy
Service Area	Communities and Economy
Operational Proposal	Stopping of Out of Hours Noise Service

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.028	£0.000	£0.000	£0.028
Cumulative savings	£0.028	£0.028	£0.028	£0.028

Description of Savings Proposals

For a number of years, the Environmental Health Service has operated a service on a Friday and Saturday evening under which residents who are bothered by a noise nuisance (usually loud partying neighbours) can call our Out of Hours Noise team who can then visit the relevant premises. This is something the Police will not normally do.

It is not a statutory service; the statutory duty is to investigate complaints of noise nuisance.

The Out of Hours noise team nominally consists of four part time posts. Only one post is currently filled, and that is by a part time officer who acts on a range of Environmental Health Public Health duties. In practice, because two officers are needed, there are some weeks when the service does not operate. The other three vacant posts could be deleted, giving a saving of c. £28K.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

The negative impact would be upon residents who are the victims of noise nuisance and who cannot be assisted at the time when the noise nuisance is being perpetrated. However, where there is persistent noise nuisance, Environmental Health will investigate and advise during normal office hours.

The Anti Social Behaviour Team can also become involved in investigations where noise nuisance is persistent. However, they are concerned that the lack of evidence from 2 officers investigating may impact on the time taken to serve notice.

This may impact on one member of staff. However, the staff member is a full time permanent employee within Environmental Health Team.

2: Education – Reduction to DSM	
Directorate	Education, Communities and Economy
Service Area	Education
Operational Proposal	0.5% One Off Efficiency Saving to DSM

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.156	£(0.062)	£(0.094)	£0.000
Cumulative savings	£0.156	£0.094	£0.000	£0.000

Description of Savings Proposals

0.5% efficiency saving to DSM for the academic year 2016/17 (one off saving only – note this is not a recurring saving)

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

This is a one-off efficiency saving for 2016/17 only and applies to the DSM budget. This saving is only achievable for 2016/17 because of the current shortage of supply teachers. We are working to create a permanent pool of peripatetic supply which will require the full utilisation of this budget in later years. The mitigating actions applied have been a budget discussion with the Secondary and Primary Head Teacher Executive to ensure that this one-off saving can be delivered.

3: Education - Reduce Budget for Teacher Absence	
Directorate	Education, Communities and Economy
Service Area	Education
Operational Proposal	Change DSM Scheme to more efficiently manage the cost of staff absence

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.063	£0.037	£0.000	£0.100
Cumulative savings	£0.063	£0.100	£0.100	£0.100

Description of Savings Proposals
To save £100,000 by changing the mechanism within DSM by which we reimburse schools for staff absence. This saving will be in line with current requirement/projections based on the robust application of the maximising attendance procedures and the effective management of the permanent pool of supply staff.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA
The potential impact on service outcomes is estimated to be with little or minimal impact as we move forward with our mitigating actions to recruit a permanent pool of peripatetic supply staff which will be allocated to each associated schools group.

4: Customer & Housing Services - Midlothian Community Policing Teams	
Directorate	Health & Social Care
Service Area	Customer & Housing Services
Operational Proposal	Midlothian Community Policing Team

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.000	£0.250	£0.000	£0.250
Cumulative savings	£0.000	£0.250	£0.250	£0.250

Description of Savings Proposals
Midlothian Community Policing Teams At present the Council funds 2 x Community Policing Teams operation in Midlothian at a cost of £500,000. With a background of restricted resources and prospects which will remain challenging for an extended period of financial constraint, funding provided for the Midlothian Community Policing Teams is reduced by £125,000 for 2016/17 and a further £125,000 in 2017/18. This saving equates to half of one of the Community Policing Teams following the reduction in funding arrangements approved in the Council's Financial Strategy from 2016/17. Proposal is for withdrawal of the remaining funding of £250,000.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA
Tactical Police response to crime and ASB in Midlothian - Non statutory. Concentrating the efforts of all services on delivering integrated services to deliver results.

5: Commercial Operations – Waste Services – Financial Discipline	
Directorate	Resources
Service Area	Commercial Operations Waste Service
Operational Proposal	Charge for all bulky uplifts

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.062	£0.000	£0.000	£0.062
Cumulative savings	£0.062	£0.062	£0.062	£0.062

Description of Savings Proposals

Currently the Council offers the first bulky uplift each year free of charge. The intention is to have all bulkies charged for at a minimum of £20.

The number of chargeable/non chargeable bulkies for the preceding years was as follows;

Bulky Uplift performance information	**2013/14**	**2014/15**	**Average**
Chargeable	650	569	610
Non chargeable	5094	5445	5270
Total	5744	6014	588

The proposal assumes a reduction in uplifts of 30% resulting in increased income of £62,000 per annum.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

There is a concern that this proposal may lead to increased fly tipping which would require resources to remove.

6: Commercial Operations – Winter Maintenance	
Directorate	Resources
Service Area	Commercial Operations Roads Service
Operational Proposal	Efficiency savings in winter maintenance

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.050	£0.000	£0.000	£0.050
Cumulative savings	£0.050	£0.050	£0.050	£0.050

Description of Savings Proposals

A number of service enhancements have been made in relation to Midlothian's winter service provision over recent years whilst a number of other local authorities have reduced their service levels. Furthermore some authorities do not provide the level of service currently available in Midlothian.

Rather than reduce the service it is proposed that when appropriate, gritting which would normally take place after a normal days work, will be undertaken in the later part of the normal working day. This will reduce overtime cost for the service whilst having a minimal impact on other works.

It is also proposed that staff on standby will be allocated this role from within Midlothian boundaries thereby reducing mileage incurred from travelling from outwith the Council area.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

The communities have become used to the current service levels and it is anticipated that there would be considerable adverse reaction if Council were to reduce service levels. These proposals should have no impact on service outcomes.

7: Commercial Operations – Members Environmental Improvements	
Directorate	Resources
Service Area	Members Environmental Improvements
Operational Proposal	Remove the allocation currently allocated to each member

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.054	£0.000	£0.000	£0.054
Cumulative savings	£0.054	£0.054	£0.054	£0.054

Description of Savings Proposals
Currently each member of the Council is allocated £10,000 capital and £3,000 of revenue each year for local projects etc. This represents a total allocation of £180,000 capital and £54,000 revenue spend each year. In addition there are currently significant sums carried over from previous years of which approximately £200,000 of capital is uncommitted and £50,000 of revenue remains uncommitted. If these resources were no longer allocated there would be an annual revenue saving to the Council each year of £54,000.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA
Over the years these budgets have been used to support a number of initiatives ranging from supporting local groups to the provision of environmental and other ward improvements. Removing these budgets would have the effect that in future members could no longer support these initiatives.

8: Commercial Operations – Burial Charges	
Directorate	Resources
Service Area	Commercial Operations Land and Countryside
Operational Proposal	Increase burial charges

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.055	£0.040	£0.046	£0.141
Cumulative savings	£0.055	£0.095	£0.141	£0.141

Description of Savings Proposals
The proposal is to increase the various burial charges phased over three years to the point where they are set at the average of the charges across Scottish Local Authorities for Burial Services.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA
Potentially there may be a drop in income should customers decide not to use this service. Whilst increasing charges could impact on those with low income this has been considered as part of the EQiA process and no appropriate mitigation is considered necessary.

9: Finance & ISS – Finance – Budget for Project Slippage	
Directorate	Resources
Service Area	Finance and ISS – Financial Services
Operational Proposal	Introduce some projected slippage into the General Services Capital Plan which will impact on in-year debt costs.

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.400	£0.000	£0.000	£0.400
Cumulative savings	£0.400	£0.400	£0.400	£0.400

Description of Savings Proposals

Recognising that there is regularly slippage in Council Capital Projects against the budgeted spend profile allows the deferral of planned external borrowing which in turn reduces the in-year cost of borrowing. Recent financial years Capital Plans have shown significant slippage which has contributed to underspends in loan charges. In 2014/15 the budget was set with anticipated external borrowing requirement of £9.179m to fund the General Services Capital Plan. The final position was external borrowing of £1.413m.

Whilst it is difficult to forecast with any degree of certainty where slippage will occur in future years however based on recent experience of in-year movement and spend profile across the General Services Capital Plan a reduction of £0.400m in loan charges is anticipated.

A budget reduction as a consequence of modelled slippage will only occur once and in the year that assumption is introduced.

There is no reduction in the level of capital spend or any reduction in the projects contained within the programme.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

There is no impact on service delivery or existing policies and as such no mitigation or equality impact is considered necessary.

10: Property & Facilities Management – Sport & Leisure – Tonezone Charges	
Directorate	Resources
Service Area	Property and Facilities Management
Operational Proposal	Increase Tonezone monthly charges

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.000	£0.030	£0.030	£0.060
Cumulative savings	£0.000	£0.030	£0.060	£0.060

Description of Savings Proposals

Increase Tonezone monthly charges up to 3% per annum based on benchmarked comparisons. This allows inflationary increases to apply however requires to be monitored against the competition providing similar services. At present the membership is priced to be competitive and to ensure a high level of uptake and retention of membership.

It is noted that the projected savings in 2016/17 will not cover the 2014/15 under recover of income compared to the existing budgetary provision.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

This proposal is an inflationary adjustment to the price, however still considered good value compared to other service providers.

All groups in low economic situations will be affected but this increase has been benchmarked against other service providers. The resultant charge ensures value for money is maintained.

11: Property & Facilities Management – Sport & Leisure – Golden Years Charges	
Directorate	Resources
Service Area	Property and Facilities Management
Operational Proposal	Increase Golden Years charges

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.013	£0.010	£0.002	£0.025
Cumulative savings	£0.013	£0.023	£0.025	£0.025

Description of Savings Proposals

Increase Golden Years monthly charges by 30% in year 2016/17 thereafter 2% per annum. Costs have been kept low with some users suggesting an increase in price would not be detrimental.

Individual session rates will be increased from £1.00 to £2.00.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

This increase offers value for money and represents a considerable concession to Golden Years users.

Only those 60+ will be affected by the increased charges. The increase however has been benchmarked against other service providers to ensure value for money is maintained.

12: Property & Facilities Management – Sport & Leisure – Casual Charges	
Directorate	Resources
Service Area	Property and Facilities Management
Operational Proposal	Increase Sport and Leisure Casual Charges

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.000	£0.009	£0.000	£0.009
Cumulative savings	£0.000	£0.009	£0.009	£0.009

Description of Savings Proposals

Casual income price increases are proposed following a benchmarking exercise and still provides value for money.

The areas affected will be those which are currently understated against the neighbouring authorities' benchmarks. The revised charges will remain pitched at competitive levels.

It is noted that there is no impact on budget in 2016/17 as the increases proposed do not cover the 2014/15 under recovery of income.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

Still remains competitively priced and attractive to Service users.

The EQiA has shown that all groups will be affected by increased charges. The increase however has been benchmarked against other service providers to ensure value for money is maintained.

13: Property & Facilities Management – Primary & Secondary School Meal Charges	
Directorate	Resources
Service Area	Property and Facilities Management
Operational Proposal	Increase cost of Primary and Secondary school meals by £0.15 per day

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.065	£0.030	£0.000	£0.095
Cumulative savings	£0.065	£0.095	£0.095	£0.095

Description of Savings Proposals

Proposal is to Increase the cost of school meals in Primary and Secondary schools by £0.15 per day. School meals in Midlothian have not increased in price for three years and this approach can only be sustained so long. The proposal means school meals will increase by less than £1 per week and still provide healthy sustenance during the school day.

Current Prices are £1.80 per day [£9.00 per week] primary and £2.00 per day [£10.00 per week] secondary.

The current Midlothian price for school meals is extremely competitive when compared to other Scottish Councils.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

Primary 1 to 3 meals are unaffected and remain free. School aged children from Primary 4 and above will be affected by increased charges but this will be mitigated by free school meals to those households in receipt of benefits.

The proposed increase is 75p per week on the basis of a meal being taken every day.

14: Council Wide – Fees and Charges	
Directorate	All Directorates
Service Area	See below
Operational Proposal	Review of Fees and Charges

Forecast Savings	**2016-17**	**2017-18**	**2018/19**	**Total**
	£m	**£m**	**£m**	**£m**
Incremental savings	£0.060	£0.000	£0.000	£0.060
Cumulative savings	£0.060	£0.060	£0.060	£0.060

Description of Savings Proposals

The Council previously reviewed fees and charges at its meeting on 24 June 2014. The proposals set out in the Appendix to this paper detail revisions to charges as proposed by individual Services.

In preparing this paper a general uplift rate of 5% has been applied to recognise the time elapsed since the last revision to fees and charges, however variations are detailed in the Appendix.

For the avoidance of doubt the amounts shown in the above table do not include (as these are outlined in earlier pages):-

- Commercial Operations 8 – Burial charges
- Property and Facilities Management 1 – Sport and Leisure Tone Zone charges
- Property and Facilities Management 2 – Sport and Leisure Golden Years charges
- Property and Facilities Management 3 - Sport and Leisure Casual charges
- Property and Facilities Management 5 – Primary and Secondary School Meal charges

The Service financial implications of these proposals are as outlined in the following table:

Moving forward it is planned that price reviews will be presented to Council as part of the annual Revenue Budgeting cycle.

Forecast Savings	**2016-17**
	£m
Health and Social Care	
Customer and Housing Services	£0.009
Adult and Social Care	£0.020
	£0.029
Education Communities and Economy	
Education	£0.013
Communities and Economy	£0.004
	£0.017
Resources	
Property and Facilities Management	£0.000
Commercial	£0.014
Finance and Integrated Service Support	£0.000
	£0.014

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, relevant strategic, service plan or community planning outcomes. Include EQUiA

In general the proposals outlined are the first increases to be introduced by the Council since the previous report in June 2014. Furthermore the opportunity has been taken to introduce new charges where services consider that this is appropriate.

Those in receipt of benefits may find the increased difficult but in most situations concessionary rates are in place.

MIDLOTHIAN COUNCIL Appendix 4

REVENUE BUDGET 2016/17 SUMMARY

Service Function	**Budget 2016/17 £**
Management and Members	1,640,852
Education Communities and Economy	
Childrens Services	15,526,823
Communties and Economy	4,313,771
Education	81,941,322
Health and Social Care	
Adult Social Care	36,593,860
Customer and Housing Services	11,938,366
Resources	
Commercial Services	15,942,812
Finance and Integrated Service Support	12,932,455
Properties and Facilities Management	13,313,382
Lothian Valuation Joint Board	555,551
Centrally Held Budget Provisions	620,895
Non Distributable Costs	1,338,436
GENERAL FUND SERVICES NET EXPENDITURE	196,658,525
Loan Charges	7,143,639
Investment Income	(300,000)
Council Transformation Programme savings targets	(1,962,000)
Operational Savings and Financial Discipline	(938,000)
Budget Savings Proposals	(1,006,000)
Allocations to HRA, Capital Account etc.	(4,877,164)
NET EXPENDITURE	**194,719,000**
Utilisation of Reserves	2,603,000
Scottish Government Grant	151,516,000
Council Tax	40,600,000
TOTAL FUNDING	**194,719,000**

APPENDIX 5

Overview Equality Impact Assessment (EqIA)
on
Midlothian Council
Budget
2016 – 2017

08 March 2016

Midlothian Council
Equality Impact Assessment (EqIA) on Midlothian Council Budget 2016/2017

Budget Saving Element:	1. Stopping Out of Hours Noise Service 2. 0.5% one off efficiency saving to DSM 3. Change DSM Scheme to more efficiently manage the cost of staff absence 4. Midlothian Community Policing Team 5. Charge for all bulky uplifts 6. Efficiency savings in winter maintenance 7. Members Environmental Improvements - Remove the allocation currently allocated to each Member 8. Increase burial charges 9. Introduce some projected slippage into the General Services Capital Plan which will impact on in-year debt costs 10. Increase Tonezone monthly charges by 2% per annum 11. Increase Golden Years charges 12. Increase Sport & Leisure Casual Charges 13. Increase cost of Primary & Secondary school meals by £0.15 per day 14. Increase in Council-wide fees & charges
Service area	1. Education, Communities & Economy – Communities & Economy 2. Education, Communities & Economy – Education 3. Education, Communities & Economy – Education 4. Health & Social Care – Customer & Housing Services 5. Resources – Commercial Operations Waste Service 6. Resources – Commercial Operations Roads Service 7. Resources – Members Environmental Improvements 8. Resources – Commercial Operations Land & Countryside 9. Resources – Finance & Integrated Service Support (FISS) 10. Resources – Property & Facilities Management 11. Resources – Property & Facilities Management 12. Resources – Property & Facilities Management 13. Resources – Property & Facilities Management 14. Education, Communities & Economy, Health & Social Care & Resources – All services except Children's Services
Overview of Budget Investment through the Financial Strategy	The Delivering Excellence framework approved by Council on 23 June 2015 supports the repositioning of services to ensure they have a greater emphasis on and achieve better outcomes for those most disadvantaged and vulnerable in the community. The framework focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability. The framework sets out an approach that provides the means to:

	• Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services; • To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms or approaches; and • To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners. Actions which contribute to the Financial Strategy, particularly for later years will be developed through the framework. In monetary terms this means that £192 million will be focused on preventative measures enabling positive outcomes for all those within Midlothian's communities. In negative terms £ 1million worth of budget savings have to be made. This represents 0.5% of the total budget, and as will be seen from the individual equality impact assessments, further mitigating actions such as concessionary rates which already exist, are in place to mitigate the effects on those in most need.
Completion Date	Monday 29 February 2016
Lead officer	Gary Fairley

Aims and Objectives

The public sector continues to face significant service delivery challenges due to reduced income streams, funding constraints, inflationary cost pressures and additional legislative burdens. Demand for public services in Midlothian continues to increase as a consequence of changes in the size and profile of the county's population with greater numbers of young and older people, those in poor economic situations, and those with disabilities be they physical, sensory, mental health or learning disabilities. The Council must continue to prioritise expenditure on public services which prevent negative outcomes for those within its communities whilst securing maximum benefit from all available resources. Accordingly, it is prudent that significant savings are made over the coming years and projected budget shortfalls stemmed. This will allow the Council to maintain its financial sustainability and also to ensure that all within its communities, irrespective of protected characteristics, (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation plus in Midlothian poor socio-economic circumstances), are not unlawfully discriminated against, and that equality of opportunity and advancement of good relations in upheld between those who have a protected characteristic and those who do not.

1. Does the proposed budget affect people? **Yes** ☑ **No** ☐

2. What is/are the reason(s) for your proposed budget saving?
The budget savings are put forward to meet the Council's overall budget shortfall. Each saving has been individually equality impact assessed and these discrete assessments are publically available on the Council's website from 01 March 2016.

3. Impact
Which of the protected characteristics* will the proposed budget savings have an impact upon?

Equality Target Group*	Positive Impact	Negative Impact	Relevant evidence/ information
Age	Concessionary charging is available in a number of circumstances.	Young and elderly people in poor economic circumstances maybe adversely affected.	**See individual equality impact assessments per budget saving proposal**
Disability	Concessionary charging is available in a number of circumstances.	Disabled people in receipt of benefits may be adversely affected.	
Gender Reassignment	No impact	No impact	
Marriage & Civil Partnership	No impact	No impact	
Pregnancy and maternity	No impact	Single parents in low income households maybe adversely affected	
Race	No impact	No impact	
Religion or Belief	No impact	No impact	
Sex	Concessionary rates apply in many circumstances.	Men and women along with disabled men and women in low income households maybe affected.	

Sexual Orientation	No impact	No impact	

4. Overall Impact of Budget
In terms of preventative spend (£192,000,000) all protected characteristic groups will benefit positively through focus of Council service expenditure on vulnerable groups for example, Early Years and Health and Social Care spend.

The Delivering Excellence framework approved by the Council on 23 June 2015 continues to help focus available resource on Council priorities. In addition, this framework supports the repositioning of services to ensure they have a greater emphasis on, and achieve better outcomes for, those most disadvantaged and vulnerable in our communities.

5. How will the implementation of proposed budget savings be communicated to those affected by any changes?

Information will be available on the Council's web site and communicated to affected businesses by letter, email, etc. In addition, information documents, as required, can be made available in different formats and languages. If an individual or group require this information in another language or format, then they should email equalities@midlothian.gov.uk or telephone the Equality, Diversity & Human Rights Officer on 0131 271 3658.

6. How will you monitor the impact of the changes proposed? When is the budget due to be reviewed?

Changes will be monitored through Covalent, the council's performance management system, discussion groups and forums, fees and charges income, and various other methods detailed in the individual equality impact assessments.
The overall budget is reviewed on an annual basis.

7. Please use the space below to detail any other matters arising from the Equality Impact Assessment (EqIA) process.

As available, mitigating actions for each of the proposals have been outlined in the individual equality impact assessments.

Where no mitigating actions are possible it is considered that any negative effects are not unlawful and are justifiable on a benchmarking/inflationary basis.

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes

UPDATED MONDAY 29 FEBRUARY 2016

Note: Actual % increases will vary due to roundings.

Customer and Housing Services

Library Service and Misc							
Overdue fines	May-07	£0.05	5.00%	£0.05	Apr-16		
Requests	Apr-09	£0.50	5.00%	£0.55	Apr-16		
Inter Library Loans	Apr-10	£2.00	5.00%	£2.10	Apr-16		
CD Hire	Apr-10	£0.25	5.00%	£0.25	Apr-16		
DVD (fiction)/per day	May-07	£1.00	5.00%	£1.05	Apr-16		
Printing (black and white)	Apr-10	£0.05	5.00%	£0.05	Apr-16		Harmonised charge across all Council services/outlets
Printing (colour)	Aug-14	£0.50	5.00%	£0.55	Apr-16		
Photocopies (A4 black and white)/per sheet	Aug-14	£0.10	5.00%	£0.10	Apr-16		
Photocopies (A3 black and white)/per sheet	Aug-14	£0.20	5.00%	£0.20	Apr-16		
Photocopies (A4 black and white)/10 or more sheets per sheet	Aug-14	£0.08	5.00%	£0.10	Apr-16		
Photocopies (A3 black and white)/10 or more sheets per sheet	Aug-14	£0.16	5.00%	£0.20	Apr-16		
Photocopies (A4 colour)/per sheet	May-07	£0.50	5.00%	£0.55	Apr-16		
Photocopies (A3 colour)/per sheet	May-07	£1.00	5.00%	£1.05	Apr-16		
Photocopies (A4 colour)/10 or more sheets	Aug-14	£0.40	5.00%	£0.40	Apr-16		
Photocopies (A3 colour)/10 or more sheets	Aug-14	£0.80	5.00%	£0.85	Apr-16		
Laminating (A4 per sheet)	May-07	£0.20	5.00%	£0.20	Apr-16		
Laminating (A3 per sheet)	May-07	£0.50	5.00%	£0.55	Apr-16		
Lost Membership card	Apr-10	£1.00	5.00%	£1.05	Apr-16		
Fax Sending (UK per sheet)	May-07	£1.00	5.00%	£1.05	Apr-16		Maximum £3.00
Fax Sending(Europe per sheet)	May-07	£1.50	5.00%	£1.60	Apr-16		Maximum £3.00
Fax Sending(International per sheet)	May-07	£2.00	5.00%	£2.10	Apr-16		Maximum £4.00
Fax Receiving - all	May-07	£1.00	5.00%	£1.05	Apr-16		
Scanning	Aug-14	£1.00	5.00%	£1.05	Apr-16		
Production of pre-scanned image	Aug-14	£0.50	5.00%	£0.55	Apr-16		
Scan to CD	Aug-14	£2.00	5.00%	£2.10	Apr-16		CD provided by Council
Pre scanned image on CD	Aug-14	£1.50	5.00%	£1.60	Apr-16		CD provided by Council
Use of image for publication per image (Commercial)	Aug-14	£25.00	5.00%	£26.50	Apr-16		
Use of image for publication per image (Academic)	Aug-14	£15.00	5.00%	£16.00	Apr-16		
Use of image for publication per image (Local History Societies)	Aug-14	n/a	n/a	£0.00	Apr-16		Work in Partnership
USB Flash drives - Determined by cost	Aug-14	£5.00	5.00%	£5.25	Apr-16		Determined by cost of purchase
Scotland People Vouchers	n/a	£5.80	0.00%	£5.80	Apr-16	Statutory charge	
Scotland people Vouchers	n/a	£7.00	0.00%	£7.00	Apr-16	Statutory charge	

Registrars							
Marriage Notice Forms	Apr-14	£30.00	0.00%	£30.00	Apr-16	Statutory charge	
Civil Partnership Registration Notice Forms	Apr-14	£30.00	0.00%	£30.00	Apr-16	Statutory charge	
Marriage/Civil Partnership Certificate	Apr-14	£10.00	0.00%	£10.00	Apr-16	Statutory charge	
Civil Marriage Fee - in office	Apr-14	£55.00	0.00%	£55.00	Apr-16	Statutory charge	
Civil Partnership Ceremony Fee - in office	Apr-14	£55.00	0.00%	£55.00	Apr-16	Statutory charge	
Religious Marriage	Apr-14	£70.00	0.00%	£70.00	Apr-16	Statutory charge	
Civil Partnership Registration (no ceremony) - in office	Apr-14	£125.00	0.00%	£125.00	Apr-16	Statutory charge	
Civil Marriage Registration - (ceremony) - in office - no guests	Apr-14	£125.00	0.00%	£125.00	Apr-16	Statutory charge	
Civil Ceremony (Saturday) - in office	Apr-14	£255.15	5.00%	£268.00	Apr-16	Includes statutory charges of £125	
Civil Marriage - in office	Apr-14	£215.50	5.00%	£226.50	Apr-16	Includes statutory charges of £125	
Civil Partnership Ceremony - in office	Apr-14	£215.50	5.00%	£226.50	Apr-16	Includes statutory charges of £125	
Civil Marriage - at venue	Apr-14	£320.35	5.00%	£336.50	Apr-16		
Civil Partnership - at venue	Apr-14	£320.35	5.00%	£336.50	Apr-16		
Non Refundable Booking Fee	Apr-14	£40.00	5.00%	£42.00	Apr-16	In addition to stated fee	
Marriage/Civil Partnership Rehearsal - in office	Apr-14	£48.00	5.00%	£50.50	Apr-16	Increase to cover staff and travelling costs	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Marriage/Civil Partnership Rehearsal - at venue	Jan-11	£100.00	5.00%	£105.00	Apr-16		
Birth, Death, Marriage, Civil Partnership Extracts at time of registration	Jan-11	£10.00	0.00%	£10.00	Apr-16	Statutory charge	
Birth, Death, Marriage, Civil Partnership Extracts after one month of registration	Jan-11	£15.00	0.00%	£15.00	Apr-16	Includes Statutory charge £10.00	
Postage charge for Birth, Death, Marriage, Civil Partnership Extracts after one month of registration	New charge	£0.00	0.00%	£1.00	Apr-16	Costs in line with other local authorities	
Birth, Death, Marriage, Civil Partnership Extracts after one month of registration - Priority Service	Jan-11	£20.00	0.00%	£20.00	Apr-16	Includes Statutory charge£10.00	
Public Holiday and Sunday Charge at Venue	Apr-14	£50.00	0.00%	£50.00	Apr-16		
Citizenship Ceremony (if individual ceremony requested)	Jan-11	£55.00	9.00%	£60.00	Apr-16		
Civil Partnership to a Same Sex Marriage Conversion	Jan-11	£30.00	0.00%	£30.00	Apr-16	Statutory charge from Dec 2015	
Risk Assessment undertaken by Registrar	New charge	£0.00	0.00%	£50.00	Apr-16	Previously not charged for - To ensure costs of service are met	
Baby naming ceremony	New charge	£0.00	0.00%	£250.00	Apr-16	Based on existing ceremony fees minus statutory fees due no legal requirements for this ceremony	
Renewal of vows	New charge	£0.00	0.00%	£250.00	Apr-16	Based on existing ceremony fees minus statutory fees due no legal requirements for this ceremony	

Adult and Social Care

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
Resources and Adult Care							
Homecare Charges per hour	Apr-14	£9.80	4.90%	£10.28	Jul-16	Financial assessment determines cost with a maximum charge. (4.9% increase as price needs to be divisible by 4 to allow charging for 15 minute slots).	
Housing Support per hour	Apr-14	£9.80	4.90%	£10.28	Jul-16	Financial assessment determines cost with a maximum charge	
Telecare and Community Alarms (per week)	Apr-14	£2.05	46.00%	£3.00	Jul-16	Approved by Council 16 December 2014	
Day Centre Meals	Apr-14	£2.05	5.00%	£2.15	Jul-16	Financial assessment determines cost with a maximum charge	
Care Home Charges	n/a	£0.00	0.00%	£0.00	Jul-16	Financial assessment required, set in accordance with Scottish Government Guidance Annually in March	
Day Centre Charges (Highbank - meals, per day)	Apr-14	£4.15	5.00%	£4.35	Jul-16	St David's, Broomhill Woodburn and Alzheimer's removed as income goes to 3rd party	

Education

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
Lasswade High School (Evening classes)							
Day Classes	Apr-11	£0.00	n/a	£0.00	n/a		
Highers 3 terms							
Adult Evening Classes	Aug-14	£197.40	1.00%	£199.50	Aug-16	1% increase only to ensure no loss of business.	
Under 18 Evening Classes	Aug-14	£99.00	5.00%	£104.00	Aug-16		
Retired Evening Classes	Aug-14	£87.00	5.00%	£91.50	Aug-16		
Concessions Evening Classes	Aug-14	£35.00	5.00%	£37.00	Aug-16		
Non Certificated 10 weeks							
Adult Evening Classes	Aug-14	£61.00	5.00%	£64.50	Aug-16		
Under 18 Evening Classes	Aug-14	£31.00	5.00%	£33.00	Aug-16		
Retired Evening Classes	Aug-14	£27.00	5.00%	£28.50	Aug-16		
Concessions Evening Classes	Aug-14	£11.00	5.00%	£12.00	Aug-16		
Non Certificated 20 weeks							
Adult Evening Classes	Aug-14	£72.00	5.00%	£76.00	Aug-16		
Under 18 Evening Classes	Aug-14	£36.00	5.00%	£38.00	Aug-16		

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Retired Evening Classes	Aug-14	£32.00	5.00%	£34.00	Aug-16		
Concessions Evening Classes	Aug-14	£13.00	5.00%	£14.00	Aug-16		
SQA Units 30 weeks							
Adult Evening Classes	Aug-14	£126.00	5.00%	£132.50	Aug-16		
Under 18 Evening Classes	Aug-14	£63.00	5.00%	£66.50	Aug-16		
Retired Evening Classes	Aug-14	£56.00	5.00%	£59.00	Aug-16		
Concessions Evening Classes	Aug-14	£32.00	5.00%	£34.00	Aug-16		
Non Certificated 25 weeks							
Adult Evening Classes	Aug-14	£78.00	5.00%	£82.00	Aug-16		
Under 18 Evening Classes	Aug-14	£39.00	5.00%	£41.00	Aug-16		
Retired Evening Classes	Aug-14	£34.00	5.00%	£36.00	Aug-16		
Concessions Evening Classes	Aug-14	£14.00	5.00%	£15.00	Aug-16		
Beeslack High School - Classes							
Computing/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Stained Glass/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Dressmaking/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Language Classes/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Jewellery Making/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Upholstery/per class	Aug-15	£6.15	5.00%	£6.50	Aug-16		
Highers 3 terms							
Adult Evening Classes	Aug-14	£197.40	1.00%	£199.50	Aug-16	1% increase only to ensure no loss of business.	
Beeslack Pupil/Students current fees	Aug-14	£84.00	5.00%	£88.50	Aug-16		
SQA Module	Aug-14	£80.00	0.00%	£80.00	Aug-16	Statutory charge - set by SQA	
Retired Evening Classes	Aug-14	£59.00	5.00%	£62.00	Aug-16		
Concessions Evening Classes	Aug-14	£29.00	5.00%	£30.50	Aug-16		
Exam Fee	Aug-14	£37.50	0.00%	£37.50	Aug-16	Statutory charge - set by SQA	
Other Locations (Other evening classes)							
Code A	Aug-14	£61.00	5.00%	£64.50	Aug-16		
Code A (Under 18/DLA)	Aug-14	£31.00	5.00%	£33.00	Aug-16		
Code A (Retired)	Aug-14	£27.00	5.00%	£28.50	Aug-16		
Code A (Concession)	Aug-14	£11.00	5.00%	£12.00	Aug-16		
Code B	Aug-14	£46.00	5.00%	£48.50	Aug-16		
Code B (Under 18/DLA)	Aug-14	£23.00	5.00%	£24.50	Aug-16		
Code B (Retired)	Aug-14	£20.00	5.00%	£21.00	Aug-16		
Code B (Concession)	Aug-14	£11.00	5.00%	£12.00	Aug-16		
Code C	Aug-14	£123.00	5.00%	£129.50	Aug-16		
Code C (Under 18/DLA)	Aug-14	£61.00	5.00%	£64.50	Aug-16		
Code C (Retired)	Aug-14	£54.00	5.00%	£57.00	Aug-16		
Code C (Concession)	Aug-14	£16.00	5.00%	£17.00	Aug-16		
Code D	Aug-14	£37.00	5.00%	£39.00	Aug-16		
Code D (Under 18/DLA)	Aug-14	£18.00	5.00%	£19.00	Aug-16		
Code D (Retired)	Aug-14	£16.00	5.00%	£17.00	Aug-16		
Code D (Concession)	Aug-14	£11.00	5.00%	£12.00	Aug-16		
Code E	Aug-14	£52.00	5.00%	£55.00	Aug-16		
Code E (Under 18/DLA)	Aug-14	£26.00	5.00%	£27.50	Aug-16		
Code E (Retired)	Aug-14	£23.00	5.00%	£24.50	Aug-16		
Code E (Concession)	Aug-14	£12.00	5.00%	£13.00	Aug-16		
Lifelong Learning & Employability classes							
Code A	Aug-15	£197.40	1.00%	£199.50	Aug-16	1% increase only to ensure no loss of business.	
Code A (Under 18/DLA)	Aug-15	£98.70	1.00%	£100.00	Aug-16	1% increase only to ensure no loss of business.	
Code A (Retired)	Aug-15	£86.90	1.00%	£88.00	Aug-16	1% increase only to ensure no loss of business.	
Code A (Concession)	Aug-15	£34.65	1.00%	£35.00	Aug-16	1% increase only to ensure no loss of business.	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes

UPDATED MONDAY 29 FEBRUARY 2016

Note: Actual % increases will vary due to roundings.

Code B	Aug-15	£122.85	5.00%	£129.00	Aug-16		
Code B (Under 18/DLA)	Aug-15	£61.45	5.00%	£65.00	Aug-16		
Code B (Retired)	Aug-15	£54.10	5.00%	£57.00	Aug-16		
Code B (Concession)	Aug-15	£15.75	5.00%	£17.00	Aug-16		
Code C	Aug-15	£61.45	5.00%	£65.00	Aug-16		
Code C (Under 18/DLA)	Aug-15	£30.70	5.00%	£32.50	Aug-16		
Code C (Retired)	Aug-15	£27.00	5.00%	£28.50	Aug-16		
Code C (Concession)	Aug-15	£10.80	5.00%	£11.50	Aug-16		
Code D	Aug-15	£77.70	5.00%	£82.00	Aug-16		
Code D (Under 18/DLA)	Aug-15	£38.85	5.00%	£41.00	Aug-16		
Code D (Retired)	Aug-15	£34.15	5.00%	£36.00	Aug-16		
Code D (Concession)	Aug-15	£13.65	5.00%	£14.50	Aug-16		
Code E	Aug-15	£55.30	5.00%	£58.50	Aug-16		
Code E (Under 18/DLA)	Aug-15	£27.00	5.00%	£28.50	Aug-16		
Code E (Retired)	Aug-15	£23.10	5.00%	£24.50	Aug-16		
Code E (Concession)	Aug-15	£10.80	5.00%	£11.50	Aug-16		
Code F	Aug-15	£61.45	5.00%	£65.00	Aug-16		
Code F (under 18/DLA)	Aug-15	£30.70	5.00%	£32.50	Aug-16		
Code F(Retired)	Aug-15	£27.00	5.00%	£28.50	Aug-16		
Code F (Concession)	Aug-15	£10.80	5.00%	£11.50	Aug-16		
Code G	Aug-15	£15.00	5.00%	£16.00	Aug-16		
Code G (Under 18/DLA)	Aug-15	£15.00	5.00%	£16.00	Aug-16		
Code G (Retired)	Aug-15	£15.00	5.00%	£16.00	Aug-16		
Code G (Concession)	Aug-15	£15.00	5.00%	£16.00	Aug-16		
Code H	Aug-15	£20.00	5.00%	£21.00	Aug-16		
Code H (Under 18/DLA)	Aug-15	£20.00	5.00%	£21.00	Aug-16		
Code H (Retired)	Aug-15	£20.00	5.00%	£21.00	Aug-16		
Code H (Concession)	Aug-15	£20.00	5.00%	£21.00	Aug-16		
Code I	Aug-15	£49.50	5.00%	£52.00	Aug-16		
Code I (Under 18/DLA)	Aug-15	£24.75	5.00%	£26.00	Aug-16		
Code I (Retired)	Aug-15	£21.80	5.00%	£23.00	Aug-16		
Code I (Concession)	Aug-15	£11.50	5.00%	£12.50	Aug-16		
Code J	Aug-15	£46.20	5.00%	£49.00	Aug-16		
Code J (Under 18/DLA)	Aug-15	£23.10	5.00%	£24.50	Aug-16		
Code J (Retired)	Aug-15	£20.20	5.00%	£21.50	Aug-16		
Code J (Concession)	Aug-15	£10.80	5.00%	£11.50	Aug-16		
Code K	Aug-15	£60.00	5.00%	£63.00	Aug-16		
Code K (Under 18/DLA)	Aug-15	£60.00	5.00%	£63.00	Aug-16		
Code K (Retired)	Aug-15	£60.00	5.00%	£63.00	Aug-16		
Code K (Concession)	Aug-15	£60.00	5.00%	£63.00	Aug-16		
Code L	Aug-15	£37.00	5.00%	£39.00	Aug-16		
Code L (Under 18/DLA)	Aug-15	£18.50	5.00%	£19.50	Aug-16		
Code L (Retired)	Aug-15	£16.30	5.00%	£17.50	Aug-16		
Code L (Concession)	Aug-15	£10.80	5.00%	£11.50	Aug-16		

Beeslack High School - Leisure							
Fitness Suite/per hour	Aug-14	£2.00	0.00%	£2.00	Aug-16	No increase due to current standard.	
Fitness Suite/per month	Aug-14	£12.00	0.00%	£12.00	Aug-16		
Fitness Suite/per year	Aug-14	£59.00	0.00%	£59.00	Aug-16		
Fitness Suite/per hour - concession	Aug-14	£1.00	0.00%	£1.00	Aug-16		
Fitness Suite/per hour - adult group hire	Aug-14	£16.00	0.00%	£16.00	Aug-16		
Fitness Suite/per hour - junior group hire	Aug-14	£13.00	0.00%	£13.00	Aug-16		
Tennis Courts/per hour	Aug-14	£13.50	0.00%	£13.50	Aug-16	No increase due to current standard of Tennis court.	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Swimming pool/per hour (weekdays)	Aug-14	£33.00	0.00%	£33.00	Aug-16	Beeslack HS prices are higher than Leisure prices for hiring of the pool and have been trying to come more in line. This facility does not have the option to let out lanes and open to the public at the same time. This facility does not offer concessions to the public	
Swimming pool/per hour - concession (weekdays)	Aug-14	£20.00	0.00%	£20.00	Aug-16		
Swimming pool/per hour (weekends)	Aug-14	£64.00	0.00%	£64.00	Aug-16		
Swimming pool/per hour - concession (weekends)	Aug-14	£38.00	0.00%	£38.00	Aug-16		
Leisure Swim/per hour	Aug-14	£3.45	0.00%	£3.45	Aug-16	Class is made up of over 60's, no concessions as general price higher than Penicuik or Loanhead centres.	
Swimming instruction/per hour - adults	Aug-14	£4.70	5.00%	£5.00	Aug-16		
Swimming instruction/per hour - children	Aug-14	£4.70	5.00%	£5.00	Aug-16		
NPLQ/per course	Aug-14	£200.00	7.00%	£214.10	Aug-16	Increased to bring cost in line with Healthy living services.	
Summer Activities per session	Aug-14	£4.50	5.00%	£5.00	Aug-16		
Fun Athletics/per hour	Aug-14	£4.70	5.00%	£5.00	Aug-16		
Yoga/per 2 hours	Aug-14	£6.15	5.00%	£6.50	Aug-16		
Newbattle Community High School - Leisure							
Swimming pool/per hour	Aug-14	£29.00	0.00%	£29.00	Aug-16	No increase due to current standard	
Swimming pool/per hour - concession	Aug-14	£17.00	0.00%	£17.00	Aug-16	No increase due to current standard	
O Zone/per hour	Aug-14	£11.00	0.00%	£11.00	Aug-16	No increase due to current standard	
O Zone/per hour - concession	Aug-14	£7.00	0.00%	£7.00	Aug-16	No increase due to current standard	

Communities & Economy

Planning and Building Control							
Planning Application Fees (variable according to development size)	Nov-14	n/a	0.00%	n/a	n/a	Minimum charge £202.00 - Maximum charge £20,055. Set by Scottish Government	
Permission to Display an Advertisement	Nov-14	£202.00	0.00%	£202.00	Nov-14	Set by Scottish Government	
Property Enquiry	Apr-11	£60.00	50.00%	£90.00	Apr-16	To ensure the costs of the service are met	
Letter of Comfort (building warrant obtained, completion certificate not obtained)	Apr-10	£130.00	30.00%	£170.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, and moved to a fee seen as in the mid range.	New charges - Existing letter of comfort charge £130.00 regardless of building warrant
Letter of Comfort (no building warrant obtained)	Apr-10	£130.00	130.00%	£300.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, and moved to a fee seen as in the mid range.	
Search building standards electronic and paper records for single entry relating specifically to the work detailed on application form (Standard)	Apr-14	£30.00	0.00%	£30.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, in April moved to a fee seen as in the mid range.	
Search building standards electronic and paper records for single entry relating specifically to the work detailed on application form (Express)	Apr-14	£90.00	0.00%	£90.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, In April 14 moved to a fee in the mid range, with the added percentage increase to cover a priority/express service	
Copy of document, plan, etc from Part 2 of the Building Standards Register held electronically or within a file (No drawings provided) - (Standard)	Apr-14	£30.00	0.00%	£30.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, In April 14 moved to a fee in the mid range	
Copy of document, plan, etc from Part 2 of the Building Standards Register held electronically or within a file (No drawings provided) - (Express)	Apr-14	£90.00	0.00%	£90.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, In April 14 moved to a fee in the mid range, with the added percentage increase to cover a priority/express service	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes

UPDATED MONDAY 29 FEBRUARY 2016

Note: Actual % increases will vary due to roundings.

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
Copy of document, plan, etc from Part 2 of the Building Standards Register held electronically or within a file (drawings provided) - (Standard)	Apr-14	£70.00	0.00%	£70.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, In April moved to a fee in the mid range	
Copy of document, plan, etc from Part 2 of the Building Standards Register held electronically or within a file (drawings provided) - (Express)	Apr-14	£210.00	0.00%	£210.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, In April 14 moved to a fee in the mid range, with the added percentage increase to cover a priority/express service	
Request for written confirmation from Building Standards that a proposal is exempt from the Standards or exempt from requiring Building Warrant	New charge	£0.00	0.00%	£50.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities, fee in the mid range	
Costs involved in administrating on site works following issue of a dangerous or defective building notice.(surveyor/administrative charge)	New charge	£0.00	0.00%	£60.00	Apr-16	In line with a benchmarking exercise undertaken with all 32 local authorities and Section 1, Buildings (Recovery of Expenses) (Scotland) Act 2014 allowing an authority to charge expenses incurred in progressing works or notice.	
Admin Fee (missive)	Nov-14	£175.00	50.00%	£263.00	Apr-16	To ensure the costs of the service are met	
Admin Fee (renewal)	Nov-14	£125.00	50.00%	£188.00	Apr-16	To ensure the costs of the service are met	
Survey Fee	Nov-14	£150.00	50.00%	£225.00	Apr-16	To ensure the costs of the service are met	
Management Fee	Nov-14	£250.00	50.00%	£375.00	Apr-16	To ensure the costs of the service are met	
Management Fee	Nov-14	£350.00	50.00%	£525.00	Apr-16	To ensure the costs of the service are met	
Midlothian Local Plan (adopted December 2008)	Nov-14	£15.50	50.00%	£24.00	Apr-16	To ensure the costs of the service are met	
Midlothian Local Plan (adopted December 2008)	Nov-14	£19.50	20.00%	£24.00	Apr-16	To ensure the costs of the service are met	
Report of Local Plan Inquiry into Objections to the Finalised Midlothian Local Plan (CD)	Nov-14	£1.00	50.00%	£1.50	Apr-16	To ensure the costs of the service are met	
Report of Local Plan Inquiry into Objections to the Finalised Midlothian Local Plan (CD)	Nov-14	£1.50	50.00%	£2.30	Apr-16	To ensure the costs of the service are met	
Landscape Capacity Study for Wind Turbine Development in Midlothian (CD)	Nov-14	£1.00	50.00%	£1.50	Apr-16	To ensure the costs of the service are met	
Landscape Capacity Study for Wind Turbine Development in Midlothian (CD)	Nov-14	£1.50	50.00%	£2.30	Apr-16	To ensure the costs of the service are met	
Edinburgh & the Lothian’s Structure Plan 2015: Approved Written Statement	Nov-14	£5.00	50.00%	£7.50	Apr-16	To ensure the costs of the service are met	
Edinburgh & the Lothian’s Structure Plan 2015: Approved Written Statement	Nov-14	£6.00	50.00%	£9.00	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Supporting Statement	Nov-14	£5.00	50.00%	£7.50	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Supporting Statement	Nov-14	£6.00	50.00%	£9.00	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Action Plan Update	Nov-14	£5.00	50.00%	£7.50	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Action Plan Update	Nov-14	£6.00	50.00%	£9.00	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Action Plan	Nov-14	£5.00	50.00%	£7.50	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Action Plan	Nov-14	£6.00	50.00%	£9.00	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Baseline Monitoring Report	Nov-14	£5.00	50.00%	£7.50	Apr-16	To ensure the costs of the service are met	
ELSP 2015: Baseline Monitoring Report	Nov-14	£6.00	50.00%	£9.00	Apr-16	To ensure the costs of the service are met	
Midlothian Local Plan (MLP) superseded	Nov-14	£17.00	50.00%	£26.00	Apr-16	To ensure the costs of the service are met	
Midlothian Local Plan (MLP) superseded	Nov-14	£20.00	50.00%	£30.00	Apr-16	To ensure the costs of the service are met	
Shawfair Local Plan (SLP) superseded	Nov-14	£10.00	50.00%	£15.00	Apr-16	To ensure the costs of the service are met	
Shawfair Local Plan (SLP) superseded	Nov-14	£12.00	50.00%	£18.00	Apr-16	To ensure the costs of the service are met	
Standards for Development Roads (CD)	Nov-14	£1.00	50.00%	£1.50	Apr-16	To ensure the costs of the service are met	
Midlothian Local Biodiversity Action Plan	Nov-14	£19.50	50.00%	£29.50	Apr-16	To ensure the costs of the service are met	
Midlothian Local Biodiversity Action Plan	Nov-14	£23.50	50.00%	£35.50	Apr-16	To ensure the costs of the service are met	
Midlothian Local Biodiversity Action Plan CD Rom version	Nov-14	£1.00	50.00%	£1.50	Apr-16	To ensure the costs of the service are met	
Midlothian Local Biodiversity Action Plan CD Rom version	Nov-14	£1.50	50.00%	£2.30	Apr-16	To ensure the costs of the service are met	

Landlord fees							
Landlord Registration Fee - Principal (3 years)	Apr-10	£55.00	0.00%	£55.00	n/a	Statutory charge	
Landlord Registration Fee - Property (3 year per property)	Apr-10	£11.00	0.00%	£11.00	n/a	Statutory charge	
Landlord Registration Fee - Agent (3 years)	Apr-10	£55.00	0.00%	£55.00	n/a	Statutory charge	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Landlord Registration Fee - Charity (3 years)	Apr-10	£0.00	0.00%	£0.00	n/a	Statutory charge	
Landlord Registration Fee - HMO (3 years)	Apr-10	£0.00	0.00%	£0.00	n/a	Statutory charge	
Landlord Registration Fee - Multiple LA (3 years)	Apr-10	£27.50	0.00%	£27.50	n/a	Statutory charge	
Landlord Registration Fee - Multiple LA (3 years per property	Apr-10	£11.00	0.00%	£11.00	n/a	Statutory charge	
Late Registration Fee (3 years)	Apr-10	£110.00	0.00%	£110.00	n/a	Statutory charge	
Late Registration Fee - Charity (3 years)	Apr-10	£55.00	0.00%	£55.00	n/a	Statutory charge	
Environmental Health							
Rats/Mice initial visit	Jun-14	£60.00	5.00%	£63.00	Apr-16		Upfront charges in place since June 2014
Wasps/Bees - per visit	Jun-14	£37.20	5.00%	£39.20	Apr-16		
Fleas - per visit	Jun-14	£37.20	5.00%	£39.20	Apr-16		
Insects - per visit (other than bedbugs)	Jun-14	£37.20	5.00%	£39.20	Apr-16		
Bedbugs	Jun-14	£60.00	5.00%	£63.00	Apr-16		
Licence fees for animal boarding, dog breeding, dangerous wild animals and pet shops	Apr-14	£100.08	5.00%	£106.00	Apr-16		
Riding establishments	Apr-14	£84.00	5.00%	£88.50	Apr-16	For riding establishments - the fee due is our fee PLUS veterinary inspectors fee which is variable dependent on the number of horses	
Immigration certificates	Apr-14	£63.00	5.00%	£66.50	Apr-16		
Trading Standards							
Petroleum Licence (up to 2,500 litres)	Apr-10	£42.00	0.00%	£42.00	Apr-16	Statutory charge not envisaged these will increase	
Petroleum Licence (2,500-50,00 litres)	Apr-10	£58.00	0.00%	£58.00	Apr-16		
Petroleum Licence (over 50,000 litres)	Apr-10	£120.00	0.00%	£120.00	Apr-16		
Petroleum Licence (Transfer of licence)	Apr-10	£8.00	0.00%	£8.00	Apr-16		
Explosives Store Licence (Initial application)	Apr-10	£178.00	0.00%	£178.00	Apr-16		
Explosives Store Licence (Renewal)	Apr-10	£83.00	0.00%	£83.00	Apr-16		
Explosives Store Registration (Initial Registration)	Apr-10	£105.00	0.00%	£105.00	Apr-16		
Explosives Store Registration (Renewal)	Apr-10	£52.00	0.00%	£52.00	Apr-16		
Explosives Store Registration (Variation)	Apr-11	£35.00	0.00%	£35.00	Apr-16		
Poisons Registration (Initial Registration)	Apr-11	£32.67	0.00%	£32.70	Apr-16		
Poisons Registration (Re-registration)	Apr-11	£17.22	0.00%	£17.20	Apr-16		
Weights and Measures Equipment Test Fees (weights fee)	Apr-10	£6.00	5.00%	£6.30	Apr-16		For other weights
Weights and Measures Equipment Test Fees (weights fee)	Apr-10	£8.00	5.00%	£8.40	Apr-16		For weights exceeding 5kg or not exceeding 500mg
Weights and Measures Equipment Test Fees (length fee)	Apr-10	£8.40	5.00%	£8.80	Apr-16		
Weights and Measures Equipment Test Fees (liquid capacity measure fee)	Apr-10	£23.50	5.00%	£24.70	Apr-16		
Weights and Measures Equipment Test Fees (certificate)	Apr-10	£34.00	5.00%	£35.70	Apr-16		
Weights and Measures Equipment Testing (hourly rate)	Apr-10	£65.57	5.00%	£69.00	Apr-16		

Property & Facilities Management

Healthy Living Services							
Harmonised pitches Charges - ALL Midlothian Facilities per							
11 a-side-pitch grass pitch	Aug-14	£13.20	2.00%	£13.50	Aug-16		
7-a-side grass pitch	Aug-14	£7.30	2.00%	£7.50	Aug-16		
Off pitch training area - grass	Aug-14	£10.60	2.00%	£11.00	Aug-16		
11-a-side 3G pitch	Aug-14	£27.00	2.00%	£28.00	Aug-16		
7-a-side 3G pitch	Aug-14	£23.50	2.00%	£24.00	Aug-16		
5-a-side 3G pitch	Aug-14	£17.70	2.00%	£18.50	Aug-16		
11-a-side astro turf pitch	Aug-14	£11.35	2.00%	£11.60	Aug-16		
7-a-side astro turf pitch	Aug-14	£9.50	2.00%	£9.70	Aug-16		

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
5-a-side astro turf pitch	Aug-14	£25.00	2.00%	£25.50	Aug-16		
Changing Rooms for matches only	Aug-14	£4.20	2.00%	£4.30	Aug-16		
Cricket Pitch	Aug-14	£53.05	2.00%	£54.50	Aug-16		
Running Track	Aug-14	£15.00	2.00%	£15.50	Aug-16		
Harmonised Hall Charges - ALL Midlothian Facilities per hour -							
Class rooms/meeting rooms (0 - 60 sqm)	Aug-14	£9.50	2.00%	£9.70	Aug-16		Concessions will be applied in accordance with the Concessions Policy
Small Hall (61 - 300 sqm)	Aug-14	£20.50	2.00%	£21.00	Aug-16		
Medium Hall (301 - 600sqm)	Aug-14	£35.00	2.00%	£36.00	Aug-16		
Large Hall (601 + sqm)	Aug-14	£70.00	2.00%	£72.00	Aug-16		

Tonezone Membership							
Platinum:							
Individual	Apr-13	£43.90	0.00%	£43.90	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Joint	Apr-13	£77.65	0.00%	£77.65	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Corporate	Apr-13	£35.45	0.00%	£35.45	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Student	n/a	£26.00	0.00%	£26.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Junior	n/a	£22.00	0.00%	£22.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Gold:							
Individual	Apr-13	£37.70	2.00%	£38.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Joint	Apr-13	£67.00	2.00%	£68.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Corporate	Apr-13	£29.30	2.00%	£30.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Student	n/a	£22.00	2.00%	£22.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Junior	n/a	£19.00	2.00%	£19.40	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Silver:							
Individual	Apr-13	£29.30	2.00%	£30.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Joint	Apr-13	£52.30	2.00%	£53.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Corporate	Apr-13	£23.60	2.00%	£24.10	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Student	n/a	£20.00	2.00%	£20.40	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Junior	n/a	£18.00	2.00%	£18.40	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Bronze:							
Individual	Apr-13	£26.40	2.00%	£27.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Joint	Apr-13	£46.75	2.00%	£48.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Corporate	Apr-13	£21.40	2.00%	£22.00	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Student	n/a	£16.00	2.00%	£16.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Junior	n/a	£15.00	2.00%	£15.50	Apr-16	Bench marked with local authorities	See PFM 1 - Tonezone charges
Active Golden Years:							
Individual	Apr-13	£11.20	30.00%	£14.60	Apr-16	Cost in line with benchmarking exercise undertaken with other local authorities	See PFM 2 - Golden year charges
Joint	Apr-13	£18.00	30.00%	£23.40	Apr-16	Cost in line with benchmarking exercise undertaken with other local authorities	See PFM 2 - Golden year charges
Teenzone:							
Individual	n/a	£14.00	2.00%	£14.50	Apr-16	Bench marked with local authorities	
Joining fee:							
Individual	Apr-13	£28.15	2.00%	£29.00	Apr-16	Bench marked with local authorities	
Joint	Apr-13	£39.35	2.00%	£40.60	Apr-16	Bench marked with local authorities	
Student/Junior/Teenzone	n/a	£10.00	2.00%	£10.30	Apr-16	Bench marked with local authorities	

Leisure Centre facilities							
Tonezone access	Apr-14	£5.35	12.00%	£6.00	Apr-16	Cost in line with benchmarking exercise undertaken with other local authorities	See PFM 3 - Casual charges
Tonezone access (concession)	Apr-14	£3.65	0.00%	£3.65	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Swim	Apr-14	£3.90	2.00%	£4.00	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Swim (concession)	Apr-14	£2.10	0.00%	£2.10	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Family Swim	Apr-14	£10.90	0.00%	£10.90	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Health Suite	Apr-14	£6.25	0.00%	£6.25	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Health Suite (concession)	Apr-14	£3.65	0.00%	£3.65	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Sauna	Apr-14	£4.65	0.00%	£4.65	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Sauna (concession)	Apr-14	£2.95	0.00%	£2.95	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Swim + Health suite or sauna	Apr-14	£7.25	0.00%	£7.25	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Swim + Health suite or sauna (concession)	Apr-14	£4.40	0.00%	£4.40	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Badminton (per court)	Apr-14	£9.45	0.00%	£9.45	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Badminton (per court) (concession)	Apr-14	£5.35	0.00%	£5.35	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Squash Court	Apr-14	£8.65	0.00%	£8.65	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Squash Court (concession)	Apr-14	£4.60	0.00%	£4.60	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Table Tennis (per table)	Apr-14	£4.30	0.00%	£4.30	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Table Tennis (per table) (concession)	Apr-14	£2.95	0.00%	£2.95	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
BTS class	Apr-14	£5.55	0.00%	£5.55	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
BTS class (concession)	Apr-14	£4.20	0.00%	£4.20	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Fitness Class/Activity class	Apr-14	£4.60	10.00%	£5.10	Apr-16	Cost in line with benchmarking exercise undertaken with other local authorities	See PFM 3 - Casual charges
Fitness Class/Activity class (concession)	Apr-14	£3.30	0.00%	£3.30	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Aquafit Class	Apr-14	£4.65	5.00%	£4.90	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Aquafit Class (concession)	Apr-14	£3.30	0.00%	£3.30	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Tonezone Induction	Apr-14	£14.85	1.00%	£15.00	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Tonezone Induction (concession)	Apr-14	£9.90	1.00%	£10.00	Apr-16	Bench marked with local authorities	See PFM 3 - Casual charges
Over 60's off peak activity	n/a	£1.00	100.00%	£2.00	Apr-16	Costs have been static for five years, carried out feedback with customers. This is a unique service, few local authorities offer a similar service.	See PFM 3 - Casual charges
Snowsports Centre							
Ski/Snowboarding Instruction							
Open Fast Track Skiing/Snowboarding (2 hours)	Aug-15	£30.50	2.00%	£31.50	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Open Fast Track Skiing/Snowboarding (2 hours) concession	Aug-15	£20.50	2.00%	£21.00	Aug-16		
Open Learn to ski/snowboard in a day (over 8's) (5 hours)	Aug-15	£98.00	1.00%	£99.00	Aug-16		
Open taster 4/5/6 year olds (1 hour) concession	Aug-15	£10.00	20.00%	£12.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Race Training Group ski or snowboard with poles (1 hour)	Aug-15	£174.00	0.00%	£174.00	Aug-16		
Race Training Group ski or snowboard with poles (1 hour) concession	Aug-15	£124.00	0.00%	£124.00	Aug-16		
LSRA trainee – 1.5 hour session, concession	Aug-15	£11.00	1.00%	£11.20	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
LSRA warm up (per hour). Concession	Aug-15	£3.80	0.00%	£3.80	Aug-16		
Private Ski/ Snowboarding Group (1 hours)	Aug-15	£150.00	0.00%	£150.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Private Ski/ Snowboarding Group (1 hours), concession	Aug-15	£105.00	0.00%	£105.00	Aug-16		
Private Ski/ Snowboarding Group (1.5 hours)	Aug-15	£195.00	0.00%	£195.00	Aug-16		
Private Ski/ Snowboarding Group (1.5 hours), concession	Aug-15	£135.00	0.00%	£135.00	Aug-16		
Private Ski/ Snowboarding Group (2 hours)	Aug-15	£224.00	0.00%	£224.00	Aug-16		
Private Ski/ Snowboarding Group (2 hours), concession	Aug-15	£148.00	0.00%	£148.00	Aug-16		
Private Lesson - 1 Hour (1 person)	Aug-15	£47.00	2.50%	£48.20	Aug-16		
Private Lesson - 1 Hour (1 extra person) + £15.00	Aug-15	£61.00	3.00%	£63.00	Aug-16		
Private Lesson - 1 Hour (2 extra persons Max) + £30.00	Aug-15	£75.00	4.00%	£78.00	Aug-16		
Private Lesson - 1.5 Hours (1 Person)	Aug-15	£67.00	2.00%	£68.50	Aug-16		
Private Lesson - 1.5 Hours (1 extra person) +£20.00	Aug-15	£85.00	3.00%	£88.00	Aug-16		
Private Lesson - 1.5 Hours (2 extra persons Max) +£40.00	Aug-15	£103.00	5.00%	£108.50	Aug-16		
Private Lesson - 2 Hours (1 Person)	Aug-15	£82.50	2.00%	£84.50	Aug-16		
Private Lesson - 2 Hours (1 extra person) +£22.00	Aug-15	£104.50	1.50%	£107.00	Aug-16		

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Private Lesson - 2 Hours (2 extra persons Max) +£44.00	Aug-15	£126.50	1.00%	£128.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Family Lesson - 1.5 Hours (2 Adult + 2 Junior)	Aug-15	£106.50	1.50%	£109.00	Aug-16		
Family Lesson - One extra junior, maximum add on.	Aug-15	£16.00	25.00%	£20.00	Aug-16		
Adult ski and snowboarding course (4 days x 2 hour sessions)	Aug-15	£99.95	0.00%	£100.00	Aug-16		
Junior Ski or Snowboard Camp (5 days x 2.5 hour sessions)	Aug-15	£102.00	0.00%	£102.00	Aug-16		
Junior ski or Snowboard school 4 days x (3 hour sessions)	Aug-15	£99.50	3.00%	£103.00	Aug-16		
Kinder Ski School (4 x 1 hour sessions for ages 4/5)	Aug-15	£48.00	2.00%	£49.00	Aug-16		
Kinder Ski Camp (5 x 1 hour sessions for ages 4/5)	Aug-15	£60.00	3.00%	£62.00	Aug-16		
Super sliders Class/Sunday sliders/Super racers (2hrs)	Aug-15	£12.50	2.00%	£12.75	Aug-16		
Mini Sliders (1 hr)	Aug-15	£6.30	1.00%	£6.40	Aug-16		
Ladies Morning (1.5hrs)	Aug-15	£14.95	0.00%	£14.95	Aug-16		
Freestyle Academy (2hrs)	Aug-15	£12.50	0.00%	£12.50	Aug-16		
BASI course (per day) (Adult)	Aug-15	£23.00	-50.00%	£12.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
BASI course (per day) (Junior)	Aug-15	£15.60	-50.00%	£8.00	Aug-16		
Practice Skiing/Snowboarding							
Nursery Slope (price for first hour)	Aug-15	£7.50	0.00%	£7.50	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Nursery Slope (price for first hour) concession	Aug-15	£5.00	0.00%	£5.00	Aug-16		
Nursery Slope (price for additional hour)	Aug-15	£3.85	0.00%	£3.85	Aug-16		
Nursery Slope (price for additional hour) concession	Aug-15	£2.80	0.00%	£2.80	Aug-16		
Main Slopes (price for first hour)	Aug-15	£12.00	0.00%	£12.00	Aug-16		
Main Slopes (price for first hour) concession	Aug-15	£8.00	0.00%	£8.00	Aug-16		
Additional hour/post lesson/Instruction (not available to schools programme customers)	Aug-15	£5.50	0.00%	£5.50	Aug-16		
Additional hour/post lesson/Instruction (not available to schools programme customers) - concession	Aug-15	£3.80	0.00%	£3.80	Aug-16		
Weekly Ticket (7 day)	Aug-15	£70.00	0.00%	£70.00	Aug-16		
Weekly Ticket (7 day) concession	Aug-15	£47.00	0.00%	£47.00	Aug-16		
3 Month Season Ticket (3 months from date of purchase)	Aug-15	£220.00	0.00%	£220.00	Aug-16		
3 Month Season Ticket (3 months from date of purchase) concession	Aug-15	£143.00	0.00%	£143.00	Aug-16		
Chairlift							
1 Return Journey	Aug-15	£3.00	-33.00%	£2.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Special Family Ticket (2 adults, 2 children)	Aug-15	£7.50	0.00%	£7.50	Aug-16		
Paraglide (per 5 journeys)	Aug-15	£7.25	0.00%	£7.25	Aug-16		
Events							
Entry Peak time	Aug-15	£23.00	-33.00%	£15.60	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Entry off peak time	Aug-15	£17.50	-33.00%	£11.75	Aug-16		
Slalom poles	Aug-15	£116.50	0.00%	£116.50	Aug-16		
Race Timing Facilities	Aug-15	£106.50	0.00%	£106.50	Aug-16		
Hire freestyle rails	Aug-15	£155.00	0.00%	£155.00	Aug-16		
First aider	Aug-15	£56.00	0.00%	£56.00	Aug-16		£56.00 with multiplier between 0.75 and 3.0
Race timing facilities operator	Aug-15	£56.00	0.00%	£56.00	Aug-16		
Course setter – per hour	Aug-15	£56.00	0.00%	£56.00	Aug-16		
Race Control (start) official – per hour	Aug-15	£56.00	0.00%	£56.00	Aug-16		
Meeting Room - per hour	Aug-15	£15.00	40.00%	£21.00	Apr-16	Charge increased with harmonisation model for all council facilities	
General Admission Fee – per person	Aug-15	£3.00	0.00%	£3.00	Aug-16		

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
General Admission Fee – per person (pre sale)	Aug-15	£2.50	0.00%	£2.50	Aug-16	Charge increased with harmonisation model for all council facilities	
Booking & Administration Fee – major event	Aug-15	n/a	0.00%	n/a	Aug-16		Charge varies - min charge of £275.00 max charge of £1000.00
Full Centre event hire	Aug-15	n/a	0.00%	n/a	Aug-16		Price on application
Bar Pitch	Aug-15	n/a	0.00%	n/a	Aug-16		Charge varies - min charge of £275.00 max charge of £515.00
Additional Bar Pitch	Aug-15	n/a	0.00%	n/a	Aug-16		Charge varies - min charge of £110.00 max charge of £260.00
Catering Pitch	Aug-15	n/a	0.00%	n/a	Aug-16		Charge varies - min charge of £270.00 max charge of £515.00
Additional Catering Pitch	Aug-15	n/a	0.00%	n/a	Aug-16		Charge varies - min charge of £110.00 max charge of £260.00
Photocopying/printing per sheet	Aug-15	£0.10	0.00%	£0.10	Aug-16		
Education Ski Charges							
Schools Tuition – Midlothian 1.5 hours per pupil	Aug-15	£6.40	0.00%	£6.40	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Schools Tuition – Midlothian (After School) 1.5 hours per pupil	Aug-15	£6.40	0.00%	£6.40	Aug-16		
Schools Tuition – Non Midlothian 1.5 hours per pupil	Aug-15	£8.00	0.00%	£8.00	Aug-16		
Schools Tuition – Non Midlothian (After School) 1.5 hours per pupil	Aug-15	£8.25	2.00%	£8.50	Aug-16		
3 hour session per pupil – Midlothian	Aug-15	£9.75	0.00%	£9.75	Aug-16		
3 hour session per pupil – Non Midlothian	Aug-15	£11.80	1.00%	£12.00	Aug-16		
Teachers In-Service Course – per hour	Aug-15	£8.00	0.00%	£8.00	Aug-16		
Tubing							
Tubing Parties/person Junior (4-12 year olds)	Aug-15	£12.50	0.00%	£12.50	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Tubing parties/person	Aug-15	£14.50	0.00%	£14.50	Aug-16		
Pay n play tubing (1 hour) (junior)	Aug-15	£8.00	0.00%	£8.00	Aug-16		
Pay n play tubing (1 hour) (adult)	Aug-15	£10.00	0.00%	£10.00	Aug-16		
Pay n play tubing (hour|) (2 Adults+ 3 Juniors)	Aug-15	£35.00	0.00%	£35.00	Aug-16		
Miscellaneous Charges							
Notice board advertising – per item, per month	Aug-15	£7.00	0.00%	£7.00	Aug-16	Costs determined by charging exercise to analyse sales volumes - increases/decreases applied accordingly	
Replacement locker key	Aug-15	£3.00	0.00%	£3.00	Aug-16		
Shadowing (shadow 35 hours)	Aug-15	£55.00	0.00%	£55.00	Aug-16		

Catering Services							
School Meals							
School Meals (primary schools)	Aug-13	£1.80	8.00%	£1.95	Aug-16		See PFM 5 - School meals
School Meals (high schools)	Aug-13	£2.00	7.50%	£2.15	Aug-16		See PFM 5 - School meals
School Meals (adult meals)	Aug-13	£2.50	6.00%	£2.65	Aug-16		See PFM 5 - School meals

Bonnyrigg District Heating Scheme							
Monthly heating charge	Mar-13	£83.79	0.00%	£83.79	n/a	Charges frozen due to surplus, charges set to a level to recover costs over a period of time.	

Commercial

Road Services							
Permits							
Property Enquiries	Apr-14	£42.00	0.00%	£42.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Property Enquiry adoption plan	Apr-14	£5.00	0.00%	£5.00	Apr-16	Charges are aligned with average prices charged by other authorities.	

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Tables and Chairs up to 12 months (new application)	Apr-14	£126.00	0.00%	£126.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Tables and Chairs up to 12 months (renewal)	Apr-14	£94.50	0.00%	£95.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Tables and Chairs up to 6 months (new application)	Apr-14	£94.50	0.00%	£95.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Tables and Chairs up to 6 months (renewal)	Apr-14	£63.00	0.00%	£63.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Accident Data Retrievals	Apr-09	£22.96	8.00%	£25.00	Apr-16	Charges are aligned with average prices charged by other authorities.	Initial charge of £25.00 plus additional £25.00 per km, based on unit cost of staff time
Temporary Traffic Regulation Order up to 5 days	Apr-14	£126.00	59.00%	£200.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Temporary Traffic Regulation Order over 5 days + legal notice	Apr-14	£126.00	217.00%	£400.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Temporary Traffic Signals 2 way - non public utility	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Temporary Traffic Signals 3 way and over	New charge	£0.00	0.00%	£70.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Cabin / Storage container	Apr-14	£108.00	11.00%	£120.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Crane	Apr-14	£72.00	4.00%	£75.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Excavations Minor Works up to 3 working days	Apr-14	£72.00	4.00%	£75.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Excavations Standard Works 4 -10 working days	Apr-14	£105.00	4.50%	£110.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Excavations - Major Works over 10 working days	Apr-14	£144.00	4.00%	£150.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Footway Crossing up to 3 working days	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Hoarding	Apr-14	£108.00	11.00%	£120.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Hoist Access Tower	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Materials/Road Occupation	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Mobile Crane	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Scaffolding	Apr-14	£108.00	11.00%	£120.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Skip	Apr-14	£36.00	11.00%	£40.00	Apr-16	Charges are aligned with average prices charged by other authorities.	
Access Protection Marking	Apr-14	£62.40	0.00%	£62.40	Apr-16	Charges are aligned with average prices charged by other authorities.	
Transport Scotland Act Violations	Apr-14	£120.00	0.00%	£120.00	Apr-16	Statutory charge	Paid 30 plus days
Transport Scotland Act Violations	Apr-14	£80.00	0.00%	£80.00	Apr-16	Statutory charge	Paid within 29 days (discounted)
Utility Company Charges Sample Inspection	Apr-14	£36.00	0.00%	£36.00	Apr-16	Statutory charge	
Utility Company Charges Defect Inspection	Apr-14	£36.00	0.00%	£36.00	Apr-16	Statutory charge	
Travel and Fleet services							
Passenger Transport							
Blue Badges	Apr-09	£20.00	0.00%	£20.00	n/a	Statutory cap is £20 - no change	
Lost School Bus Pass	Apr-06	£10.00	0.00%	£10.00	n/a	No change proposed	
Non-entitled Travel School Bus Pass	Aug-14	£220.50	5.00%	£230.00	Aug-16		

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes

UPDATED MONDAY 29 FEBRUARY 2016

Note: Actual % increases will vary due to roundings.

Finance and ISS

Civic Government

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
Taxi Driver Licence Renewal 1 year	Jul-14	£40.30	5.00%	£42.00	Apr-16	1. Application and renewal fees for licences should reflect cost to the Council of processing the same which limits the ability to increase fees. 2. Where applicants can apply for 1, 2 or 3 year licences, fees for 2 and 3 year licences are based on 95% and 90% of cost of 1 year licence respectively.	
Taxi Driver Licence Renewal 2 years (2 x £42.00 - 5%)	Jul-14	£76.57	5.00%	£80.00	Apr-16		
Taxi Driver Licence Renewal 3 years (3 x £42.00 - 10%)	Jul-14	£100.81	5.00%	£113.00	Apr-16		
Private Hire Car Driver Licence 1 year	Jul-14	£40.30	5.00%	£42.00	Apr-16		
Private Hire Car Driver Licence Renewal 2 years (2 x £42.00 - 5%)	Jul-14	£76.57	5.00%	£80.00	Apr-16		
Private Hire Car Driver Licence Renewal 3 years (3 x £42.00 - 10%)	Jul-14	£100.81	5.00%	£113.00	Apr-16		
Private Hire Car Licence (application) (1st fee)	Jul-14	£60.45	5.00%	£63.00	Apr-16		
Private Hire Car Licence (application) (2nd fee) (Inc cost of plates)	Jul-14	£258.65	5.00%	£272.00	Apr-16		
Private Hire Car Licence Renewal	Jul-14	£282.00	3.00%	£290.00	Apr-16		3% increase only to Introduce consistent charge for Renewals
Taxi Licence (application) (1st fee)	Jul-14	£60.45	5.00%	£63.00	Apr-16		
Taxi Licence (application) (2nd fee)	Jul-14	£265.00	5.00%	£280.00	Apr-16		
Taxi Licence Renewal (Inc cost of plates)	Jul-14	£275.60	5.00%	£290.00	Apr-16		
Special Events (application) (1st fee)	Jul-14	£60.45	5.00%	£63.00	Apr-16		
Special Events (application) (2nd fee)	Jul-14	£258.65	5.00%	£272.00	Apr-16		
Special Events Renewal (Inc cost of plates)	Jul-14	£275.60	5.00%	£290.00	Apr-16		
Window Cleaner Licence 1 year (application)	Jul-14	£58.80	5.00%	£63.00	Apr-16		
Window Cleaner Renewal Licence 1 year	Jul-14	£39.90	5.00%	£42.00	Apr-16		
Window Cleaner Renewal Licence 2 years (2 x £42.00- 5%)	Jul-14	£75.81	5.00%	£80.00	Apr-16		
Window Cleaner Renewal Licence 3 years (3 x £42.00 - 10%)	Jul-14	£107.73	5.00%	£113.00	Apr-16		
Street Trader Licence (application) (Incl Vehicles)	Jul-14	£128.10	5.00%	£135.00	Apr-16		
Street Trader Licence (Renewal) (Incl Vehicles)	Jul-14	£102.90	5.00%	£108.00	Apr-16		
Wheelie Bin Cleaner Licence (application) (less examination element)	Jul-14	£115.50	5.00%	£122.00	Apr-16		
Wheelie Bin Cleaner Licence (Renewal) (less examination element)	Jul-14	£82.95	5.00%	£88.00	Apr-16		
Other Street Trader Licence (application) (no inspection)	Jul-14	£59.85	5.00%	£63.00	Apr-16		
Other Street Trader Licence (Renewal) (no inspection)	Jul-14	£39.90	5.00%	£42.00	Apr-16		
Other Street Trader Licence Year 2 (no inspection) -5%	Jul-14	£75.81	5.00%	£80.00	Apr-16		
Other Street Trader Licence Year 3 (no inspection) -10%	Jul-14	£107.90	5.00%	£113.00	Apr-16		
Public Entertainment Licence (3 years)	Apr-14	£219.45	5.00%	£230.00	Apr-16		
Public Entertainment Licence Renewal (3 years)	Apr-14	£136.50	5.00%	£144.00	Apr-16		
Public indoor Sports Entertainment Licence (3 years)	Apr-14	£219.45	5.00%	£230.00	Apr-16		
Public Indoor Sports Entertainment Licence Renewal (3 years)	Apr-14	£136.50	5.00%	£144.00	Apr-16		
Metal Dealer Licence (3 years)	Apr-14	£219.45	5.00%	£230.00	Apr-16		
Metal Dealer Licence Renewal (3 years)	Apr-14	£136.50	5.00%	£144.00	Apr-16		
Second Hand Dealer Licence (3 years)	Apr-14	£243.60	5.00%	£256.00	Apr-16		
Second Hand Dealer Licence Renewal (3 years)	Apr-14	£154.35	5.00%	£163.00	Apr-16		
Market Operator Licence (3 years)	Apr-14	£243.60	5.00%	£256.00	Apr-16		
Market Operator Licence Renewal (3 years)	Apr-14	£154.35	5.00%	£163.00	Apr-16		
Charity Car Boot Sales Licence	n/a	n/a	0.00%		n/a	No charge levied at present as charity	
Late Hours Catering Licence (3 years)	Apr-14	£219.45	5.00%	£230.00	Apr-16		
Late Hours Catering Licence Renewal (3 years)	Apr-14	£136.50	5.00%	£144.00	Apr-16		
Tattooing/Skin Piercing Licence (3 years)	Apr-14	£219.45	5.00%	£230.00	Apr-16		
Tattooing/Skin Piercing Licence Renewal (3 years)	Apr-14	£136.50	5.00%	£144.00	Apr-16		

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
UPDATED MONDAY 29 FEBRUARY 2016							Note: Actual % increases will vary due to roundings.
Hire Car Booking Office Licence (first application)	Apr-14	£231.00	5.00%	£243.00	Apr-16		
Hire Car Booking Office Licence (renewal)	Apr-14	£231.00	5.00%	£243.00	Apr-16		
Knife Dealers Licence (3 years)	Apr-14	£237.30	5.00%	£250.00	Apr-16		
Knife Dealers Licence Renewal (3 years)	Apr-14	£151.20	5.00%	£160.00	Apr-16		
Cosmetic Ear Piercing Licence (3 years)	Apr-14	£106.05	5.00%	£112.00	Apr-16		
Cosmetic Ear Piercing Licence Renewal (3 Years)	Apr-14	£106.05	5.00%	£112.00	Apr-16		
Houses in Multiple Occupation Licence (application) [up to 5 persons]	Apr-14	£218.40	5.00%	£230.00	Apr-16		
Houses in Multiple Occupation Licence Renewal [up to 5 persons]	Apr-14	£136.50	5.00%	£144.00	Apr-16		
Houses in Multiple Occupation Licence (application) [between 6 and 10 persons]	Apr-14	£279.30	5.00%	£294.00	Apr-16		
Houses in Multiple Occupation Licence Renewal [between 6 and 10 persons]	Apr-14	£172.20	5.00%	£181.00	Apr-16		
Houses in Multiple Occupation Licence [more than 10 persons]	Apr-14	£353.85	5.00%	£372.00	Apr-16		
Houses in Multiple Occupation Licence Renewal [more than 10 persons]	Apr-14	£220.50	5.00%	£232.00	Apr-16		
Houses in Multiple Occupation Licence Change in Material Circumstances	Apr-14	£42.00	5.00%	£45.00	Apr-16		
Itinerant Metal Dealer Licence	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Itinerant Metal Dealer Licence Renewal	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Sex Shop Licence Application (application) 1 year	Apr-14	£171.15	5.00%	£180.00	Apr-16		
Sex Shop Licence Renewal (3 years)	Apr-14	£302.40	5.00%	£318.00	Apr-16		
Temporary Licence (Including public entertainment)	Apr-14	£98.70	5.00%	£104.00	Apr-16		
Public Charitable Collection Permit	n/a	n/a	0.00%		n/a	No charge levied at present as charity	
Second Hand Dealers Register	n/a	£6.00	1233.00%	£80.00	Apr-16	Introduce consistent charge for purchase of Register across Licensing	Discretionary charge
Replacement Private Hire Car Disc	Apr-14	£12.00	108.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Replacement Private Hire Car Plate	Apr-14	£9.00	177.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Replacement Private Hire Car Bracket for Plate	Apr-14	£11.55	116.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Replacement Taxi Plate - Front	n/a	£8.00	212.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Replacement Taxi Plate - Rear	Apr-14	£10.00	150.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Replacement Taxi Plate - Internal	n/a	£4.00	525.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Copy Licence	Apr-14	£15.00	67.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Copy Identification Card	Apr-14	£15.00	67.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge
Taxi Adjust Licence Change of Vehicle : inspection Required (includes cost of plates)	Apr-14	£60.00	8.00%	£65.00	Apr-16		8% Increase to Introduce consistent charge between Taxi/Private hire costs
Taxi Adjust Licence Change of Vehicle : No Inspection Required (includes cost of plates)	Apr-14	£27.10	5.00%	£29.00	Apr-16		
Private Hire Car Adjust Licence Change of Vehicle (insp/inc plates)	Apr-14	£61.95	5.00%	£65.00	Apr-16		
Private Hire Car Adjust Licence Change of Vehicle (no insp/inc plates)	Apr-14	£42.00	-30.00%	£29.00	Apr-16		30% decrease to Introduce consistent charge between Taxi/Private hire costs
Exemption - Metal Dealers only	Apr-14	£71.80	5.00%	£75.00	Apr-16		
Cherished Registration Plate	Apr-14	£43.05	5.00%	£45.00	Apr-16		
Certified Extract of Register	Apr-14	£15.00	67.00%	£25.00	Apr-16	Introduce consistent charge for issuing replacements across Licensing	Discretionary charge

Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes

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Description of charge	Last Increase	Current charge	Increase %	Rounded Amount	Proposed start date	Comments	Notes
Copy of Register	Apr-14	£68.25	17.00%	£80.00	Apr-16	Introduce consistent charge for purchase of Register across Licensing	Discretionary charge
Re-inspection Charge (Taxi and Private Hire Car)	Apr-14	£42.00	5.00%	£44.00	Apr-16		
Cancellation of Inspection Appointment (Taxi and Private Hire Car)	Apr-14	£42.00	5.00%	£44.00	Apr-16		
Post Red Sticker Examination (Taxi and Private Hire Car)	Apr-14	£42.00	5.00%	£44.00	Apr-16		
Taxi Advertisement - Internal	Apr-14	£16.05	5.00%	£17.00	Apr-16		
Taxi Advertisement - External	Apr-14	£43.05	5.00%	£45.00	Apr-16		
Taxi Advertisement - Superside	Apr-14	£49.95	5.00%	£52.00	Apr-16		
Taxi Advertisement - Full Livery	Apr-14	£86.10	5.00%	£90.00	Apr-16		
Private Hire Car Advertisement	Apr-14	£43.05	5.00%	£45.00	Apr-16		
Theatre 1 year	Apr-14	£155.40	5.00%	£164.00	Apr-16		
Theatre Renewal 1 year	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Theatre Occasional (6 weeks)	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Theatre Transfer	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Hypnotism (not theatre or public entertainment venue)	Apr-14	£81.90	5.00%	£86.00	Apr-16		
Performing Animals	Apr-14	£55.15	5.00%	£58.00	Apr-16		
Zoo (inspection costs to be borne by applicant)	Apr-14	£46.80	5.00%	£50.00	Apr-16		
Venison Dealer	Apr-14	£53.00	5.00%	£56.00	Apr-16		
Cinema 1 year	Apr-14	£218.00	5.00%	£230.00	Apr-16		
Cinema Occasional	Apr-14	£42.00	5.00%	£44.00	Apr-16		
Cinema Transfer	Apr-14	£42.00	5.00%	£44.00	Apr-16		

~~Council~~
~~Tuesday 08 March 2016~~
~~Item No 5.3~~

Audit Committee
Tuesday 15 March 2016
Item No. 5.3.6

General Services Capital Plan 2015/16 to 2020/21
Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with:-

- An update on the General Services Capital Plan reflecting changes approved since the previous report to Council on 22 September 2015;
- Information on additions to the Capital Plan for approval since the last monitoring report to Council on 9 February 2016; and
- Updated forecasts of expenditure and income for the General Services Capital Plan for 2015/16 through to 2020/21;

2 Background

2.1 Budget

The General Services Capital Plan for 2015/16 to 2020/21 considered by Council on 22 September 2015 provided for expenditure of £106.126 million and funding of £69.594 million, therefore giving a total borrowing requirement of £36.532 million over the period 2015/16 to 2020/21. Table 1 below provides a breakdown of this per financial year.

Table 1: General Services Capital Plan for 2015/16 to 2020/21
as reported to Council on 22 September 2015

Item	2015/16 Forecast Outturn £000's	2016/17 Budget £000's	2017/18 Budget £000's	2018/19 Budget £000's	2019/20 Budget £000's	2020/21 Budget £000's	Total
Expenditure	23,195	31,481	14,015	12,352	12,510	12,573	**106,126**
Funding	16,581	12,251	11,302	10,085	9,742	9,633	**69,594**
Borrowing Required	**6,614**	**19,230**	**2,713**	**2,267**	**2,768**	**2,940**	**36,532**

2.2 Expenditure already approved

Since consideration by Council on 22 September 2015, Council have approved changes to the plan as follows:-

- Council on 3 November 2015 approved the addition of £0.022 million of new projects and an increase to existing project budgets of £0.470; and
- Council on 9 February 2016 approved the addition of £0.906 million of new projects

2.3 Expenditure to be approved

Since the General Services Capital Plan Quarter 3 report to Council on 9 February 2016, the new projects as outlined in Table 2 below are being presented for inclusion in the plan:-

Table 2: Additions to Capital Plan for approval

Project	**Description**	**Expenditure £000's**	**Phasing**
School Digital Assets	Planned replacement of Digital Assets in schools, particularly projectors and white boards which are at end of life	813	2016/17 & 2017/18
East High Street Public Realm & Burns Monument	Public Realm works to East High Street and restoration of the Burns Monument	120	2015/16 to 2017/18
Assistive Technology	Extension of rolling capital budget over 2018/19 to 2020/21	450	2018/19 to 2020/21
Total		**1,383**	

Adjustment to project budgets for approval

Since the General Services Capital Plan Quarter 3 report to Council on 9 February 2016, an amendment to the budgets of the projects outlined in Table 3 overleaf is required:-

Table 3: Adjustment to project budgets for approval

Project	**Description of amendment to budget**	**Previous Budget £000's**	**Revised Budget £000's**	**Budget Movement £000's**
Newbattle Centre	Stage 1/2 Fees to hub; with corresponding reduction in Unitary Charge	290	1,243	+953
Member's Environmental Improvements	Removal of capital budget in 2016/17 and 2017/18	360	0	-360
Further Early Years Provision	Additional funding (currently unallocated) for provision of Early Year Childcare.	1,836	2,352	+516
Total		**2,486**	**3,595**	**+1,109**

** Funded through additional Scottish Government Grant*

2.4 Funding

The planning assumption for the level of General Capital Grant funding from the Scottish Government over the life of the plan was £53.961 million, as reported to Council in the *General Services Capital Plan 2015/16 to 2020/21* report on 22 September 2015. The Local Government Finance (Scotland) Settlement 2016-17 (Finance Circular 7/2015) issued on 16 December 2015 provides for a reduction in the level of General Capital Grant compared to the previous planning assumption. As such the level of General Capital Grant funding from the Scottish Government over the life of the plan has been reduced from £53.961 million to £48.016 million, a reduction of £5.945 million.

The expectation remains that the next Scottish Government will publish a three year budget settlement in the autumn of 2016. Only at that point will there be clarity on the level of grant funding local government can expect for future years. Given the extent of the reduction in the 2016/17 grant (albeit at this stage the reduction is to be reprofiled across the following 3 financial years), it is considered prudent to take a more pessimistic view on future year's settlements than incorporated into previous General Services Capital Plan reports. This is reflected in the forecast levels of General Capital Grant as illustrated in Appendix 1. In light of this, further work shall be undertaken to assess the implications for the 2017/18 to 2020/21 budget projections and as such these will be reported to Council later in the year.

In line with revised levels of expenditure, the forecast level of developer contributions that can be applied to finance the plan has increased from £15.585 million as reported to Council on 22 September 2015, to £16.644 million.

In addition, the level of other contributions available to finance the plan has increased from £0.047 million (per the 22 September 2015 report) to £0.694 million. This reflects:-

- £0.526 million from Zero Waste Scotland to fund the provision of new vehicles and caddies for the Food Waste rollout (as reported to Council in the Quarter 2 Monitoring Report on 3 November 2015);
- £0.061 million from the Scottish Government to finance the provision of Electric Vehicle Charging Points (as reported to Council in the Quarter 3 Monitoring Report on 9 February 2016), and
- £0.060 million from Dalkeith Business Renewal to finance 50% of the East High Street & Burns Monument Works.

Overall, the funding available to finance the planned expenditure has decreased from £69.594 million to £65.354 million.

2.5 Future Year Capital Budgets

As reported to Council in the *General Services Capital Plan 2015/16 to 2020/21* report on 22 September 2015, work is currently being undertaken to develop full asset management plans for the Council's core asset base of Property, Roads, Street Lighting, Footway & Footpaths, Vehicles and Digital Services equipment. The impact of this work on the availability of capital resources will be reported to Council in due course.

In line with this, in the 22 September 2015 *General Services Capital Plan 2015/16 to 2020/21* report, a planning assumption was included in the capital plan, to include an unallocated budget in 2016/17 through to 2020/21 in order to provide a prudent estimate of the likely levels of capital spend arising from these core strands of work. This was designed to aid budget planning through the provision of more realistic loan charges projections, particularly over the latter years of the capital plan.

This provided for a level of "unallocated" capital expenditure across 2016/17 to 2020/21 of £31.489 million. This level was set to ensure that the cap on debt outstanding of £114.000 million (net of the debt outstanding on any projects that the Council are forward funding), as set by Council on 4 February 2014, remained achievable.

Based on the revised levels of expenditure and funding as outlined in Sections 2.2 and 2.3 above, the level of "unallocated" capital expenditure has been reduced by £7.062 million to £24.427 million, to ensure that the cap on debt outstanding of £114.000 million remains achievable.

Overall, including the adjustments outlined in Sections 2.2 to 2.4, the total expenditure included in the plan has decreased from £106.126 million to £102.954 million.

2.6 Borrowing

As a result of the revised expenditure and funding forecasts as reported in Sections 2.2 to 2.5, the forecast level of borrowing over the period 2015/16 to 2020/21 has increased from £36.532 million to £37.600 million.

2.7 Summary

Table 4 overleaf provides a summary of the forecast levels of expenditure, funding and borrowing as reported in Sections 2.2 to 2.6 above.

Table 4: Summary of General Services Capital Plan 2015/16 to 2020/21

Item	2015/16 Forecast Outturn £000's	2016/17 Budget £000's	2017/18 Budget £000's	2018/19 Budget £000's	2019/20 Budget £000's	2020/21 Budget £000's	Total
Expenditure	21,040	29,615	17,468	12,708	11,451	10,671	**102,954**
Funding	17,657	11,065	9,965	10,429	8,636	7,602	**65,354**
Borrowing Required	**3,384**	**18,550**	**7,503**	**2,279**	**2,815**	**3,069**	**37,600**

3 Overall Cap on Debt Outstanding

As noted in Section 2.5, the approved cap on debt outstanding sits at £114.000 million, net of the debt outstanding on any projects that are forward funded (where the Council build the asset and recover monies from e.g. developers).

The projected level of debt outstanding, based on the expenditure and income assumptions outlined above, and net of any forward funded projects, is shown in table 5 below:-

Table 5: Debt outstanding net of any forward funded projects

Item	2015/16 Forecast Outturn £000's	2016/17 Budget £000's	2017/18 Budget £000's	2018/19 Budget £000's	2019/20 Budget £000's	2020/21 Budget £000's
Debt Outstanding 01 April	103,675	103,142	118,019	121,653	120,023	119,078
Borrowing arising from Capital Plan	3,384	18,550	7,503	2,279	2,815	3,069
Debt Repayments	-3,917	-3,672	-3,870	-3,908	-3,761	-3,829
Debt Outstanding 31 March	**103,142**	**118,019**	**121,653**	**120,023**	**119,078**	**118,318**
Less: Net debt on Forward Funded projects						
Bilston Primary School	-188	-1,215	-1,217	-225	0	0
Gorebridge North Primary School	0	-3,151	-4,195	-3,655	-3,095	-2,515
Paradykes Primary School	0	-843	-2,241	-2,143	-1,983	-1,803
Debt Outstanding 31 March exc. Forward Funded projects	**102,954**	**112,810**	**114,000**	**114,000**	**114,000**	**114,000**
Agreed Cap	**114,000**	**114,000**	**114,000**	**114,000**	**114,000**	**114,000**
Headroom	**11,046**	**1,190**	**0**	**0**	**0**	**0**

As can be noted from the table above, the overall level of debt outstanding (net of forward funded projects) is projected to remain within the cap of £114.000 million set by Council, and officers will continue to monitor and review the appropriate level of cap which should be applied.

4 Capital Fund

The Capital Fund at the start of the 2015/16 financial year was £14.853 million. Capital Receipts of £2.563 million are forecast to be received in 2015/16, and will be transferred to the Capital Fund. This will increase the balance in the Capital Fund to £17.416 million. The projected balance on the Capital Fund at 31 March 2021 is £32.061 million.

Officers are currently reviewing the medium-long term strategy for the utilisation of the Capital Fund and will report back in due course.

5 Report Implications

5.1 Resource

The borrowing required to finance the planned investment across 2015/16 to 2020/21 is currently £37.600 million. The loan charges associated with this borrowing are reported to Council in the Financial Strategy 2016/17 to 2020/21 report also presented to Council today, 8 March 2016.

The loan charges associated with this borrowing are reported in the Financial Strategy 2016/17 to 2020/21 report to Council, also on today's agenda. These loan charges reflect the slippage, or reprofiling, of expenditure, based on experience from previous capital plan budget reports.

5.2 Risk

The inherent risk in the Capital Plan is that projects will cost more than estimated thus resulting in additional borrowing. The monitoring procedures ensure that significant variations are reported at an early stage so that remedial action can be taken to mitigate this risk.

There is also a risk that the wrong projects are prioritised, however there is an additional risk that the revenue budget cannot afford the level of borrowing currently reflected.

5.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

5.4 Impact on Performance and Outcome

There are no issues arising directly from this report.

5.5 Adopting a Preventative Approach

There are no issues arising directly from this report

5.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

5.7 Ensuring Equalities

There are no equalities issues arising directly from this report.

5.8 Supporting Sustainable Development

There are no sustainability issues arising directly from this report.

5.9 Digital Issues

There are no digital implications arising from this report.

6 Recommendations

Council is asked to:

a) Approve the additions to the Capital Plan as outlined in Section 2.3;
b) Approve the revised expenditure and funding forecasts in the General Services Capital Plan, as shown in Section 2.7 and Appendices 3 and 4;
c) Note the unallocated amounts in the General Services Capital Plan 2015/16 to 2020/21 (as shown in Appendices 3 and 4).

Date 29 February 2016

Report Contact:
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Background Papers:
Appendix 1 – General Services Capital Plan 2015/16 to 2020/21
Appendix 2 – General Services Capital Plan detailed expenditure 2015/16 to 2020/21

Appendix 1: General Services Capital Plan 2015/16 to 2020/21

GENERAL SERVICES CAPITAL PLAN	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
2015/16 to 2020/21	Forecast Outturn	Budget	Budget	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE							
Resources	9,665	5,806	6,237	2,141	4,547	2,453	**30,850**
Education, Community & Economy	9,954	22,310	11,051	1,622	443	0	**45,380**
Health & Social Care	310	105	143	150	150	203	**1,060**
Council Transformation	1,112	87	37	0	0	0	**1,237**
Unallocated	0	1,306	0	8,794	6,311	8,016	**24,427**
Total Approved Expenditure	21,040	29,615	17,468	12,708	11,451	10,671	**102,954**
FUNDING							
Government Grants	9,654	7,392	8,224	8,214	7,691	6,842	**48,016**
Receipts from Sales	2,563	2,515	3,250	2,960	2,960	2,960	**17,208**
Transfer to Capital Fund	-2,563	-2,515	-3,250	-2,960	-2,960	-2,960	**-17,208**
Developer Contributions	7,362	3,635	1,725	2,215	945	760	**16,644**
Other Contributions	640	38	16	0	0	0	**694**
Total Available Funding	17,657	11,065	9,965	10,429	8,636	7,602	**65,354**
Approved Borrowing Required	**3,384**	**18,550**	**7,503**	**2,279**	**2,815**	**3,069**	**37,600**

Appendix 2: General Services Capital Plan detailed expenditure 2015/16 to 2020/21

GENERAL SERVICES CAPITAL PLAN 2014/15 to 2017/18	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	Total Spend £'000
RESOURCES							
Customer Services							
Front Office - Device & Interactive Asset Upgrades	375	421	445	143	0	0	**1,384**
Back Office - Anti Virus Upgrades	0	0	0	49	26	0	**75**
Back Office - Server Replacement	160	0	59	91	32	0	**341**
Back Office - UPS Devices	40	-21	-9	0	0	0	**10**
Network Enterprise - Network Connection	0	0	0	0	0	0	**0**
Network Enterprise - Network Assets (Power & Data)	75	70	111	44	0	0	**300**
IGS - Compliance - Data Encryption	0	0	0	15	8	0	**23**
IGS - Compliance - PCI	0	27	12	0	0	0	**39**
Disaster Recovery	0	0	0	0	0	40	**40**
Service Desk - ITMIS Service Improvement	50	70	30	0	0	0	**150**
Midlothian Website Development	5	0	0	0	0	0	**5**
IT Development (Education)	0	0	0	0	0	0	**0**
Committee Management System	15	0	0	0	0	0	**15**
Paperless Meetings	16	0	0	0	0	0	**16**
Business Application Upgrades inc. mobile working	100	81	35	0	0	0	**216**
Interactive White Board Replacement	0	569	244	0	0	0	**813**
SWAN Programme	0	0	0	0	0	0	**0**
Commercial Operations							
Street Lighting Upgrades	646	595	905	350	0	0	**2,496**
Street Lighting LED Upgrade (Salix Funded)	200	0	0	0	0	0	**200**
Footway & Footpath Network Upgrades	1,000	700	300	0	0	0	**2,000**
Road Upgrades	1,521	1,050	1,425	525	0	0	**4,521**
A6106 Lugton	30	0	0	0	0	0	**30**
Millerhill Access Road / Site Services	100	0	0	0	0	0	**100**
Zero Waste Capital Contribution	0	0	0	0	4,481	2,413	**6,894**
Beeslack High School Safer Routes to School	0	0	0	0	0	0	**0**
Cycling, Walking & Safer Streets Projects	127	67	87	32	0	0	**312**
Ironmills Park Steps	28	0	0	0	0	0	**28**
Emily Bing	13	0	0	0	0	0	**13**
New recycling facility - Penicuik	1	220	94	0	0	0	**315**
DDA Works 2010/11	0	0	0	0	0	0	**0**
Waste Collection Vehicles	338	70	391	194	0	0	**993**
Food Waste Collection	526	89	38	0	0	0	**653**
Vehicle & Plant Replacement Programme	1,484	700	950	350	0	0	**3,484**
Electric Vehicles - Powerpoint Installation	61	0	0	0	0	0	**61**
Install Geogrid - Barleyknowe Lane	102	0	0	0	0	0	**102**
Bonnyrigg Skate Park	4	0	0	0	0	0	**4**
Newtongrange Wheeled Sports park	39	0	0	0	0	0	**39**
Loanhead Memorial Park	60	0	0	0	0	0	**60**
Riverside Park	26	0	0	0	0	0	**26**
20mph Limits	40	0	0	0	0	0	**40**
Vogrie Car Parking Barriers	33	0	0	0	0	0	**33**
CCTV Upgrade	143	0	0	0	0	0	**143**
Webcasting Council, Cabinet & Committee Meetings	19	0	0	0	0	0	**19**
Property & Facilities							
Stobhill Depot Upgrade	0	398	171	0	0	0	**569**
Property Upgrades inc. Lighting/Lightning	1,576	700	950	350	0	0	**3,576**
Purchase of 7 Eskdaill Court, Dalkeith	700	0	0	0	0	0	**700**
Primary 1-3 Free School Meals	12	0	0	0	0	0	**12**
TOTAL RESOURCES	**9,665**	**5,806**	**6,237**	**2,141**	**4,547**	**2,453**	**30,850**

EDUCATION, COMMUNITY AND ECONOMY	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	Total Spend £'000
Early Years							
Woodburn Family Learning Centre	305	15	7	0	0	0	**327**
Further Early Years Provisions	0	523	784	784	261	0	**2,352**
Primary							
Burnbrae Primary	23	0	0	0	0	0	**23**
New Bilston Primary	3,162	2,537	1,087	0	0	0	**6,786**
New Gorebridge North Primary	3,421	3,651	1,565	0	0	0	**8,636**
Rosewell Primary Extension	95	0	0	0	0	0	**95**
Cornbank Primary Extension	24	0	0	0	0	0	**24**
St Andrews Primary Extension	5	0	0	0	0	0	**5**
Newtongrange Primary Extension	30	0	0	0	0	0	**30**
Paradykes & Roslin Primaries Preparatory Works	523	333	143	0	0	0	**998**
Paradykes Primary Replacement	0	9,274	4,196	119	0	0	**13,589**
Roslin Primary Replacement	0	5,048	2,284	65	0	0	**7,396**
Gorebridge Primary School Additional Classroom	12	0	0	0	0	0	**12**
Hopefield Primary School Demolition	164	0	0	0	0	0	**164**
Hawthornden Primary School Roof	6	0	0	0	0	0	**6**
Stobhill Primary School Footpath	22	0	0	0	0	0	**22**
Secondary							
Lasswade High School inc. 2nd MUGA	172	404	379	111	0	0	**1,067**
Newbattle High School Preparatory Works	1,243	53	405	544	182	0	**2,426**
Newbattle High School - Future Extension	0	0	0	0	0	0	**0**
Saltersgate Alterations	154	3	1	0	0	0	**159**
General							
Online Payments for Schools	45	0	0	0	0	0	**45**
Bright Sparks	356	8	3	0	0	0	**367**
PPP1 Land Acquisition	27	0	0	0	0	0	**27**
Children and Families							
Eastfield Children's Unit	3	0	0	0	0	0	**3**
Woodburn Children's Unit	0	0	0	0	0	0	**0**
Planning & Development							
Environmental Improvements	140	386	166	0	0	0	**692**
Property Asset Management System	9	0	0	0	0	0	**9**
Dalkeith Town Centre	1	0	0	0	0	0	**1**
East High Street Public Realm & Burns Monument	12	76	32	0	0	0	**120**
TOTAL EDUCATION, COMMUNITY AND ECONOMY	**9,954**	**22,310**	**11,051**	**1,622**	**443**	**0**	**45,380**
HEALTH AND SOCIAL CARE							
Adult & Social Care							
Care Homes	1	0	0	0	0	0	**1**
Penicuik Care Home Hub	33	0	0	0	0	0	**33**
Penicuik Care Home Hub - Fit Out	0	0	0	0	0	0	**0**
Highbank OPH - Adaptations (Phase II)	0	0	0	0	0	0	**0**
Assistive Technology	260	105	143	150	150	203	**1,010**
Travelling Peoples Site Upgrade	17	0	0	0	0	0	**17**
Customer & Housing Services							
Libraries Cash Management System	-1	0	0	0	0	0	**-1**
TOTAL HEALTH AND SOCIAL CARE	**310**	**105**	**143**	**150**	**150**	**203**	**1,060**
COUNCIL TRANSFORMATION							
Purchase to Pay	32	0	0	0	0	0	**32**
Property Services Review	43	0	0	0	0	0	**43**
EDRMS	12	0	0	0	0	0	**12**
EWiM	125	0	0	0	0	0	**125**
EWiM Phase 2	661	0	0	0	0	0	**661**
Online Housing Applications	27	0	0	0	0	0	**27**
Corporate Telephony Services Upgrade	54	0	0	0	0	0	**54**
EWiM - Buccleuch House Ground Floor	33	0	0	0	0	0	**33**
Unallocated	125	88	38	0	0	0	**250**
TOTAL COUNCIL TRANSFORMATION	**1,112**	**87**	**37**	**0**	**0**	**0**	**1,237**
UNALLOCATED							
Unallocated	0	1,306	0	8,794	6,311	8,016	**24,427**
TOTAL UNALLOCATED	**0**	**1,306**	**0**	**8,794**	**6,311**	**8,016**	**24,427**
GENERAL SERVICES CAPITAL PLAN TOTAL	**21,040**	**29,615**	**17,468**	**12,708**	**11,451**	**10,671**	**102,954**

~~Midlothian Council~~
~~Tuesday 08 March 2016~~
~~Item No 5.4~~
Audit Committee
Tuesday 15 March 2016
Item No. 5.3.7

Treasury Management and Investment Strategy 2016/17 & Prudential Indicators

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of the report is to seek the agreement of Council to the Treasury Management and Annual Investment Strategies for 2016/17 and the Prudential and Treasury indicators contained therein.

2 Treasury Management & Investment Strategy 2016/17

2.1 Current Loan and Investment Portfolio

The Council's current loan and investment portfolio, as at 26 February 2016, is shown in tables 1 and 2 below:-

Table 1: Current Loan Portfolio as at 26 February 2016

Loan Type	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	768	8.90%
PWLB Maturity	179,224	4.01%
LOBO	20,000	4.51%
Temporary Market Loans	24,741	0.37%
Other Loans	418	0.00%
Total Loans	**225,151**	**3.66%**

Table 2: Current Investment Portfolio as at 26 February 2016

Investment Type	Principal Outstanding £000's	Weighted Average Rate
Bank Call Accounts	1	0.32%
Money Market Funds	38,906	0.48%
Bank Notice Accounts	14,985	1.15%
Total Investments	**53,892**	**0.67%**

2.2 Borrowing Requirement 2015/16 to 2020/21

The Council's capital plans contain projections of capital expenditure and income over the forthcoming financial years. Any expenditure not financed directly by income, requires funding through borrowing.

The projected borrowing requirement arising from the Council's Capital Plans, and the maturing long-term loans that require to be refinanced, over the period 2016/17 to 2020/21 is shown in table 3 below:-

Table 3: Total Borrowing Requirement over the period 2016/17 to 2020/21

	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
Capital Expenditure						
General Services	29,614	17,468	12,707	11,451	10,672	**81,912**
HRA	42,813	14,919	7,303	7,085	7,161	**79,281**
Total Capital Expenditure	**72,427**	**32,387**	**20,010**	**18,536**	**17,833**	**161,193**
Total Available Financing	-12,943	-10,698	-11,165	-9,375	-8,344	**-52,525**
Principal Debt Repayments	-7,411	-8,505	-,9034	-9,362	-9,928	**-44,240**
Capital Expenditure less available Financing	**52,074**	**13,184**	**-189**	**-201**	**-439**	**64,427**
Maturing Loans	2,094	10,275	10,456	9,135	9,146	**41,105**
Total Borrowing Requirement	**54,168**	**23,459**	**10,267**	**8,934**	**8,707**	**105,532**

2.3 Borrowing Strategy for 2016/17

Long-term borrowing rates from the Debt Management Office's (DMO) Public Works Loans Board (PWLB) are currently sitting at, or close to, historical lows. As can be noted from Table 3 above, the Council has a significant borrowing requirement across the forthcoming 2 financial years (2016/17 and 2017/18). It is therefore expected that the majority of the borrowing requirement to fund capital expenditure incurred in 2016/17 and 2017/18 shall be sourced from PWLB unless other, more cost effective options arise.

At the same time, it is also expected that throughout the majority of 2016/17, temporary borrowing from the money markets or other local authorities will remain at historically low levels of below bank base rate (i.e. sub-0.50%), whilst new long term PWLB borrowing sits at somewhere between 2.40%-3.30%. If rates remain at these levels, the continued utilisation of temporary borrowing within the Council's overall loan portfolio (current level of £23.6 million as at 18 February 2016 as shown in Table 1) would continue to provide a cost-effective solution to the Council. This will be viewed against the backdrop of potential long term costs if the opportunity is missed to take PWLB loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates.

As illustrated in table 3 above, the Council also has a significant borrowing requirement over the short-medium term, with a particular cluster of loans totalling £37.2 million maturing in the period 1.5 years to 5 years from now, all of which will require to be refinanced. The opportunity has arisen to consider forward dealing some, or all, of these loans. This would involve the Council entering into a legal commitment to draw down these loans at specific intervals, broadly matching the maturity profile of existing loans and/or projected capital expenditure within this period. This would allow the Council to draw down these loans at interest rates that are priced against current historically low gilt levels, and also at significantly lesser rates than current market forward projections, and eliminate the majority of the cost of carry.

Officers will ensure that any loans taken are drawn to match the existing maturity and projected capital expenditure profiles as closely as possible, that proposed interest rates continue to sit below forward interest rate projections, and that the overall borrowing remains within the Authorised Limit of £334.261m proposed below. Any other borrowing undertaken in advance of need would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

2.3 Investment Strategy

The investment environment remains challenging, with the continued scrutiny over the creditworthiness of counterparties resulting in an ever tighter counterparty list. At the same time, the low base rate dictates low returns of typically sub 1% for a 12 month fixed term deposit.

The position on potential investment opportunities remains broadly as reported to Council in the Treasury Management Mid-Year Update report on 3 November 2015.

It is proposed that Council officers, in conjunction with Capita Asset Services, continue to review the range of investment options available to the Council within its stated investment policy in order to select only the most creditworthy counterparties to ensure the security of Council funds, and from that list select the range of investment products that offer best value to the Council's investment portfolio.

The updated list of Permitted Investments in Appendix 1 also includes the subscription of subordinated debt to the Newbattle Centre SPV and the utilisation of Certificates of Deposit, both approved by Council on 23 September 2014. In addition, the potential use of Property Funds has been added to allow the Council to explore options to manage longer-term cash balances.

3 Prudential Indicators

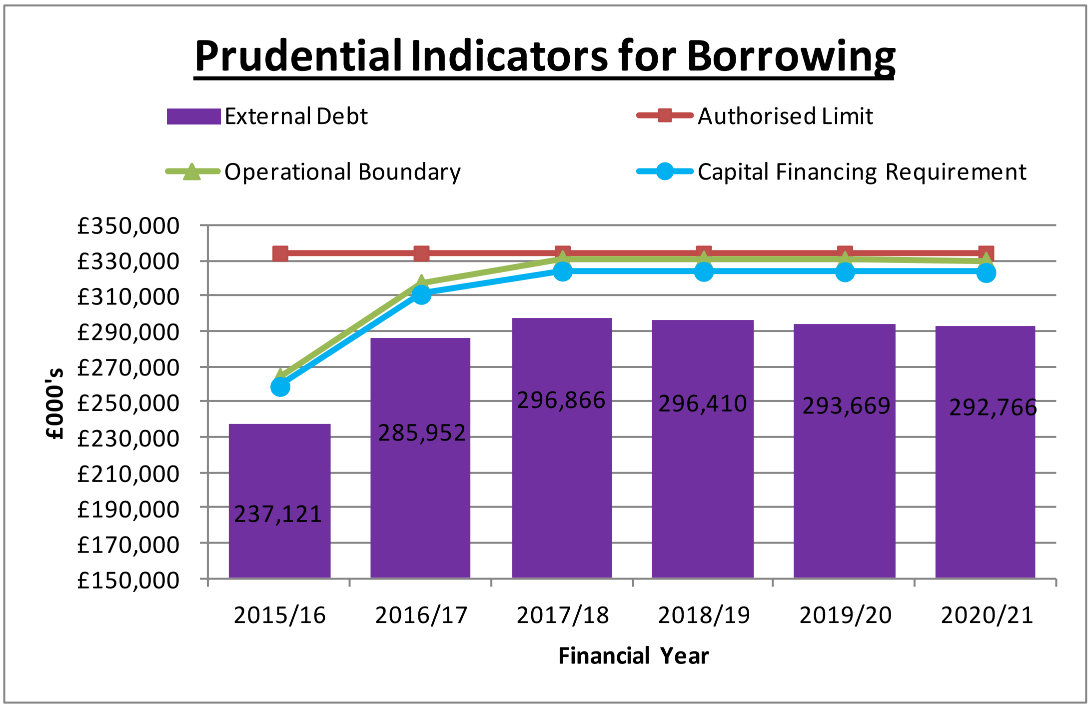
Prudential Code for Capital Finance in Local Authorities

The Prudential Code for Capital Finance in Local Authorities requires that Councils can demonstrate that their Capital Plans are affordable, prudent and sustainable, taking into account the financial provisions made in current and future revenue budgets; and that Treasury Management decisions are taken in accordance with good practice.

The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council's Capital Plans), as follows:-

- Original indicators and actual outcomes for 2014/15;
- Revised estimates of the 2015/16 indicators; and
- Estimates of indicators for 2016/17 to 2018/19.

The Prudential Indicators required by the Code are listed individually in Appendix 2. The key indicators relating to external borrowing are shown in graphical format below.



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

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements.

The Authorised Limit for Borrowing has been calculated by taking the maximum value of the CFR over the next 5 financial years (2016/17 to 2020/21), with the total forecast level of capital receipts and developer contributions added back to this figure (given the inherent uncertainty regarding the timing and value of these receipts/contributions). This is shown in table 4 below.

Table 4: Authorised Limit for Borrowing: Calculation

Authorised Limit	**Amount £000's**
CFR – General Services (31 March 2021)	121,653
CFR – HRA (31 March 2021)	202,464
Unrealised Capital Receipts & Developer Contributions 2015/16	2,084
Forecast level of Capital Receipts & Developer Contributions 2016/17 to 2020/21	8,060
Proposed Authorised Limit	**334,261**

Council is therefore asked to approve an adjustment to the authorised limit for borrowing to £334.261m, if market conditions support this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2021 remains achievable.

The authorised limit therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable

4. Report Implications

4.1 Resources

There are no direct resource implications arising from this report.

4.2 Risk

The strategies outlined in this report are designed to improve the overall risk management of Treasury activity. Providing the limits outlined in the strategies are observed they will enhance the controls already in place in the Treasury Management Practices within which the treasury function operates.

The Prudential Indicators contained in Appendix 2 improve the overall risk management of Capital Investment and Treasury Management.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

☐ Community safety
☐ Adult health, care and housing
☐ Getting it right for every Midlothian child
☐ Improving opportunities in Midlothian
☐ Sustainable growth
☐ Business transformation and Best Value
☒ None of the above

4.4 Impact on Performance and Outcomes

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

4.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

4.6 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Capita Asset Services, the Council’s appointed Treasury Consultants.

4.7 Ensuring Equalities

There are no equality issues arising from this report.

4.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

4.9 Digital Issues

There are no IT issues arising from this report.

5 Summary

The Treasury Management and Investment Strategies outlined in this document, and in the detailed document attached as Appendix 3, have been formulated to comply with the revised Codes of Practice and relevant Regulations and provide the framework for achieving best value in the management of the Council’s borrowing and investment portfolios.

6 Recommendations

It is recommended that the Council

a) Approve the Treasury Management and Investment Strategy for the 2016/17 financial year, as summarised in Section 2 of this report and as detailed in the in-depth main report that is attached as Appendix 3;
b) Approve the list of Permitted Investments outlined in Appendix 1;
c) Adopt the Prudential Indicators contained in Appendix 2 of this report;
d) Approve an adjustment to the Authorised Limit for Borrowing to £334.261 million (as shown in Section 3) if market conditions indicate that this is prudent.

Date:- 29 February 2016

Report Contact:-
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Background Papers:-

Appendix 1:-	Permitted Investments
Appendix 2:-	Prudential Indicators
Appendix 3:-	Treasury Management & Annual Investment Strategy Statement – 2016/17 Detailed

Permitted Investments Appendix 1

The Council uses the Capita creditworthiness service. This utilises credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poors, along with credit watches, outlooks, CDS spreads and country sovereign ratings in a weighted scoring system with an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties for investment.

These colour codes are used by the Council to determine the maximum suggested duration for investment with that counterparty. These are as follows:-

Capita Colour Code	Maximum Suggested Duration for Investment
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	3 years
Blue	2 years***
Orange	2 years
Red	8 months
Green	120 days
No colour	Not to be used

* *Note the yellow colour category is for:- UK Government Debt, or its equivalent, constant NAV Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt*

** *Dark Pink for Enhanced MMF's with a credit score of 1.25; Light Pink for Enhanced MMF's with a credit score of 1.5*

*** *Only applies to nationalised or semi-nationalised UK banks*

**** *The Green Limit was formerly for 3 months but the Financial Conduct Authority set (in July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the Green Limit has been slightly extended to accommodate this regulatory change*

Note that the maximum suggested durations listed above have been extended by 1 year (when compared to the suggested maximum durations provided by Capita) for the Yellow, Dark Pink, Light Pink, Purple, Blue and Orange categories, to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. Equally, the maximum suggested duration for the Red category has been extended by a month to 8 months, and the maximum duration for the Green category has been extended by 20 days to 120 days, on the same basis. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

1.1 Deposits

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	Term	No	**100%**	**6 months**
Term deposits – local authorities	--	Term	No	**100%**	**2 years**
Call accounts – banks and building societies	Green	Instant	No	**100%**	**1 day**
Term deposits / Notice Accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 3 yrs Up to 2 yrs Up to 2 yrs Up to 8 mths Up to 120 days Not for use**
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 3 yrs Up to 2 yrs Up to 2 yrs Up to 8 mths Up to 120 days Not for use**

1.2 Deposits with counterparties currently in receipt of government support / ownership

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
UK nationalised banks – Call accounts	Blue	Instant	No	**100%**	**1 day**
UK nationalised banks – Term Deposits / Notice Accounts	Blue	Term	No	**100%**	**2 years**
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	**100%**	**2 years**
Non-UK(high sovereign rated country) nationalised banks – Call accounts	Green	Instant	No	**100%**	**1 day**
Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 3 yrs Up to 2 yrs Up to 2 yrs Up to 8 mths Up to 120 days Not for use**
Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 3 yrs Up to 2 yrs Up to 2 yrs Up to 8 mths Up to 120 days Not for use**

If forward deposits are made, the forward period plus the deal period equate to the maximum maturity period.

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Government Liquidity Funds	AAA	Instant	No	**100%**	**1 day**
Money Market Funds	AAA	Instant	No	**100%**	**1 day**
Enhanced Money Market Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	**100%**	**1 day**
Enhanced Money Market Funds with a credit score of 1.5	AAA	T+1 to T+5	Yes	**100%**	**1 week**
Bond Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**
Gilt Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**

1.4 Securities issued or guaranteed by governments

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max %?£m of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
UK Government Gilts	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	**100%**	**50 years**
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	Yes	**10)%**	**50 years**

1.5 Securities issued by corporate organisations

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Sale T+1	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Commercial paper other	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+3	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**

1.6 Other

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Local authority mortgage guarantee scheme.	Blue	Term	No	**50%**	**5 years**
Loans to Third Parties	n/a	Term	No	**£25m**	**20 years**
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	**£1m**	**27 years**
Property Funds	n/a	T+4	Yes	**50%**	**15 years**

Prudential Indicators Appendix 2

1. Prudential Indicators for Affordability

1.1 Estimates of Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream								
%	2014/15 Original	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Services	**4.26%**	**3.92%**	3.63%	3.51%	3.69%	3.70%	3.55%	3.52%
HRA	**36.29%**	**34.16%**	34.92%	36.06%	40.19%	41.01%	39.86%	40.73%

1.2 Estimates of the Incremental Impact of Investment Decisions on Council Tax and Rents

This indicator shows the change in Council Tax and Rents necessary to support increased spending on the capital account year on year. This is achieved by taking the difference between:-

- the capital plans used to calculate last years' prudential indicators; and
- the current capital plans.

The loan charges on that difference are then expressed as the change to Council Tax or Rents which would be necessary to support those charges.

Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rent Levels								
	2014/15 Original	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Services	**£ (6.45)**	**£ (1.95)**	£ (7.23)	£ (2.72)	£ 13.05	£ 11.31	£ 3.59	£ 4.27
HRA	**£ (0.38)**	**£ (0.22)**	£ (1.76)	£ (1.20)	£ 2.96	£ 0.47	£ 0.29	£ 0.27

The figures in 1.1 and 1.2 above are based on the latest Capital Plans presented to Council.

2. Prudential Indicators for Capital Expenditure

2.1 Estimated Capital Expenditure

This indicator shows the gross capital spend included in the relevant capital plans.

Capital Expenditure	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
General Services							
Resources	£ 7,775	£ 9,665	£ 5,806	£ 6,237	£ 2,141	£ 4,547	£ 2,453
Education, Community & Economy	£ 3,014	£ 9,954	£ 22,310	£ 11,051	£ 1,622	£ 443	£ -
Health & Social Care	£ 120	£ 310	£ 105	£ 143	£ 150	£ 150	£ 203
Business Transformation	£ 492	£ 1,112	£ 87	£ 37	£ -	£ -	£ -
Unallocated		£ -	£ 1,306	£ -	£ 8,794	£ 6,311	£ 8,016
Total General Services	**£ 11,401**	**£ 21,041**	**£ 29,614**	**£ 17,468**	**£ 12,707**	**£ 11,451**	**£ 10,672**
Total HRA	**£ 11,888**	**£ 14,535**	**£ 42,813**	**£ 14,919**	**£ 7,303**	**£ 7,085**	**£ 7,161**
Combined Total	**£ 23,289**	**£ 35,576**	**£ 72,427**	**£ 32,387**	**£ 20,010**	**£ 18,536**	**£ 17,833**

2.2 Financing of Capital Expenditure

This indicator shows how the Capital Expenditure forecasts are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure and Available Financing	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Capital Expenditure							
General Services	£11,401	£21,041	£ 29,614	£17,468	£12,707	£11,451	£10,672
HRA	£11,888	£14,535	£ 42,813	£14,919	£ 7,303	£ 7,085	£ 7,161
Total	**£23,289**	**£35,576**	**£ 72,427**	**£32,387**	**£20,010**	**£18,536**	**£17,833**
Financed by:							
Capital receipts	£ 2,020	£ 2,310	£ 1,148	£ -	£ -	£ -	£ -
Capital grants	£10,168	£10,792	£ 8,004	£ 8,836	£ 8,826	£ 8,303	£ 7,454
Capital reserves	£ -	£ -	£ -	£ -	£ -	£ -	£ -
Developer/Other Contributions	£ 2,134	£10,302	£ 3,791	£ 1,862	£ 2,339	£ 1,072	£ 890
Net financing need for the year	**£ 8,967**	**£12,172**	**£ 59,485**	**£21,689**	**£ 8,845**	**£ 9,161**	**£ 9,489**

2.3 Estimated Capital Financing Requirement

This indicator measures the Council's maximum underlying need to borrow for capital purposes and other long term liabilities over the next three years.

Capital Financing Requirement (CFR)	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Capital Financing Requirement							
CFR – General Services	£ 103,675	£ 103,143	£ 118,020	£ 121,653	£ 120,023	£ 119,077	£ 118,318
CFR – HRA	£ 150,234	£ 155,717	£ 192,913	£ 202,464	£ 203,905	£ 204,650	£ 204,970
CFR – PFI Schemes	£ 57,300	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total CFR	**£ 311,209**	**£ 315,040**	**£ 365,905**	**£ 377,776**	**£ 376,162**	**£ 374,410**	**£ 372,286**
Movement in CFR	**£ 865**	**£ 3,831**	**£ 50,866**	**£ 11,871**	**£ (1,615)**	**£ (1,751)**	**£ (2,124)**
Movement in CFR represented by							
Net financing need for the year (previous table)	£ 8,967	£ 12,172	£ 59,485	£ 21,689	£ 8,845	£ 9,161	£ 9,489
Less Scheduled Debt Amortisation	£ (7,062)	£ (7,221)	£ (7,411)	£ (8,505)	£ (9,034)	£ (9,362)	£ (9,928)
Less PFI Finance Lease Principal Payments	£ (1,040)	£ (1,120)	£ (1,208)	£ (1,313)	£ (1,426)	£ (1,550)	£ (1,685)
Movement in CFR	**£ 865**	**£ 3,831**	**£ 50,866**	**£ 11,871**	**£ (1,615)**	**£ (1,751)**	**£ (2,124)**

3. Prudential Indicators for Prudence

3.1 Net Borrowing Requirement

This indicator shows the amount of external borrowing required to finance the current debt outstanding on capital projects.

Net Borrowing Requirement	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
External Debt							
Debt at 1 April	£ 225,993	£ 234,706	£ 237,121	£ 285,952	£ 296,866	£ 296,410	£ 293,669
Actual/Expected change in Debt	£ 8,713	£ 2,415	£ 48,831	£ 10,914	£ (456)	£ (2,741)	£ (903)
Other long-term liabilities (OLTL)	£ 58,340	£ 57,300	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683
Actual/Expected change in OLTL	£ (1,040)	£ (1,120)	£ (1,208)	£ (1,313)	£ (1,313)	£ (1,312)	£ (1,311)
Actual/Expected Gross Debt at 31 March	**£ 292,006**	**£ 293,301**	**£ 340,924**	**£ 350,525**	**£ 348,756**	**£ 344,590**	**£ 342,138**
The Capital Financing Requirement	**£ 311,209**	**£ 315,040**	**£ 365,905**	**£ 377,776**	**£ 376,162**	**£ 374,410**	**£ 372,286**
Under / (over) borrowing	**£ 19,203**	**£ 21,739**	**£ 24,981**	**£ 27,251**	**£ 27,406**	**£ 29,820**	**£ 30,148**
Investments							
Cash & Cash Equivalents	£ 5,891	£ 5,000	£ 5,000	£ 5,000	£ 5,963	£ 5,000	£ 5,000
Short-Term Investments	£ 50,000	£ 49,785	£ 49,785	£ 49,785	£ 49,785	£ 49,785	£ 49,785
Total Investments	**£ 55,891**	**£ 54,785**	**£ 54,785**	**£ 54,785**	**£ 55,748**	**£ 54,785**	**£ 54,785**

4. Prudential Indicators for External Debt

4.1 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed and will be the focus of day to day treasury management. Typically, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the value of the CFR for General Services and HRA combined, over each of the next 5 financial years (2016/17 to 2020/21); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Operational Boundary	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Operational Boundary - Borrowing	£258,860	£310,933	£324,117	£323,929	£ 323,727	£ 323,288
Operational Boundary - Other long term liabilities	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total	**£315,040**	**£365,905**	**£377,776**	**£376,162**	**£ 374,410**	**£ 372,286**

Should the Operational Boundary be breached, for example as a result of a decision taken to borrow in advance (should market conditions indicate that it is prudent to do so), this will be reported to Council at the next available opportunity.

4.2 Authorised Limit of Total External Debt

This indicator sets the limit for total external debt.

In an active Treasury Management policy it is sometimes prudent to borrow in advance of need if interest rates are expected to rise.

In order to continue to service the ongoing external debt and finance the current capital programmes the Council needs to increase its external borrowing to £324.1 million by 31 March 2018. Within the Capital Plans, there are assumptions regarding capital receipts and developer contributions which when applied to the Council's capital plans reduce the Council's borrowing requirements. However, the realisation of these capital receipts and developer contributions carry inherent uncertainty around both the timing and value of each receipt/contribution, given that they are largely dependent upon economic and market activity which are outwith the Council's control. Therefore, in order to calculate the Authorised Limit for Borrowing, these capital receipts and developer contributions have been added to the Capital Financing Requirement, to give the Council flexibility to fully borrow in advance of need (if market conditions support this action) should these receipts and contributions be unable to be realised in the short term. This therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.

Council is therefore asked to approve that, rather than restrict borrowing to £258.9m for 2015/16, £310.7m for 2016/17, £324.1m for 2017/18, £323.9m for 2018/19, £323.7m for 2019/20 and £323.3m for 2020/21, that permission be granted to borrow up to the 2016/17 Authorised Limit for borrowing of £334.260m as shown in the table below), if market conditions support this action.

Adopting this approach will secure lower costs for future years but care will be taken to ensure that the cost of carry is minimised and that the maturity structure of all debt is sufficiently robust to ensure that the Capital Financing Requirement at 31 March 2021 remains achievable.

Authorised Limit						
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's
Authorised Limit - Borrowing	£ 334,261	£ 334,261	£ 334,261	£ 334,261	£ 334,261	£ 334,261
Authorised Limit - Other long term liabilities	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total Debt	**£ 390,441**	**£ 389,233**	**£ 387,920**	**£ 386,494**	**£ 384,944**	**£ 383,259**

Reconciliation of calculation of Authorised Limit for borrowing:-

Reconciliation of Authorised Limit for Borrowing	
	£000's
CFR - General Services at 31 March 2018	£ 121,653
CFR - HRA at 31 March 2018	£ 202,464
Capital Receipts 2015/16 unrealised to date	£ 813
Capital Receipts 2016/17-2020/21	£ 1,148
Developer/Other Contributions 2015/16 Unrealised to date	£ 1,271
Developer/Other Contributions 2016/17-2020/21	£ 6,912
Authorised Limit for Borrowing	**£ 334,261**

5. Prudential Indicators for Treasury Management

5.1 Adoption of the CIPFA Treasury Management Code of Practice

The adoption of CIPFA's *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* is an indication of a clear, integrated and prudent approach to Treasury Management.

5.2 Upper limits on Fixed and Variable Interest Rates

This indicator limits the amount of external debt that may be held at fixed or variable rates. These limits are proposed to be as follows:-

Upper Limits on Exposure to Fixed and Variable Interest Rates 2015/16	
Interest rate exposures	**Upper Limit**
Limits on fixed interest rates based on gross debt	100.00%
Limits on variable interest rates based on gross debt	30.00%
Limits on fixed interest rates based on investments	100.00%
Limits on variable interest rates based on investments	100.00%

5.3 Maturity Structure of Borrowing

This indicator sets the upper and lower limits of the time scales within which external debt may be held.

The Treasury Management Code of Practice now requires that LOBO's with a call date in the next 12 months are classified as short-term borrowing rather than longer-term (10 year+) borrowing.

In addition, the Code also recommends that where an authority's debt is typically very long term (i.e. for a period of greater than 10 years), that authorities should break down the period in excess of 10 years into several ranges, for example 10 to 20 years, 20 to 30 years, etc.

With the above in mind, the proposed upper and lower limits for each maturity band are shown below, with the overall aim to ensure a spreading approach to avoid a cluster of high value loans maturing/requiring refinancing within a short period of time.

Maturity Structure of Borrowing 2016/17		
Maturity structure of fixed interest rate borrowing 2016/17	**Lower**	**Upper**
Under 12 months	0.00%	50.00%
12 months to 2 years	0.00%	50.00%
2 years to 5 years	0.00%	50.00%
5 years to 10 years	0.00%	50.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years and above	0.00%	50.00%
Maturity structure of variable interest rate borrowing 2016/17	**Lower**	**Upper**
Under 12 months	0.00%	30.00%
12 months to 2 years	0.00%	30.00%
2 years to 5 years	0.00%	30.00%
5 years to 10 years	0.00%	30.00%
10 years to 20 years	0.00%	30.00%
20 years to 30 years	0.00%	30.00%
30 years to 40 years	0.00%	30.00%
40 years to 50 years	0.00%	30.00%
50 years and above	0.00%	30.00%

5.4 Total Principal Sums Invested for Periods Longer than 364 Days

This indicator relates to the total level of investments held for periods longer than 364 days.

Principal Sums Invested for > 364 Days			
	2016/17	2017/18	2018/19
Limit	£50m	£50m	£50m

The current strategy as outlined in the body of these reports is to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of 12 month fixed term deposits and/or certificates of deposit. The limit for prinicipal sums invested for > 364 days has been set at £50m to give the Council flexibility to extend the duration of such deposits on the margins, to e.g. 366 days or 13/14 months. As noted in the Investment Strategy section of this report, a thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

Appendix 3

Treasury Management & Annual Investment Strategy Statement

Midlothian Council
2015/16

INDEX

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators) for 2016/17 to 2020/21;
- the treasury management strategy (how the investments and borrowings are to be organised) for 2016/17, including treasury indicators; and
- an investment strategy for 2016/17 (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the actual treasury strategy is meeting the strategy outlined in advance of the year, or whether any policies require revision.

An annual treasury outturn report – This provides details of a selection of actual prudential and treasury indicators for the previous financial year and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators (Section 2 of this report).

Treasury management issues

- policy on use of external service providers (Section 1.5);
- the current treasury position (Section 3.1);
- treasury indicators which limit the treasury risk and activities of the Council (Section 3.2);
- prospects for interest rates (Section 3.3);
- the borrowing strategy (Section 3.4);
- policy on borrowing in advance of need (Section 3.5);
- debt rescheduling (Section 3.6);
- the investment strategy (Section 4.1); and
- creditworthiness policy (Section 4.2).

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. A training workshop for Members was held on 14 June 2011 and further training will be arranged as required.

A training workshop in Treasury Management for the Financial Services team, led by the Council's Treasury Management consultants Capita Asset Services, is scheduled to take place on 03 March 2016.

1.5 Treasury management consultants

The Council uses Capita Asset Services as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below summarises the Capital Expenditure forecasts:-

Table 1: Capital Expenditure

	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
General Services							
Resources	£ 7,775	£ 9,665	£ 5,806	£ 6,237	£ 2,141	£ 4,547	£ 2,453
Education, Community & Economy	£ 3,014	£ 9,954	£ 22,310	£ 11,051	£ 1,622	£ 443	£ -
Health & Social Care	£ 120	£ 310	£ 105	£ 143	£ 150	£ 150	£ 203
Business Transformation	£ 492	£ 1,112	£ 87	£ 37	£ -	£ -	£ -
Unallocated		£ -	£ 1,306	£ -	£ 8,794	£ 6,311	£ 8,016
Total General Services	**£ 11,401**	**£ 21,041**	**£ 29,614**	**£ 17,468**	**£ 12,707**	**£ 11,451**	**£ 10,672**
Total HRA	**£ 11,888**	**£ 14,535**	**£ 42,813**	**£ 14,919**	**£ 7,303**	**£ 7,085**	**£ 7,161**
Combined Total	**£ 23,289**	**£ 35,576**	**£ 72,427**	**£ 32,387**	**£ 20,010**	**£ 18,536**	**£ 17,833**

The table below shows how the Capital Expenditure forecasts are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Members are asked to approve the capital expenditure forecasts and the financing of these forecasts:-

Table 2: Capital Expenditure and Available Financing

	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Capital Expenditure							
General Services	£11,401	£21,041	£ 29,614	£17,468	£12,707	£11,451	£10,672
HRA	£11,888	£14,535	£ 42,813	£14,919	£ 7,303	£ 7,085	£ 7,161
Total	**£23,289**	**£35,576**	**£ 72,427**	**£32,387**	**£20,010**	**£18,536**	**£17,833**
Financed by:							
Capital receipts	£ 2,020	£ 2,310	£ 1,148	£ -	£ -	£ -	£ -
Capital grants	£10,168	£10,792	£ 8,004	£ 8,836	£ 8,826	£ 8,303	£ 7,454
Capital reserves	£ -	£ -	£ -	£ -	£ -	£ -	£ -
Developer/Other Contributions	£ 2,134	£10,302	£ 3,791	£ 1,862	£ 2,339	£ 1,072	£ 890
Net financing need for the year	**£ 8,967**	**£12,172**	**£ 59,485**	**£21,689**	**£ 8,845**	**£ 9,161**	**£ 9,489**

Note:- The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (financed), will increase the CFR.

The CFR does not increase indefinitely, as scheduled debt amortisation (the principal repayment element of the loans fund charges) broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme already include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £57.3m of such schemes within the CFR. The Council is asked to approve the CFR projections below:

Table 3: Capital Financing Requirement (CFR)							
	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Capital Financing Requirement							
CFR – General Services	£ 103,675	£ 103,143	£ 118,020	£ 121,653	£ 120,023	£ 119,077	£ 118,318
CFR – HRA	£ 150,234	£ 155,717	£ 192,913	£ 202,464	£ 203,905	£ 204,650	£ 204,970
CFR – PFI Schemes	£ 57,300	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total CFR	**£ 311,209**	**£ 315,040**	**£ 365,905**	**£ 377,776**	**£ 376,162**	**£ 374,410**	**£ 372,286**
Movement in CFR	**£ 865**	**£ 3,831**	**£ 50,866**	**£ 11,871**	**£ (1,615)**	**£ (1,751)**	**£ (2,124)**
Movement in CFR represented by							
Net financing need for the year (previous table)	£ 8,967	£ 12,172	£ 59,485	£ 21,689	£ 8,845	£ 9,161	£ 9,489
Less Scheduled Debt Amortisation	£ (7,062)	£ (7,221)	£ (7,411)	£ (8,505)	£ (9,034)	£ (9,362)	£ (9,928)
Less PFI Finance Lease Principal Payments	£ (1,040)	£ (1,120)	£ (1,208)	£ (1,313)	£ (1,426)	£ (1,550)	£ (1,685)
Movement in CFR	**£ 865**	**£ 3,831**	**£ 50,866**	**£ 11,871**	**£ (1,615)**	**£ (1,751)**	**£ (2,124)**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 4: Balance Sheet Resources							
Reserve	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
HRA Balances	£ 21,377	£ 23,932	£ 24,670	£ 23,692	£ 21,962	£ 20,577	£ 18,081
General Fund Balances	£ 12,843	£ 12,843	£ 12,843	£ 12,843	£ 12,843	£ 12,843	£ 12,843
Earmarked reserves	£ 8,472	£ 8,472	£ 8,472	£ 8,472	£ 8,472	£ 8,472	£ 8,472
Provisions	£ 3,073	£ 3,073	£ 3,073	£ 3,073	£ 3,073	£ 3,073	£ 3,073
Capital Fund	£ 14,853	£ 17,416	£ 19,931	£ 23,181	£ 26,141	£ 29,101	£ 32,061
Total Reserves / Core Funds	**£ 60,618**	**£ 65,736**	**£ 68,989**	**£ 71,261**	**£ 72,491**	**£ 74,066**	**£ 74,530**
Working capital*	£ 14,476	£ 10,788	£ 10,777	£ 10,775	£ 9,699	£ 10,539	£ 10,404
Under/over borrowing	£ 19,203	£ 21,739	£ 24,981	£ 27,251	£ 27,406	£ 29,820	£ 30,148
Expected investments	**£ 55,891**	**£ 54,785**	**£ 54,785**	**£ 54,785**	**£ 54,785**	**£ 54,785**	**£ 54,785**

** Working capital balances shown are estimated year end; these may be higher mid year*

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:-

2.5 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 5: Ratio of Financing Costs to Net Revenue Stream								
%	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Original	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
General Services	**4.26%**	**3.92%**	3.63%	3.51%	3.69%	3.70%	3.55%	3.52%
HRA	**36.29%**	**34.16%**	34.92%	36.06%	40.19%	41.01%	39.86%	40.73%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.6 Incremental impact of capital investment decisions on council tax and housing rent levels

These indicators identify the revenue costs associated with proposed changes to the three year capital programme recommended in current budget reports compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Table 6: Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rent Levels								
	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Original	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
General Services	**£ (6.45)**	**£ (1.95)**	£ (7.23)	£ (2.72)	£ 13.05	£ 11.31	£ 3.59	£ 4.27
HRA	**£ (0.38)**	**£ (0.22)**	£ (1.76)	£ (1.20)	£ 2.96	£ 0.47	£ 0.29	£ 0.27

2.7 HRA ratios

Table 7: HRA Debt as a % of Gross Revenue							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
HRA debt £000's	£ 150,234	£ 155,717	£ 192,913	£ 202,464	£ 203,905	£ 204,650	£ 204,970
HRA revenues £000's	£ 22,395	£ 22,056	£ 23,225	£ 24,689	£ 25,935	£ 27,175	£ 29,096
Ratio of debt to revenues %	671%	706%	831%	820%	786%	753%	704%

Table 8: HRA Debt per Dwelling							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
HRA debt £000's	£ 150,234	£ 155,717	£ 192,913	£ 202,464	£ 203,905	£ 204,650	£ 204,970
Number of HRA dwellings	6,843	6,833	6,908	6,976	7,082	7,169	7,181
Debt per dwelling £	£ 21,954	£ 22,789	£ 27,926	£ 29,023	£ 28,792	£ 28,547	£ 28,543

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 9: Current Treasury Portfolio

	2014/15 Actual £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
External Debt							
Debt at 1 April	£ 225,993	£ 234,706	£ 237,121	£ 285,952	£ 296,866	£ 296,410	£ 293,669
Actual/Expected change in Debt	£ 8,713	£ 2,415	£ 48,831	£ 10,914	£ (456)	£ (2,741)	£ (903)
Other long-term liabilities (OLTL) at 1 April	£ 58,340	£ 57,300	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683
Actual/Expected change in OLTL	£ (1,040)	£ (1,120)	£ (1,208)	£ (1,313)	£ (1,313)	£ (1,312)	£ (1,311)
Actual/Expected Gross Debt at 31 March	**£ 292,006**	**£ 293,301**	**£ 340,924**	**£ 350,525**	**£ 348,756**	**£ 344,590**	**£ 342,138**
The Capital Financing Requirement	**£ 311,209**	**£ 315,040**	**£ 365,905**	**£ 377,776**	**£ 376,162**	**£ 374,410**	**£ 372,286**
Under / (over) borrowing	**£ 19,203**	**£ 21,739**	**£ 24,981**	**£ 27,251**	**£ 27,406**	**£ 29,820**	**£ 30,148**
Investments							
Cash & Cash Equivalents	£ 5,891	£ 5,000	£ 5,000	£ 5,000	£ 5,963	£ 5,000	£ 5,000
Short-Term Investments	£ 50,000	£ 49,785	£ 49,785	£ 49,785	£ 49,785	£ 49,785	£ 49,785
Total Investments	**£ 55,891**	**£ 54,785**	**£ 54,785**	**£ 54,785**	**£ 55,748**	**£ 54,785**	**£ 54,785**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Finance & Integrated Service Support reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the maximum value of the CFR over the next 5 financial years (2016/17 to 2020/21); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Table 10: Operational Boundary

	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Operational Boundary - Borrowing	£258,860	£310,933	£324,117	£323,929	£ 323,727	£ 323,288
Operational Boundary - Other long term liabilities	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total	**£315,040**	**£365,905**	**£377,776**	**£376,162**	**£ 374,410**	**£ 372,286**

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised;
2. The Authorised Limit for Borrowing has been calculated by taking the maximum value of the CFR over the next 5 financial years (2016/17 to 2020/21), with the total forecast level of capital receipts and developer contributions ***added back*** to this figure (given the inherent uncertainty regarding the timing and value of these receipts/contributions):-
   a. Council is therefore asked to approve that, rather than restrict borrowing to £258.9m for 2015/16, £310.7m for 2016/17, £324.1m for 2017/18, £323.9m for 2018/19, £323.7m for 2019/20 and £323.3m for 2020/21, that permission be granted to borrow up to the 2016/17 Authorised Limit for borrowing of £334.261m as shown in the table below), if market conditions support this action.;
   b. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2021 remains achievable.
   c. The authorised limit therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.
3. The Authorised Limit for Other Long-Term Liabilities has been calculated to equate directly to the Operational Boundary for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Table 11: Authorised Limit	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Authorised Limit - Borrowing	£ 334,261	£ 334,261	£ 334,261	£ 334,261	£ 334,261	£ 334,261
Authorised Limit - Other long term liabilities	£ 56,180	£ 54,972	£ 53,659	£ 52,233	£ 50,683	£ 48,998
Total Debt	**£ 390,441**	**£ 389,233**	**£ 387,920**	**£ 386,494**	**£ 384,944**	**£ 383,259**

Table 12: Reconciliation of Authorised Limit for Borrowing	£000's
CFR - General Services at 31 March 2018	£ 121,653
CFR - HRA at 31 March 2018	£ 202,464
Capital Receipts 2015/16 unrealised to date	£ 813
Capital Receipts 2016/17-2020/21	£ 1,148
Developer/Other Contributions 2015/16 Unrealised to date	£ 1,271
Developer/Other Contributions 2016/17-2020/21	£ 6,912
Authorised Limit for Borrowing	**£ 334,261**

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services central view.

Table 13: Interest Rate Forecasts Quarterly Averages					
Quarter Ending	Bank Rate	PWLB Borrowing Rates (inc. certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Now	0.50%	1.57%	2.24%	3.12%	2.94%
Mar 2016	0.50%	1.70%	2.30%	3.20%	3.00%
Jun 2016	0.50%	1.90%	2.40%	3.20%	3.00%
Sep 2016	0.50%	2.00%	2.50%	3.30%	3.10%
Dec 2016	0.50%	2.10%	2.60%	3.30%	3.10%
Mar 2017	0.75%	2.20%	2.70%	3.50%	3.30%
Jun 2017	0.75%	2.30%	2.80%	3.50%	3.30%
Sep 2017	1.00%	2.40%	2.90%	3.60%	3.40%
Dec 2017	1.00%	2.60%	3.00%	3.60%	3.40%
Mar 2018	1.25%	2.70%	3.10%	3.70%	3.50%
Jun 2018	1.25%	2.80%	3.30%	3.70%	3.60%
Sep 2018	1.50%	2.90%	3.40%	3.70%	3.60%
Dec 2018	1.50%	3.00%	3.50%	3.80%	3.70%
Mar 2019	1.75%	3.10%	3.60%	3.80%	370.00%

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2.2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3 followed by a slight recovery in quarter 4 to an initial reading of +0.5%. The Februaryr Bank of England Inflation Report included a forecast for growth to remain around 2.2% – 2.4% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. However, these forecasts are approximately 0.2% lower than those of the November Inflation Report. Investment expenditure is also expected to support growth. However, since the second half of 2015, most worldwide economic statistics have been weak and financial markets have been particularly volatile in early 2016. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK and this theme was maintained in the February Inflation Report.

The February Inflation Report was notably subdued in respect of the forecasts for inflation in the near-term; this was expected to barely get back up to the 1% level within the next 12 months but was expected to marginally exceed the 2% target on the 2-3 year time horizon. The increase in the November Inflation Report forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero. There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There is also the uncertain impact of the EU referendum which may take place as early as June 2016.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 1 of 2017. There is downside risk to this forecast i.e. it could be pushed further back and the markets are currently betting on a quarter 1 2018 increase.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3 and retreated to +0.7% in quarter 4. However, the uninterrupted run of strong monthly increases in non-farm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

Eurozone. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

A more detailed interest rate view and economic commentary is provided at appendix 5.1.

3.4 Borrowing strategy

The Council is expected to have an under-borrowed (internally-borrowed) position of c. £21.7 million by the end of financial year 2015/16. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this backdrop and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Head of Finance & Integrated Service Support will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an unexpected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

It is expected that throughout the majority of 2016/17, temporary borrowing from the money markets or other local authorities will remain at historically low levels of below bank base rate (i.e. sub-0.50%), whilst new long term PWLB borrowing sits at somewhere between 1.90%-3.30%. If rates remain at these levels, utilisation of temporary borrowing within the Council's overall loan portfolio would continue to provide the most cost-effective solution to the Council.

However, this will be viewed against the backdrop of potential long term costs if the opportunity is missed to take PWLB loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates.

At the same time, consideration shall continue to be given to whether any forward borrowing opportunities offer value (these would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher. This would eliminate the majority of the cost of carry).

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates for borrowing based upon the gross debt position, and variable interest rates for investments based upon the total investment position;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates for both borrowing and investments;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Table 14: Treasury Indicators & Limits			
	2016/17	2017/18	2018/19
Interest rate exposures	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on gross debt	100.00%	100.00%	100.00%
Limits on variable interest rates based on gross debt	30.00%	30.00%	30.00%
Limits on fixed interest rates based on investments	100.00%	100.00%	100.00%
Limits on variable interest rates based on investments	100.00%	100.00%	100.00%
Maturity structure of fixed interest rate borrowing 2016/17		**Lower**	**Upper**
Under 12 months		0.00%	50.00%
12 months to 2 years		0.00%	50.00%
2 years to 5 years		0.00%	50.00%
5 years to 10 years		0.00%	50.00%
10 years to 20 years		0.00%	50.00%
20 years to 30 years		0.00%	50.00%
30 years to 40 years		0.00%	50.00%
40 years to 50 years		0.00%	50.00%
50 years and above		0.00%	50.00%
Maturity structure of variable interest rate borrowing 2016/17		**Lower**	**Upper**
Under 12 months		0.00%	30.00%
12 months to 2 years		0.00%	30.00%
2 years to 5 years		0.00%	30.00%
5 years to 10 years		0.00%	30.00%
10 years to 20 years		0.00%	30.00%
20 years to 30 years		0.00%	30.00%
30 years to 40 years		0.00%	30.00%
40 years to 50 years		0.00%	30.00%
50 years and above		0.00%	30.00%

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates (as detailed in Section 3.2) and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;

- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Changes to the Credit Rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ….. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.2 Investment policy

The Council's investment policy has regard to the Scottish Government's Investment (Scotland) Regulations (and accompanying Finance Circular) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the Scottish Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to moniutor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendices 5.2 and 5.3. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

Table 15: Recommended Maximum Durations for Investments	
Sector Colour Code	**Maximum Suggested Duration for Investment**
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	3 years
Blue	2 years***
Orange	2 years***
Red	8 months
Green	120 days****
No colour	Not to be used

* *Note the yellow colour category is for:- UK Government Debt, or its equivalent, constant NAV Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt*

** *Dark Pink for Enhanced MMF's with a credit score of 1.25*
Light Pink for Enhanced MMF's with a credit score of 1.5

*** *Applies only to nationalised or semi-nationalised UK Banks*

**** *The Green Limit was formerly for 3 months but the Financial Conduct Authority set (in July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the Green Limit has been slightly extended to accommodate this regulatory change*

Note that the maximum suggested durations listed above have been extended by 1 year (when compared to the suggested maximum durations provided by Capita) for the Yellow, Dark Pink, Light Pink, Purple, Blue and Orange categories, to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. Equally, the maximum suggested duration for the Red category has been extended by a month to 7 months, on the same basis. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be (Fitch or equivalents):-

- Short term rating F1;
- Long term rating A-.

There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and

other market data on a daily basis via its Passport website, provided exclusively to the Council by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

4.4 Country and sector limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch.

The list of countries that qualify using the above criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The Council will avoid a concentration of investments in too few counterparties or countries by adopting a spreading approach to investing whereby no more than £30 million will be invested in each of the two UK-government backed banks (Lloyds Banking Group and the Royal Bank of Scotland Group), £15 million in any other UK counterparty, and £15 million in any one counterparty, group or country outwith the UK.

4.5 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short -term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 1 of 2017. Bank Rate forecasts for financial year ends (March) are:-

- 2015/16 0.50%
- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 100 days during each financial year for the next 3 years are as follows:-

- 2016/17 0.60%
- 2017/18 1.25%
- 2018/19 1.75%
- 2019/20 2.00%
- 2020/21 2.25%
- 2021/22 2.50%
- 2022/23 2.75%
- 2023/24 2.75%
- Later years 3.00%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Table 16: Principal Sums Invested for > 364 Days			
	2016/17	2017/18	2018/19
Limit	£50m	£50m	£50m

The current strategy as outlined in the body of these reports is to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of 12 month fixed term deposits and/or certificates of deposit. The limit for prinicipal sums invested for > 364 days has been set at £50m to give the Council flexibility to extend the duration of such deposits on the margins, to e.g. 366 days or 13/14 months. As noted in Section 4.3, a thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.6 Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 6 month LIBID compounded.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 Procedures for reviewing the holding of longer-term investments

The TM Code requires that, where authorities hold longer term investments, that these are periodically reviewed. It is proposed that this is carried out semi-annually, as part of the Treasury Management Outturn and Half-yearly update reports, to ensure that the Council's policy objectives continue to be met and that the risk exposure to the Council continues to be mitigated as far as is reasonably possible.

5 Appendices

1. Economic background
2. Treasury Management Practice 1 – Permitted Investments
3. Treasury Management Practice 1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 95 officer

5.1 APPENDIX: Economic Background

UK. UK GDP growth rates of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2.2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3 and then picking up to +0.5% (2.2%) in quarter 4.

The Bank of England's February Inflation Report included a forecast for growth to remain around 2.2% – 2.4% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.
- Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.
- Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The November 2015 Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. According to the February 2016 Inflation Report, CPI inflation is now expected to get back to around 1% by the end of 2016 but not get near to 2% until the latter part of 2017.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments have led to the Bank of England lowering the pace of increases in inflation in its February

2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted. For now, the Bank of England is forecasting further falls in unemployment to circa 4.8%.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK may not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q1 2017. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, perhaps as early as June, rather than in 2017; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3 and then retreating to +0.7% in Q4.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

Eurozone. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. The initial reading for Q4 is 0.3% also. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016 in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the

Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 12 February 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2017.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in February 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2018.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

- Uncertainty around the risk of a UK exit from the EU.The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

5.2 APPENDIX: Treasury Management Practice (TMP1): Permitted Investments

This Council is asked to approve the following forms of investment instrument for use as permitted investments as set out in tables 1.1-1.4.

Treasury risks

All the investment instruments in tables 1.1-1.4 are subject to the following risks:-

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1.1-1.4 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report (see Section 3.4).

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See Sections 4.2 and 4.3.

2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See Section 4.4.

5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 / 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category. The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility**. This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High credit worthiness banks and building societies**. See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £15 million can be placed with any one institution or group at any one time, other than the Bank of Scotland or Royal Bank of Scotland where the limit is £30 million.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term Deposits – Local Authorities.** As they are quasi-Government bodies with low counterparty and value risk, they typically offer low rates of return. Typical deposit terms vary from 1 month to 2 years, with longer term deposits offering an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and typically higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date other than with agreement of the counterparty, at which point penalties would typically apply.

c) **Call accounts with high credit worthiness banks and building societies.** See Section 4.2 for an explanation of this authority's definition of high credit worthiness. These typically offer a much higher rate of return than the DMADF and now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. There is instant access to recalling cash deposited (or short-dated notice e.g. 15-30 days). This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit (see 1d below). However, there are a number of call accounts which at the time of writing, offer rates 2 – 3 times more than term deposits with the DMADF. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

d) **Term deposits with high credit worthiness banks and building societies.** The objectives are as for 1c. These offer a much higher rate of return than the DMADF and deposits made with other Local Authorities (dependent upon term) and, similar to 1c, now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. This is the most widely used form of investing used by local authorities. The authority will ensure diversification of its portfolio of deposits ensuring that no more than £15 million is invested with any (non-nationalised) UK counterparty, and no more than £15 million is invested with any other non-UK counterparty, group or country. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

e) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF UK GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of UK Government backing through either direct (partial or full) ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Call accounts.** As for 1c. but UK Government stated support implies that the UK Government stands behind these banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk.

b. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1d. but Government ownership partial or full implies that the UK Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers this indicates a low and acceptable level of residual risk.

c. **Fixed term deposits with variable rate and variable maturities (structured deposits).** As for 1e but UK Government stated support implies that the UK Government stands behind eligible banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

a. **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

c. **Enhanced Money Market Funds .** These funds are similar to MMFs, can still be AAA rated but have Variable Net Asset Values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

d. **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

b. **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

c. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

d. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

e. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

f. **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. OTHER

a. Local Authority Mortgage Scheme. Authorities who are participating in the Local Authority Mortgage Guarantee Scheme (LAMS) may be required to place a deposit with the mortgage provider(s) up to the full value of the guarantee. The deposit will be in place for the term of the guarantee i.e. 5 years (with the possibility of a further 2 year extension if the account is 90+ days in arrears at the end of the initial 5 years) - and may have conditions / structures attached. The mortgage provider will not hold a legal charge over the deposit.

b. Loans to third parties – This would involve the Council borrowing from the PWLB/markets and onward lending to Registered Social Landlords to enable them to access lower cost loans and kickstart developments of affordable mid-market homes. The risk associated with such an investment would be mitigated by an assessment of the counterparty in advance of any loan being granted and through the application of a premium on the loan rate. Interest would be paid by the RSL over the term of the loan, with repayment of principal upon the earlier of 10/20 years or at the point of house sales. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation.

c. **Subordinated Debt Subscription to the SPV set up to deliver the Newbattle Centre project –** this would involve the Council subscribing subordinated debt to the SPV that is set up to deliver the Newbattle Centre project (2 year construction and 25 year operational contract length). The expected length of the investment would be 24-24.5 years (assuming the subscription is made at operation commencement of the contract), or 26-26.5 years if the subscription is made during the construction phase. The repayment profile of the subscription is still to be agreed, but would typically comprise 75% of the principal remaining invested until the final years of the contract. The risk associated with this type of investment will be mitigated through a thorough annual assessment as a minimum to review the holding of such debt, and whether the exposure to risk arising from the investment has changed over the period.

d. **Property fund.** This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Table 1: Permitted Investments

This table is for use by the in house treasury management team.

1.1 Deposits

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	Term	No	**100%**	**6 months**
Term deposits – local authorities	--	Term	No	**100%**	**2 years**
Call accounts – banks and building societies	Green	Instant	No	**100%**	**1 day**
Term deposits / Notice Accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 8 mths** **Up to 120 days** **Not for use**
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 8 mths** **Up to 120 days** **Not for use**

1.2 Deposits with counterparties currently in receipt of government support / ownership

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
UK nationalised banks – Call accounts	Blue	Instant	No	**100%**	**1 day**
UK nationalised banks – Term Deposits / Notice Accounts	Blue	Term	No	**100%**	**2 years**
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	**100%**	**2 years**
Non-UK(high sovereign rated country) nationalised banks – Call accounts	Green	Instant	No	**100%**	**1 day**
Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 8 mths** **Up to 120 days** **Not for use**
Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 8 mths** **Up to 120 days** **Not for use**

If forward deposits are made, the forward period plus the deal period equate to the maximum maturity period.

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Government Liquidity Funds	AAA	Instant	No	**100%**	**1 day**
Money Market Funds	AAA	Instant	No	**100%**	**1 day**
Enhanced Money Market Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	**100%**	**1 day**
Enhanced Money Market Funds with a credit score of 1.5	AAA	T+1 to T+5	Yes	**100%**	**1 week**
Bond Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**
Gilt Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**

1.4 Securities issued or guaranteed by governments

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max %?£m of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
UK Government Gilts	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	**100%**	**50 years**
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	Yes	**10)%**	**50 years**

1.5 Securities issued by corporate organisations

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Sale T+1	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Commercial paper other	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+3	Yes	**100%**	**Up to 6 yrs** **Up to 3 yrs** **Up to 2 yrs** **Up to 2 yrs** **Up to 7 mths** **Up to 100 days** **Not for use**

1.6 Other

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Local authority mortgage guarantee scheme.	Blue	Term	No	**50%**	**5 years**
Loans to Third Parties	n/a	Term	No	**£25m**	**20 years**
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	**£1m**	**27 years**
Property Funds	n/a	T+4	Yes	**50%**	**15 years**

5.3 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Midlothian Council Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
Cash type instruments			
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in Appendix 5.2.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	As shown in Appendix 5.2.
c. Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMF has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.	As shown in Appendix 5.2.
d. Enhanced Money Market Funds (EMMFs) **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the EMMF has a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Capita Asset Services overlaid. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Capita Asset Services overlaid. On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures	As shown in Appendix 5.2.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk depending on period & credit rating)	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Capita Asset Services overlaid. On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.

j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.
Other types of investments			
k. Loans to third parties	Using the example of a loan to a RSL, these would be medium risk investments, exhibiting higher risks than categories (a)-(f) above. They are also highly illiquid and are only repaid at the end of a defined period of time (up to 20 years) or on the sale of a property, whichever is the earlier.	The risk associated with such an investment would be mitigated through the application of a premium on the loan rate. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation.	£25m
l. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Per Existing

m. Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest plus a premium.		As shown in Appendix 5.2.
n. Subordinated Debt Subscription to Newbattle Centre SPV	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term.	As shown in Appendix 5.2.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance & Integrated Service Support, and if required new counterparties which meet the criteria will be added to the list.

5.4 APPENDIX: Approved countries for investments

Based on the lowest available rating (as at 15.02.16)

AAA

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

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

5.5 APPENDIX: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.6 APPENDIX: The treasury management role of the section 95 officer

The S95 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Internal Audit Plan 2016/17
Report by Internal Audit Manager

1. Purpose of the Report

The purpose of this report is to:

- present the draft Internal Audit plan for 2016/17;
- explain how the plan was developed; and
- seek Audit Committee comments on the draft plan.

2. Background

Risk Based Plan

The Public Sector Internal Audit Standards require the Internal Audit Manager to develop a risk based audit plan which sets out the priorities for the internal audit activity during the year. These priorities need to be consistent with the Council's goals. In order to achieve this requirement, the 2016/17 plan has been developed following a review of:

1. Midlothian Council's priority themes and objectives;
2. Midlothian Council's risk management framework including operational, project and corporate risk registers which detail the key risks, their likelihood and potential impact as well as detailing controls and residual risk;
3. Midlothian Council's quarterly Performance Reporting to the Performance Review and Scrutiny Committee;
4. any budgeted overspends;
5. the previous year's annual governance statement and any issues raised;
6. the impact of national issues (eg economic factors or the introduction of new legislation);
7. the impact of local issues (eg corporate or service action plans and issues raised by external assurance bodies);
8. the available audit resource and skills;
9. the need for specialist skills, where they are not available already;
10. staff development and training;
11. an assessment of the time needed for the management of the Internal Audit Service (eg audit planning, development of the annual audit opinion, attendance at meetings, the appraisal process, the updating of relevant audit policies and procedures);
12. the need to establish a contingency for consultancy, ad hoc reviews or fraud investigations;
13. the balance of coverage required so External Audit can place reliance on Internal Audit's work;

14. the need to undertake periodic reviews of core financial and operational systems in line with Internal Audit's three year strategy;
15. Internal Audit's own knowledge and experience through previous internal audits, consultancy work and investigations (including follow up reviews of recommendations raised);
16. input received from senior management (all Heads of Service), Corporate Management Team; and
17. work undertaken by other assurance providers.

The Audit Plan has been developed using the process detailed in the Audit Charter approved by the Audit Committee on 5 May 2015.

Internal Audit has developed its own Audit Universe and scored all elements on a high, medium or low basis. This universe has then been used to derive the Audit Plan.

The plan is fluid and can be adapted to accommodate any escalation of risks coming to light through the risk management process or any change in Internal Audit resource.

<u>Key areas and Internal Audit Manager's opinion on governance, risk management and controls</u>

The Internal Audit Manager is required to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. In order to allow the Internal Audit Manager to form an opinion, the audit plan needs to be sufficiently broad to cover key areas over a regular cycle and for this reason a number of core processes and systems are reviewed on a regular basis.

<u>Consultancy and Help Desk</u>

Some audit resource is set aside for consultancy engagements based on the engagement's potential to improve management of risk, add value and improve Council operations.

Time is also made available to assist with requests for Internal Audit assistance through the operation of a help desk facility. This is used to support Council Services who are looking for advice or support on risk or control related issues.

<u>Corporate Fraud</u>

The 2016/17 plan provides resource for Corporate Fraud. This resource will be used to help identify and / or investigate any suspected internal or external fraud, specific audits on vulnerabilities to fraud and to update fraud policy and procedures including the whistle blowing facility.

Reporting Calendar

Appendix 2 shows the timing of likely reports to individual Audit Committees for information.

3. Proposed Internal Audit Plan

Appendix 1 details the audits and reviews Internal Audit plan to deliver against the available number of days.

Conclusion

The above approach is aimed at allowing audit resource to be allocated to high risk areas in the Council but also allows the Audit Manager to conclude on the governance, risk management and controls more generally.

4. Report Implications

4.1 Resource

The Internal Audit Section has a current FTE of 3.7 and an additional 2 FTE fraud officers. After deduction for holidays, sickness, training and general administration this equates to a total of approximately 1080 audit days.

The total Internal Audit draft budget for 2016/17 (including the additional fraud resource) is £267K.

4.2 Risk

Each Internal Audit assignment is risk-based and tests the service's management of risk.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☒ **Community safety**
- ☒ **Adult health, care and housing**
- ☒ **Getting it right for every Midlothian child**
- ☒ **Improving opportunities in Midlothian**
- ☒ **Sustainable growth**
- ☒ **Business transformation and Best Value**
- ☐ **None of the above**

4.4 Impact on Performance and Outcomes

The Internal Audit plan assists the Council in improving its performance and outcomes.

4.5 Adopting a Preventative Approach

Specific audits within the 2016/17 plan will include assessments on when a preventative approach can be adopted.

4.6 Involving Communities and Other Stakeholders

The Internal Audit Plan has been discussed with Heads of Service, the Section 95 Officer and Corporate Management Team. The plan has also been passed to Grant Thornton for comment and will be discussed with the Audit Committee.

4.7 Ensuring Equalities

There are no equalities issues with regard to this report.

4.8 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.9 IT Issues

There are no IT issues with regard to this report.

5. Recommendations

The Audit Committee is therefore asked to:

a) note that 100 days has been set aside for Health and Social Care within the plan but that the proposed audits and time allocated may change following input from the Integrated Joint Board Audit and Risk Committee;
b) to otherwise review and comment on the proposed Internal Audit plan for 2016/17; and
c) note that following a recommendation by Grant Thornton a session with members of the Audit Committee will be arranged to identify priorities for the coming year.

24 February 2016

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Audit Plan: 2016/17

Appendix 1

Ref	Risk Based / Core System (R / C) or N/A	Auditable Unit	Priority (H/M)	Total Number of Days	Q1	Q2	Q3	Q4	Comments
1	R & C	Tyne Esk Leader Grant Fund	H	30	✓				To review the controls in place to deliver the Tyne Esk Leader Grant Fund and to undertake compliance related work as defined by the Service Level Agreement.
2	R &C	Bank and Cash Compliance Review	M	30	✓				To review the controls over the collection, banking and accounting for income.
3	C	Construction Industry Scheme	L	10	✓				HM Revenues and Customs has requested Internal Audit undertake a review in this area to test that the scheme rules are being complied with.
4	R	Health and Safety	M	30		✓			To review the adequacy of the control framework designed by management to allow compliance with Health & Safety legislation.
5	C	Insurance	M	25		✓			Review the Council's arrangements for managing insurable risks including the monitoring of claims against established excesses, procurement of suppliers and the level of current cover.
6	R	Financial Strategy / Delivering Excellence	H	40		✓			Review the frameworks established for delivering the financial strategy including the Delivering Excellence model and

									testing a sample of service areas that are progressing through this model.
7	C	Accounts Payable Compliance Review	M	30			✓		This is the main system used by the Council to pay suppliers for goods and services.
8	R & C	Fleet Management	M	30			✓		To review the process and controls over the management of the Council's fleet vehicles including the linkage to the Council's asset management plans and asset investment plans.
9	C	Internal quality assurance process over care home providers.	H	30			✓		To assess the adequacy of the Council's internal quality control over third party care home providers.
10	C	Arrears	H	40			✓		To review the council management over the collection of overdue debt including council tax, rental income and sundry debt.
11	R	Children and Young People's Act – Named Person	H	30				✓	The Children and Young People's Act requires all children to have a named person. The audit will review the controls in place which allow the Council to implement this legislation.
12	C	Social Housing Audit	H	40				✓	To review the adequacy of the control framework established by management to allow successful delivery of the Social Housing Programme.
13	R	Sickness absence Management	M	30				✓	To review the controls in place to manage sickness absence across the Council including policy and procedures

									and monitoring of absence.
14	R	Fraud Policy and Procedures	M	10				✓	A review is undertaken of existing fraud policies and procedures to determine whether these require amendment / update as a result of changing regulations / legislation.
15	R and C	Review of Corporate Governance	M	10				✓	Internal Audit each year tests a sample of the key elements in the Code of Corporate Governance to determine whether these are operating as described. The results from this testing are included in the Annual Governance Statement.
16	R and C	Annual Assessment of Internal Controls	M	10				✓	Internal Audit each year prepares an annual report for the Audit Committee summarising the work undertaken by the Internal Audit Section and forming an opinion on the adequacy of the control environment within the Council.
17	N/A	Assessment of Internal Audit against PSIAS and of the Audit Committee against the CIPFA code.	M	15				✓	Each year the Internal Audit Section undertakes a self assessment against the Public Sector Internal Audit Standards and reports its findings to the Audit Committee. This year there will also be an external assessment. In addition assistance is provided to the Chair of the Audit Committee in undertaking an assessment of the Audit Committee against the CIPFA guidance.

18	N/A	Planning for 2017/18	M	10				✓	Time is set aside to allow for the development of the 2017/18 internal audit plan.
19	R and C	Recommendation follow up Reviews	H	30		✓		✓	Two reviews are undertaken. The first notes performance against closing issues by the agreed due date while the second includes a sample check on the adequacy of actions taken against issues which are flagged as closed.
20	R	Fraud Training	M	10	✓			✓	A budget is set aside to allow fraud training to be provided to Council Management and staff.
21	R and C	Council Tax Investigations	M	50	✓	✓	✓	✓	Single person discounts and exemptions review to determine whether these reductions are claimed legitimately.
22	R and C	Fraud Related Reviews (3)	M	90	✓	✓	✓	✓	Three areas are selected each year where there is potential fraud exposure to the Council.
23	C	National Fraud Initiative	M	60	✓	✓	✓	✓	To co-ordinate the NFI exercise, review and investigate matches and produce reports for the Audit Committee on the results of these matches.
24	R	Consultancy (4 at 30 days each)	H	120	✓	✓	✓	✓	Time is set aside in the plan to undertake any consultancy work / emerging risks.
25	R	Investigations (4 at 30 days)	H	120	✓	✓	✓	✓	Time is set aside in the plan to undertake any investigations.
26	R	Help Desk Enquiry system	H	35	✓	✓	✓	✓	Internal Audit has a help desk facility where guidance and advice is given to

									management on internal control. The help desk is also used to manage any enquiries received through the whistle blowing facilities offered by the Council.
27	N/A	Administration of Audit Scotland Reports	M	5	✓	✓	✓	✓	Internal Audit co-ordinates submission of Audit Scotland Reports to the Audit Committee.
28	R	Support for the Risk Management Group / Integrity Group	M	10	✓	✓	✓	✓	Internal Audit provides support to the Risk Management Group and the Integrity Group.
29	R and C	Support for the Integrated Joint Board	H	100	✓	✓	✓	✓	This time relates to three scheduled audits for the Integrated Joint Board as well as all related support work.

Key:

R – Risk Based Audit

C – Core Process or Systems Audit

AUDIT COMMITTEE - REPORTING CALENDAR (2016/17)

The following sets out the proposed timetable for submission of standard reports to the Audit Committee. This does not include:

- Internal Audit and External Audit reports on individual assignments;
- Audit Scotland National Reports; and
- Reports from external scrutiny bodies where governance, risk and internal controls have been examined.

These reports will be presented when work is completed.

The reports listed below are expected to be delivered according to the following timetable but some are provisional dates:

Area	Assigned to	September	December	March	May	June
Governance						
Council's Annual Governance Statement	Legal Services Manager				✓	
Review of Council's Code of Corporate Governance	Legal Services Manager				✓	
Internal Audit Assessment of Annual Governance Statement and review of the Council's Code of Corporate Governance	Internal Audit Manager				✓	
Audit Committee Chair Report to Council (including assessment of Audit Committee against the CIPFA Audit Committee Practical Guidance for Local Authorities 2013)	Audit Committee Chair					✓

Area	Assigned to	September	December	March	May	June
Assessment of Internal Audit against the Public Sector Internal Audit Standards	Internal Audit Manager				✓	
Review and approval of the Internal Audit Charter (following any changes)	Internal Audit Manager				✓	
Internal Audit						
Internal Audit Plan	Internal Audit Manager			✓		
Progress Reports with Current years plan	Internal Audit Manager		✓			
Follow up on adequacy of actions taken on Internal Audit Recommendations	Internal Audit Manager					✓
Number of recommendations made by Internal Audit and percentage reported as complete by management	Internal Audit Manager		✓			
Internal Audit Manager's Annual Assurance Statement	Internal Audit Manager				✓	
External Audit						
Annual plan	Grant Thornton			✓		
ISA 260 - External Audit Report to those charged with Governance	Grant Thornton	✓				
Risk Management						
Review of risk registers -	Risk Manager	✓	✓	✓		✓

Area	Assigned to	September	December	March	May	June
reporting of critical and high risks		Quarter 1	Quarter 2	Quarter 3		Quarter 4
Risk, Safety Health & Civil Contingencies Manager Annual report on Risk Management Control	Risk Manager					✓
Fraud and Corruption						
National Fraud Initiative Report and Corporate Fraud Report	Internal Audit Manager	✓	✓			✓
Review and update of Fraud and Corruption and Anti Money Laundering policies	Internal Audit Manager					✓
Finance						
Treasury Management Reports (Provisional date)	Head of Finance and Integrated Service Support			✓		✓
Financial Monitoring Reports (Provisional date)	Head of Finance and Integrated Service Support	✓ Quarter 1	✓ Quarter 2	✓ Quarter 3		✓ Quarter 4
Number of Reports per meeting		**4**	**5**	**5**	**6**	**8**

Midlothian

Internal Audit Report

Review of Controls Operating Over Developer Contributions

Issued: March 2016

Level of Assurance	Objectives	Rating
	• whether there are adequate controls in place to allow any legislative requirements to be adhered to in relation to developer contributions;	**Good**
	• to determine whether developer contributions to the Council are set at an appropriate level and within the requirements of the relevant statutes;	**Good**
	• the establishment of legal agreements, their full compliance with Council policy and their registration;	**Good**
	• the monitoring of developer contributions and collection of amounts owed by the relevant due date;	**Weak**
	• the controls that allow posting to the correct accounts; and	**Average**
	• the controls that allow contributions received to be used by the appropriate due date for the purposes described in the legal agreements.	**Average**

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Executive Summary

1.0 Introduction

Internal Audit were requested by the Head of Communities and Economy to examine the controls over Developer Contributions.

Midlothian Council is currently experiencing high levels of growth and investment with further significant levels of development proposed in the Council's adopted and proposed development plans. As the population of Midlothian increases there are increasing demands placed on the existing infrastructure and services. Developer Contributions are used by the Council as a means of mitigating the impact of new development on the Council's existing infrastructure and for the provision of new facilities. Contributions are used to fund education provision, road infrastructure improvements, community facilities, town centre improvements, delivery of affordable housing, and other infrastructure which is required as a consequential impact of development. The infrastructure requirements are identified during the preparation and adoption of the Local Development Plan and associated Supplementary Planning Guidance.

Contributions are secured as part of the planning process where the developer and the Council sign an agreement under Section 75 of the Town and Country Planning (Scotland) Act 1997 (as amended by the Planning etc (Scotland) Act 2006) or under S69 of the Local Government (Scotland) Act 1973. This commits the developer to make a contribution to the Council linked to the progress of completion of the development. In return the Council commits to procuring the required infrastructure within a specified time limit.

Following a management review in July 2014 the responsibility for negotiating and securing developer contributions was assigned to the Planning team. In March 2015 a Section 75 Officer was appointed following a 9 month period where this post was vacant. The Section 75 Officer reports directly to the Planning Manager. Legal Services draft the agreements as instructed by Planning, and Financial Services invoice for contributions due and ensure payments received are appropriately accounted for.

2.0 Objectives of the Audit

Audit Objective

The objective of the audit was to provide assurance to senior management and the Audit Committee that the Council has adequate controls in place over Developer Contributions.

A copy of the terms of reference for the review is attached on page 13.

3.0 Conclusion

During our audit the main strengths identified were that:

- Midlothian is in a period of growth and the Council has been successful in securing developer contributions as part of the development process. Significant amounts have been collected, with the Council holding £18m of unapplied developer contributions to fund essential infrastructure with several major developments in the pipeline;
- the Midlothian Local Plan and Supplementary Planning Guidance adhere to current legislation and are regularly updated;
- this Plan and Guidance are clear in identifying the infrastructure need that arises as sites are developed. They are widely consulted upon within the Council and externally and are currently in the process of being updated. (This Internal Audit review did not reperform the costings held in the Supplementary Planning Guidance);
- there is sufficient information available to ensure that developers know what is expected of them and procedures in place to allow effective legal agreements to be signed off; and
- controls within Finance were also noted that allow payments to be accurately calculated and appropriate indexation to be applied to the contribution. Contributions once received are separately identifiable and it is clear which infrastructure the contribution is intended to provide.

We have however identified a number of areas where improvements are required and these include:

Governance

- the Developer Contribution Steering Group, which is an officer group with a remit to oversee the developer contribution process, has not met for over a year. There is no terms of reference setting out the roles and responsibilities of either the group or group members;
- the risk register needs to be reviewed and updated to reflect the findings of this review with appropriate actions added.

Monitoring

- there is a lack of monitoring by the Council on when staged payments fall due, with reliance on developers to take responsibility to make their payments. During the audit an example was found where payments had been missed, it related to a 6 house development which had been sold by the developer without the developer contribution having been paid to the Council. This contribution has subsequently been received. Substantial amounts of contributions (£3.5m) have been subsequently found by the Planning Service to be uncollected but remain secure through legal agreement. Steps are now being taken to collect these contributions;
- the agreements with developers require that if the contribution is not committed within a fixed time period the contribution has to be repaid. There is no recording (without reference back to the agreement itself) of the expiry dates of the contributions or reporting of the number of agreements with contributions approaching expiry;

- Finance records developer contributions on a spreadsheet as the contributions are received, however at the time of the audit this spreadsheet contained limited information on contributions that were expected to be collected in future. Finance has indicated that this has since been rectified with forecasts for the receipt of developer contributions now included in financial forecasts;
- there is no central register of developer contribution agreements and it is not therefore possible to report on the number of agreements in place, the number of agreements outstanding, the amount of contribution that can be expected to be collected or the number of agreements where payments have not been received without reference back to the original agreements. The index of planning agreements maintained by Legal Services does not show details of developer contributions and cannot be used for analysis or reporting;
- developers have the right to apply for a discharge or modification of the planning obligation. If a developer was to apply for a discharge of the obligation on the grounds of full payment they are requested to supply full payment information as the relevant services (Planning and Finance) do not have a single point of information recording which contracts are fully paid. The checking process requires an analysis of the finance records of contributions received and a sales ledger check;
- if a developer does not apply for the obligation to be discharged there is currently no central record showing a contribution has been fully collected in accordance with the agreement; and

<u>Procedures</u>

- the only written procedures are those covering the legal process to produce and register a S75 agreement. Without procedures covering the whole process, it is unclear where the responsibilities lie for each step of the process.

We have in this instance rated the individual control objectives for the review in accordance with the table shown at Appendix 1 (page 11) as follows:

Objectives	Rating
• whether there are adequate controls in place to allow any legislative requirements to be adhered to in relation to developer contributions;	Good
• to determine whether developer contributions to the Council are set at an appropriate level and within the requirements of the relevant statutes;	Good
• the establishment of legal agreements, their full compliance with Council policy and their registration;	Good
• the monitoring of developer contributions and collection of amounts owed by the relevant due date;	Weak
• the controls that allow posting to the correct accounts; and	Average
• the controls that allow contributions received to be used by the appropriate due date for the purposes described in the legal agreements	Average

A management action plan has been agreed to address the control failings. Internal Audit proposes to follow up on a sample of the recommendations made in 2016/17.

4.0 Findings

4.1 Governance

The Developer Contribution Steering Group was an officer group that oversaw the planning obligation process, identified infrastructure requirements arising out of the developments and reviewed legal agreements established with developers. This officer group had a very broad membership that encompassed representatives from Planning, Education, Legal Services, Estates, Commercial Services, and Finance. Although meetings were minuted the group did not have a Terms of Reference. As a consequence of the management review in July 2014 responsibility to secure contributions was transferred to the Planning Team. At this time a number of key members of the Developer Contribution Steering Group left the Council. The group has not met since May 2014. The Planning Manager intends to redesign the Developer Contributions Steering Group as part of the ongoing Planning Service review.

No	Recommendation	Priority	Manager	Target Date
4.1.1	The Developer Contribution Steering Group should be re-established with a specific terms of reference developed that clearly identifies the responsibilities of each service involved in the process and its reporting line. The Group should meet regularly and provide periodic reporting to the Corporate Management Team. Management should implement regular reporting to the Developer Contribution Steering Group of: • agreements signed during the year reporting the value and number of units; • agreements completed during the year with the value of contributions received; • the infrastructure projects funded during the year and value of funding allocated; • a breakdown of the balance held by agreement and infrastructure project; and	High	Planning Manager	30/06/2016

No	Recommendation	Priority	Manager	Target Date
	• highlight reports showing contributions that are approaching expiry. Management Comment: The recommendations are scheduled to be implemented once the Planning Service review is complete and the Developer Contributions Steering Group is reformed.			

4.2 Risk Registers

There is a risk register entry for developer contributions on the Communities and Economies Risk Register which was last reviewed in January 2014. One action listed is in relation to restarting the programme of activity of the revised developer contributions steering group. It was noted however that the Group has only met on one occasion since the action was raised and is therefore significantly overdue.

We also have a concern that given the findings within this audit report that additional actions in relation to monitoring are required to reduce the stated risk. Management should review the current risk rating applied.

No	Recommendation	Priority	Manager	Target Date
4.2.1	Management should review the current risk score and develop a series of actions to reduce the risk level to within the Council's risk appetite. Management Comment: The S75 Officer has drafted an operational risk register for developer contributions. This can be entered into Covalent to form a developer contributions risk register.	High	Head of Service	Complete

4.3 Monitoring Developments and Collection of Contributions

Once planning permission has been given for a particular development the developer must start work on the site within 3 years but there is no time limit for completion of the development once work has started. Payments of developer contributions may be scheduled once planning permission is given, or may in residential developments, be linked to the occupation of a certain number of houses on the development. Section 75 agreements are complex documents and each agreement may have contributions for several types of infrastructure, to be paid over at different completion stages of the development. Contributions in an agreement are most commonly index linked but in any agreement there may be some that are not. The monitoring of developments and contributions due is therefore not a straight forward process. Historically a developer contributions assistant undertook this monitoring but following a historical re-structuring, the post was deleted and responsibility was not re-allocated.

The current practice is to issue invoices to developers once the developer contacts the Council requesting an invoice or offering payment. Internal Audit is of the view that the Council should take responsibility for ensuring payments are made on time and not rely on developers. During the audit an example was found where payments had been missed, for 6 houses which had been sold by the developer and the developer contribution had not been paid to the Council. This contribution has subsequently been received.

Developers have the right to apply for certificates of discharge of obligations. The Council requires the developer to provide information about payments made and payment triggers with the application. This enables the Council to check whether the terms of the agreement have been met. This information is not readily available without time consuming, in depth searches of Planning and Finance records.

No	Recommendation	Priority	Manager	Target Date
4.3.1	Management should undertake a review to determine the best way to maintain a central record of agreements, that will allow the Council to monitor: • the level of completion of developments with respect to trigger points in the agreements, which would allow the Council to invoice developers as contributions fall due; and • when developments are complete, which would allow the Council to assess whether the full contribution has been received and enable the Council to provide discharge certificates on applications. Two ways that could be considered are the licensing of a database solution that can link in with the current planning and building control system and the reinstatement of the developer contributions assistant post. These would require additional resources. There is a potential for monitoring to be self financing if the planning policy was to introduce monitoring fees.	High	Planning Manager	30/04/2016

No	Recommendation	Priority	Manager	Target Date
	The Council could take a legal view on any developments where this might be possible. <u>Management Comment</u> : The Planning Service is subject to review. One outcome of this process is to secure additional resource in terms of a Compliance Officer to monitor agreements. The Planning team has also been researching an electronic database solution to assist monitoring.			
4.3.2	Management should be proactive in issuing invoices for contributions and ensure that procedures are in place to ensure all contributions are collected after the trigger points have been reached. <u>Management Comment:</u> The S75 officer has been making progress in identifying contributions that are due for payment and invoicing developers for the contributions. The S75 Officer has regular monitoring meetings with Finance and Legal.	High	Planning Manager	30/04/2016

4.4 Accounting for and Monitoring the Application of Funds

Once the contribution is paid by the developer it must, under the terms of the legal agreement, be committed to the agreed infrastructure within a certain number of years by the Council or it will expire and then require to be repaid to the developer. Although Finance record developer contributions on a spreadsheet as they are received and analyse them to the infrastructure projects they are intended to fund, there is no recording of when developer contribution requires to be used.

Testing of records by Internal Audit identified an agreement which had passed the contractual date but where we were unable to find records which linked this directly to an infrastructure project. Management have indicated that the works have been completed using this contribution but there is currently a lack of a clear audit trail available to demonstrate this.

At the time of the audit, the spreadsheet maintained by Finance did not have information on expected future contributions. This information would have assisted in capital planning. Finance have indicated that they have already acted on this issue and forecasts of contributions receivable have since been included in financial forecasts

Assets are often procured in advance of contributions being received and are funded by borrowing, as need arises before the full contributions are received.

No	Recommendation	Priority	Manager	Target Date
4.4.1	In the short term management should: • update the finance spreadsheet recording developer contributions received with the planning reference number and the expiry date of each contribution; • review the developer contribution balance and analyse it by agreement and infrastructure project; • examine the individual contributions and identify any that may have expired and those that are nearing expiry; and • more fully develop the schedule of estimated future payments for all signed agreements to enhance capital planning.	High	Senior Accountant Projects and Treasury and Planning Manager	30/04/2016
4.4.2	The Developer Contribution Steering Group should review any contributions which have passed or are approaching their contractual date to ensure that there is a clear audit trail from the contribution to the infrastructure.	High	Senior Accountant Projects and Treasury and Planning Manager	30/06/2016
4.4.3	For assets procured in advance of contributions being received: • a spreadsheet should be prepared comparing the capital and borrowing cost of assets procured with the contributions received to ensure sufficient contributions have been collected to meet the agreed proportion of costs on either fully or	Medium	Senior Accountant Projects and	30/04/2016

No	Recommendation	Priority	Manager	Target Date
	partially funded assets; and • the Supplementary Planning Guidance should be updated to make it clear to developers that contributions are being sought for forward funded assets and that contributions will be applied to related borrowing costs. Management Comment: Finance now includes projected receipts of developer contributions in financial forecasts. The S75 Officer has set up a shared folder that can act as a central register of agreements and is accessible by Legal Services and Financial Services. For each agreement this folder contains copies of agreements and a summary of the key elements of the agreement. Supplementary Planning Guidance is being developed as part of the Local Development Plan process and will include information on the costs of infrastructure. The guidance will be subject to consultation with the development industry. This piece of work is scheduled as part of the proposed Local Development Plan process.	 Medium	Treasury Planning Manager	 30/06/2016

4.5 Recording the Developer Contribution Process

Legal Services have a written procedure to follow to produce and register the planning agreements. The other services involved in the process do not have written procedures. There is a flowchart in the current Supplementary Planning Guidance, but this needs to be revised and updated. The responsibilities for the various parts of the process have not been clarified.
Communication between the services could be improved, legal agreements and heads of terms are not always available for the use of all services involved. For major infrastructure projects Finance should be involved at an early stage to ensure costings are accurate.

No	Recommendation	Priority	Manager	Target Date
4.5.1	Planning Service should take responsibility for the entire process and instruct Legal Services to prepare and register the agreements and instruct Finance to calculate and	High	Planning Manager	Complete

	invoice the contributions and apply the contributions to each infrastructure project.			
4.5.2	A procedure should be developed that covers the entire developer contribution process identifying which steps in the process are to be carried out by each service. Each service should then develop their own procedures for each of their parts of the process. The process should be outlined in the revised Supplementary Planning Guidance for the information of the developers (although this would not be required at the same level of detail as the council's procedure).	Medium	Planning Manager, and Senior Accountant Projects and Treasury	30/06/2016
4.5.3	Copies of legal agreements and delegated authority reports should be scanned on receipt by Legal Services and saved to a shared location to be set up by planning.	Medium	Principal Solicitor and S 75 Officer	Complete
4.5.4	To ensure accurate costings for major infrastructure projects, • consult Finance on the costings to be included in the new Supplementary Planning Guidance for developers; and • for projects outwith the Supplementary Planning Guidance consult Finance on the costings at the negotiation stage.	High	S 75 Officer	Complete

<u>Management comment</u>
The Local Development Plan and associated Supplementary Planning Guidance provide the strategic procedural framework for the developer contributions process.
The Planning Service has draft procedures which are currently subject to internal consultation. These operational procedures need to be concluded.
Communication between Planning, Finance and Legal takes place weekly, if not daily. The Developer Contributions Steering Group will add to the existing good levels of communication

APPENDIX 1

Definitions of Ratings

Audit Opinion

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

Recommendation Rating

Priority	Risk Definition
High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- Other members of the Corporate Management Team
- Grant Thornton, External Audit
- Ian Johnson, Head of Communities and Economy
- Gary Fairley, Head of Finance and Integrated Service Support
- Peter Arnsdorf, Planning Manger
- Matthew Atkins, S75 Officer
- David Gladwin, Financial Services Manager
- Gary Thomson, Senior Accountant Projects and Treasury
- Alan Turpie, Monitoring Officer
- William Venters, Principal Solicitor

Audit Team

Author: Heather Mohieddeen, Senior Auditor
Reviewer: Graham Herbert, Internal Audit Manager

APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective
To provide assurance to senior management and the Audit Committee that the Council has adequate controls in place over Developer Contributions.

Scope of Audit

The following areas are included within the scope of the Audit:
- whether there are adequate controls in place to allow any legislative requirements to be adhered to in relation to developer contributions;
- to determine whether developer contributions to the Council are set at an appropriate level and within the requirements of the relevant statutes;
- the establishment of legal agreements, their full compliance with Council policy and their registration;
- the monitoring of developer contributions and collection of amounts owed by the relevant due date;
- the controls that allow posting to the correct accounts; and
- the controls that allow contributions received to be used by the appropriate due date for the purposes described in the legal agreements.

Exclusions and Limitations

The finance model used to calculate developer contributions for Shawfair development.

Potential Risks

Potential risks include:
- failing to comply with relevant legislation leading to reputational damage;

- failing to identify the full impact of the development and thus not collecting sufficient contribution;
- failing to have in place legally binding contracts;
- applying the contribution to inappropriate infrastructure and facing a legal challenge over the use of funds;
- failing to collect the full contribution; and
- failing to apply the contribution within the timescale and having to repay the unused contribution

Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- access to and interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to the Audit Committee.

Timescales & Reporting

The audit will commence in March 2015 and is expected to be reported to the June Audit Committee.

Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

Lead Auditor:	Heather Mohieddeen	0131 271 3126
Reviewer:	Graham Herbert	0131 271 3517

Midlothian

Internal Audit Report

Review of Controls Operating Over Pre-School Provision Partnership Providers

Issued: March 2016

Level of Assurance	**Average** - The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.

Table of Contents	

Executive Summary

1.0 Introduction

The Children and Young People (Scotland) Act 2014 sets out that from the start of the school term following a child's third birthday, three and four year olds are entitled to 600 hours of free pre-school education. This is approximately the equivalent of 15 hours and 50 minutes per week over 38 weeks. Also, this free provision applies to parents of two year olds in receipt of qualifying benefits starting from the first term after the child's second birthday.

Midlothian Council provides nursery education to children either via nursery classes and schools run by the Council, or by commissioned partner nurseries within Midlothian. The partner nurseries are private sector nurseries which have satisfied the Council's eligibility criteria. Midlothian has a total of 2 nursery schools, 24 nursery classes and works with 16 partnership providers. The commissioning process is carried out by the Education Quality Assurance Team, with initial authorisation for the commissioned services by the Director. The Council is budgeted to spend £633,000 on these partnership nurseries for 2015/16 and is currently on target for this.

The Education Quality Improvement team carry out a range of quality monitoring visits at each partner nursery every term to determine whether the provider continues to meet the Council's standards. Additionally, providers must be registered with the Care Inspectorate and the Care Inspectorate will also carry out, normally, annual inspections. The results of all inspections by the Care Inspectorate, including any action plans, are submitted to the Education Quality Improvement team to monitor and discuss with the provider as required.

An Access database is used to record the details of all children receiving nursery education from partner providers within Midlothian. Payments are made to the provider based on the provider's pupil roll. These will either be three or six payments per annum depending on the provider's preference.

The application process for partner nurseries is administered locally by the nurseries themselves using forms issued by Midlothian Council. Parents are required to complete the application process and provide proof of eligibility at the partnership nursery. Although parents are able to apply to more than one nursery, each child is only eligible to receive a maximum of the standard 15 hours and 50 minutes entitlement. If a parent chooses to attend a Midlothian nursery and a partner nursery, the Midlothian owned nursery will be considered as first choice for the free provision. Time is spent by staff manually comparing the registers of partner nurseries and Midlothian owned nurseries to ensure pupils only receive the standard weekly entitlement. Different databases are used for the partner nurseries and the Midlothian owned nurseries, so this is a time consuming process. However, it is noted that Midlothian is in the process of moving to a new database system which will hold the details of all pre-school pupils for both Midlothian nurseries and partner nurseries, so will streamline this process.

Finance and Integrated Service Support staff will undertake pupil census checking throughout the year. This includes receiving copies of pupil starter and leaver forms and communicating with the provider to confirm their pupil roll. As at November 2015, 456 pupils were attending partnership nurseries in Midlothian and 1,583 pupils were attending Midlothian owned nurseries.

2.0 Objectives of the Audit

The objective of the audit was to review the adequacy of the processes and controls for the Council's arrangements with Pre-School Partnership Providers for three and four year olds. This included guidance and procedures for staff, contracts, payments made to the nurseries, and performance monitoring.

3.0 Conclusion

Our Internal Audit has identified that:

- adequate contracts were in place for the providers;
- a detailed commissioning process is in place for a provider to be accepted as a partner and for this to be adequately authorised;
- payments are made accurately and timeously to providers; and
- regular and robust monitoring is carried out by quality improvement staff.

However, during our audit we identified some weaknesses which are further explained in the Management Action Plan. These included:

- not all key provider documentation is periodically checked, including financial accounts, insurance and ICO registration;
- although detailed monitoring is carried out, written procedures for this process could be further developed;
- new contracts should be signed by the provider before payments are made;
- management should ensure that when approving a contract with a new supplier Council employees are signing within their authorisation limit per the Council's Authorised Signatories system; and
- improvements could be made to ensure the accuracy of the submitted pupil roll of the provider organisations, such as by introducing checks on a sample of organisations in the year.

The overall control framework is of an average standard. As noted above, some weaknesses have been identified in the controls and improvements are possible. Therefore, we have on this occasion rated the review as Average as per the definitions on page 10. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

4.0 Findings

4.1 Procedures, Guidance, and Commissioning

Checks on Commissioning

Whilst the audit recognised a detailed process was in place for commissioning, in terms of confirming factual details about the establishment, delivery of education at the nursery, quality assurance, and management, we identified that some initial steps were missing. It is noted that Insurance information would be checked during Care Inspectorate audits. However, the contract for services is with the Council, not the Care Inspectorate.

These included:

- financial accounts to confirm the financial soundness of the business;
- proof of Information Commissioner's Office registration (ICO);
- credit check of the organisation.
- insurance documentation; and
- whilst some policies and procedures were checked as part of the commissioning process, there were inconsistency in what was asked for dependent on which employee was involved in the process.

Additionally, it was noted that there has not been recent contact with Procurement Services for the nursery commissions. It was noted that for two of the nurseries the annual spend exceeded £50,000, therefore non-competitive action forms should be submitted to Procurement Services.

No	Recommendation	Priority	Manager	Target Date
1	For future commissions, checks should be extended to include a review of financial accounts, credit check, insurance, and standardisation of key policies and procedures.	High	Quality Improvement Manager Education.	30/06/2016

No	Recommendation	Priority	Manager	Target Date
2	ICO Registration status should be confirmed for all providers.	High	Quality Improvement Manager Education.	30/04/2016
3	The Quality Assurance team should liaise with Procurement Services to review the current process and ensure that the Council's process, such as the submission of non-competitive action forms, is followed.	High	Quality Improvement Manager Education	30/06/2016

Written Procedures

A number of pro-formas are in place for the quality assurance process. This covers numerous aspects of the curriculum, resources, staff development and management. The monitoring is carried out by the Council's Education Quality Assurance staff. Although there are standard pro-formas in place, at the time of the audit there was no written procedure outlining the monitoring process.

There were written procedures in place for the payments and pupil administration process. Generally these were satisfactory, but it was noted that they only existed as a paper copy and had manual edits. Best practice would be to update and incorporate the manual edits into the electronic version. Additionally, it is noted that the pupil admission policy has been updated since the development of the procedures; therefore any future updates to the procedure should encompass this change.

No	Recommendation	Priority	Manager	Target Date
4	Written procedures should be developed for the quality assurance monitoring process. Written procedures should be updated for the payments and pupil administration process to incorporate all manual edits to the procedure and the Council's admission policy. The recommendation date reflects that a revised Early Years staffing model for pre-school provision is being put in place and procedures will follow on from this being implemented.	Medium	Quality Improvement Manager Education.	31/08/2016

Risk Register

The risk register for Nursery Education is included within the Education risk register. Whilst the risk register does cover a number of the key risks for Primary and Secondary Education, there was little detail noted for Nursery Education. Therefore, it was difficult to determine from the risk register how the key risks had been considered.

No	Recommendation	Priority	Manager	Target Date
5	The risk register should be reviewed from the perspective of nursery education and whether it requires update.	Medium	Head of Education	31/07/2016

4.2 Contracts

Signed Contracts

Testing identified four contracts which had not yet been signed and returned by the establishments for 2015/16. This carries the risk that partner nurseries may not have agreed to any updates to the contracts terms and conditions. The contracts have now been signed by the providers and returned to the Council.

No	Recommendation	Priority	Manager	Target Date
6	Contracts should always be signed before any payments are made.	Medium	Quality Improvement Manager Education.	Complete

Contract Authorisation

It is noted that the contracts for the partnership nurseries had all been signed by the Quality Improvement Manager Education and the owner or a senior officer at the provider. However, for three contracts it was noted that the total payments to the provider in the year exceeded £50,000, exceeding the authorisation level of the Quality Improvement Manager Education.

No	Recommendation	Priority	Manager	Target Date
7	For contracts exceeding £50,000 appropriate authorisation should be sought.	Medium	Head of Education	30/04/2016

4.3 Accuracy of Payments

Payment Accuracy

A sample of 19 payments were reviewed as part of the audit and checked to the pupil roll and rates per pupil session. One error, an underpayment of £962, was identified. Whilst the correct rates had been used and no issues were noted with the pupil roll calculation, this payment included a deduction for a progress payment made to a nursery and the progress payment figure used for the calculation was different from the actual payment made in the prior period. This resulted in the error of £962.

No	Recommendation	Priority	Manager	Target Date
8	As well as checking the pupil roll calculation, staff should check that progress payments made in past periods generated automatically by the pupil database agree to the actual payment.	Medium	Operational Support Manager	Complete

Pupil Registers Check

Pupil application forms and leaver forms are received from partner providers as evidence of their pupil roll. Additionally, on the payment slip the nursery manager must sign to agree the list of pupils we are making the payment for.

However, registers are never submitted to the school on a sample basis and are only agreed over the phone. It is noted that peripatetic teachers will often visit the nursery and have a reasonable knowledge at any time of the pupil roll at partnership nurseries, but this check is informal and does not involve comparing local registers to Midlothian’s data.

No	Recommendation	Priority	Manager	Target Date
9	Consideration should be given to introducing a sample register check, eg to visit the nursery, obtain a copy of the physical register and to check to our own records. This would help minimise the risk of fraud or error.	Medium	Quality Improvement Manager Education.	30/04/2016

Pupil Database

It was noted that there are separate pupil databases in Midlothian for nursery pupils attending Midlothian owned nurseries and those attending partnership nurseries. The databases are not set up to communicate with each other.

This results in time being spent by staff manually recalculating and adjusting for pupils part attending Midlothian's classes and classes of a partner nursery.

However, it is noted that this year the Council will be moving to a new system (NAMS) which will record the details of both on the same system, which will save staff time significantly once implemented. Therefore, as management are already moving to a new system which will resolve this issue in future, no recommendation is made.

4.4 Monitoring and Compliance

Periodic check of Financials, Insurance and ICO Registration

Whilst detailed monitoring is in place covering numerous aspects of curriculum, resources, staff development and management, some aspects of monitoring are not covered. These were:

- annual check of the organisation's financial accounts;
- annual check that the organisation had satisfactory insurance arrangements in place; and
- confirmation that the organisation had registered with the information commissioner's office, as the organisation is handling sensitive children's data.

No	Recommendation	Priority	Manager	Target Date
10	An annual check of the organisation's accounts, insurance and ICO registration should be introduced.	Medium	Quality Improvement Manager Education.	31/08/2016

Tracking of Actions and Scorecard

It is noted that although detailed monitoring takes place for each term, an improvement could be made in the way actions are tracked. For example, recommendations are made within the body of the monitoring review making it difficult to get an overall impression of how many actions have currently been allocated to a nursery. Likewise, care inspectorate recommendations are not included as part of the general monitoring information so need to be looked up separately

Additionally, although the monitoring is detailed, standard KPIs (Key Performance Indicators) have not been included as part of the Contract/SLA conditions. These could include:

- Service Concerns/Complaints received
- % investigations completed within time period
- % staff trained to appropriate level, eg SVQ3 level
- % Absences children
- % Staff turnover
- % Provider questionnaires indicating satisfaction levels with service delivered

No	Recommendation	Priority	Manager	Target Date
11	It is recommended that Quality Improvement review the way actions are tracked and if this could be presented in a clearer manner. Additionally, Quality Improvement should review the feasibility of introducing standard KPIs for partner providers.	Medium	Quality Improvement Manager Education.	31/08/2016

APPENDIX 1

Definitions of Ratings

Audit Opinion

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

Recommendation Rating

Priority	Risk Definition
High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Mary Smith, Director, Education, Communities and Economy
- Gary Fairley, Head of Finance and ISS
- Grace Vickers, Head of Education
- Julie Fox, Quality Improvement Manager Education
- Kathleen Leddy, Operational Support Manager
- Other members of the Corporate Management Team
- Grant Thornton, External Audit

Audit Team

Author: James Polanski
Reviewer: Graham Herbert

APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

The objective of the audit is to form an opinion on the adequacy of the processes and controls over the outsourcing of nursery provision to partner organisations.

Scope of Audit

The scope of the audit is to determine whether:

- procedures are in place to approve third party nursery providers and, on a sample basis, check for compliance against those procedures;
- contracts/SLAs are in place for all providers which set out the requirements for the service;
- payments made to providers are accurate and adequately authorised;
- arrangements are in place to ensure that providers are compliant with the requirements set out by relevant bodies such as the Information Commissioner's Office, the Care Inspectorate and Education Scotland; and
- there is a monitoring and inspection regime for pre-school providers and the scheme of inspection is comparable for both external service provision and the service provided by Midlothian Council.

Excluded from the Scope of the Audit

No specific exclusions.

Potential Risks

Potential risks include:

- non-compliance with best practice and legal and regulatory requirements;
- failure to identify non-compliance through inadequate monitoring arrangements; and
- incorrect payments made to suppliers resulting in financial loss to the Council.

Audit Approach

The audit approach consists of: • fact finding interviews with key employees; • review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place; • access to and interrogation of any relevant systems and sample testing as required; • closure meeting with local management to discuss the findings and any recommendations from the review; • draft and final reporting; and • presentation of the final report to the Audit Committee.
Timescales & Reporting
The audit will commence in **October** and findings from the review will be reported to the next available Audit Committee. Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.
Information Requirements
Access to all relevant systems, documentation and employees.
Audit Resource
Lead Auditor: James Polanski Ext. 5646 Reviewer: Graham Herbert Ext. 3517

Audit Committee
Tuesday 15 March 2015
Item No 5.7

Integrated Joint Board Audit Plan and Service Level Agreement
Report by the Internal Audit Manager

1 Purpose of Report

The purpose of this report is to:

- Request Midlothian Council Audit Committee to recommend to Midlothian Council approval of the Service Level Agreement between the Internal Audit Services of Midlothian Council, NHS Lothian and the Integrated Joint Board;
- Request Midlothian Council Audit Committee to recommend to Midlothian Council that operational Audits which may have relevance for the IJB to be shared with the IJB Audit and Risk Committee; and
- To note the 2015/16 Internal Audit plan approved by the Integration Joint Board.

2 Background

2.1 The Scottish Government's guidance on IJBs recommends the appointment of a Chief Internal Auditor to support the IJB. The guidance goes on to suggest that this role is populated from either the Chief Internal Auditor of the Health Board or the Council. Midlothian Council offered their Audit Manager for this role and at its meeting on 20 August 2015 the IJB appointed the Internal Audit Manager of Midlothian Council as the Chief Internal Auditor for the IJB.

2.2 This appointment has necessitated the need to produce an Internal Audit Plan for 2015/16 for the IJB, a Service Level Agreement and seek NHS Lothian and Midlothian Council authority to release Internal Audit Reports to the IJB Audit and Risk Committee where these relate to operational delivery of services on behalf of the IJB**.**

2.3 The IJB at its meeting on 29th October agreed the establishment of an Audit and Risk Committee with the first meeting held on the 4th February 2016 at which the Internal Audit plan was approved.

2.4 The Scottish Government through the Integrated Resource Advisory Group Guidance recommends that the arrangements for the internal audit service provided to the IJB should be set out in a service level agreement.

2.5 A Service Level agreement has been prepared and approved by the Integrated Joint Board at its meeting on the 10th December 2015 but also now requires to be authorised by Midlothian Council and the NHS Lothian. A copy of this Service Level agreement is attached at Appendix 2**.**

2.6 Assessments of the adequacy of the internal controls, governance and risk management arrangements for the operational delivery of services by the Health Board and Local Authority on behalf of the IJB will remain the responsibility of the relevant NHS or Local Authority Audit team.

2.7 There will however be operational audits which will be of interest to the IJB. The Integrated Resource Advisory Group recommends that the Internal Audit Plan for the IJB includes any relevant issues raised from partner Health Boards and Local Authority internal auditors. There is a need however to gain explicit consent from NHS Lothian and Midlothian Council to share the results of any relevant reviews with the IJB Audit and Risk Committee.

3.1 Resource

There are resource implications for both the Internal Audit teams of NHS Lothian and Midlothian Council in delivering the attached audit plan.

4.2 Risk

Each Internal Audit assignment is risk-based and will test the IJB management of risk.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

☐ Community safety
☒ Adult health, care and housing
☐ Getting it right for every Midlothian child
☐ Improving opportunities in Midlothian
☐ Sustainable growth
☐ Business transformation and Best Value
☐ None of the above

4.4 Key Priorities within the Single Midlothian Plan

The report does not directly relate to the key priorities highlighted in the Single Midlothian Plan (2105/16).

4.5 Impact on Performance and Outcomes

There is a potential impact on delivery of the Midlothian Council Internal Audit plan as a result of this report.

4.6 Adopting a Preventative Approach

Adopting the recommendations will assist with the IJB with reduction of risk and therefore provides a preventative approach.

4.7 Involving Communities and Other Stakeholders

The report has been discussed with relevant stakeholders including the Integrated Joint Board, Midlothian Chief Executive and the Chief Auditor of NHS Lothian.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

6 Recommendations

The Audit Committee is requested to:

- Recommend to Midlothian Council approval of the Service Level Agreement between the Internal Audit Services of Midlothian Council, NHS Lothian and the Integrated Joint Board;
- Recommend to Midlothian Council that operational Audits which may have relevance for the IJB to be shared with the IJB Audit and Risk Committee; and
- To note the 2015/16 Internal Audit plan approved by the Integration Joint Board.

Date March 2016

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Audit Plan: 2015/16 Integrated Joint Board

Appendix 1

Ref	Risk Based / Core System (R / C or N/A)	Auditable Area	Priority (H/M)	Total Number of Days	Q1	Q2	Q3	Q4	Comments
1	R	Governance including Financial assurance process	H	30				✓	Review the governance systems put in place by the IJB including those relating to financial assurance process.
2	R	The strategic plan, planning process and the financial plan that underpins the strategic plan.	H	20				✓	To undertake a review of the strategic plan, planning process and the financial plan that supports the strategic plan.
3	R and C	Service provision.	H	5				✓	Any relevant issues raised by NHS Lothian and Midlothian Council internal auditors in relation to the operational delivery of IJB services.
4	R and C	Manager’s Annual Report	H	10				✓	the Chief Internal Auditor is required to prepare an annual report for the Audit and Risk Committee summarising the work undertaken by the Internal Audit Section during the year and using this to form an opinion on the adequacy of the control environment within the IJB.
5	N/A	Assessment against PSIAS / Assessment of Audit and Risk Committee	H	10				✓	Each year the Internal Audit Section undertakes a self assessment against the Public Sector Internal Audit Standards and reports its findings to the Audit and Risk Committee. In addition assistance is provided to the Chair of the Audit and Risk Committee in undertaking an assessment of the Audit and Risk Committee against the CIPFA standards.

Key:

R – Risk Based Audit

C – Core Process or Systems Audit

Appendix 2

Midlothian Integrated Joint Board

THE PROVISON OF INTERNAL AUDIT SERVICES FOR

MIDLOTHIAN INTEGRATED JOINT BOARD

Agreement

Between

NHS Lothian,

Midlothian Council

And

Midlothian Integrated Joint Board

From

10 December 2015 to 31st March 2018

1. BACKGROUND

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014 and received Royal assent in April 2014. It establishes the framework for the integration of health and social care in Scotland.

In order to take this legislation forward NHS Lothian and Midlothian Council have established the Integrated Joint Board (IJB). The IJB is a legal entity in its own right, created by Parliamentary Order, following Ministerial approval of the Integration Scheme and is to operate under public sector good practice governance arrangements which are proportionate to its transactions and responsibilities.

The IJB will become responsible for the preparation and delivery of a Strategic Plan on a range of health and social care services delegated to it by NHS Lothian and Midlothian Council (the full details of which can be found in the Integration Scheme). The operational delivery for these services will remain with NHS Lothian and Midlothian Council under the direction and oversight of the IJB.

The IJB was established by an Integration prepared and agreed by NHS Lothian and Midlothian Council; its content is specified in regulations. This scheme laid out the functions that the Health Board and the Council had delegated to the IJB.

The IJB has responsibility for the planning, resourcing and oversight of the delivery of all these functions. The IJB will produce a Strategic Plan which will lay out how these functions are to be delivered and this plan will be actioned through a series of directions to Midlothian Council and the IJB.

The IJB leads the preparation of the Strategic Plan with other stakeholders, in line with the principles and duties set out in the legislation.

The resources in the Strategic Plan comprise:

- the payment made to the IJB by Midlothian Council for delegated adult social care services;
- the payment made to the IJB by NHS Lothian for delegated healthcare services; and
- the amount set aside by the NHS Lothian for any delegated services provided in large hospitals for the population of the IJB.

On 29th October 2015 the IJB established an Audit and Risk Committee to provide independent assurance to IJB members of the adequacy of the risk management framework and the internal control environment. The remit of this Committee includes the oversight of Internal Audit including approval of the annual internal audit plan and reporting against that plan.

The Scottish Government Guidelines produced by the Integration Resource Advisory Group recommends that the internal audit service should be provided by one of the internal audit teams from the Health Board or Local Authority. On the 20 August 2015 the Board approved the appointment of the Midlothian Council Internal Audit Manager as the Chief Internal Auditor for the IJB.

The Guidelines also recommend that the arrangements for the internal audit service provided to the IJB should be set out in a service level agreement. This agreement sets out the arrangements for this service provision.

The agreement will be reviewed annually by the IJB Chief Financial Officer and relevant responsible officers of the Council and the Health Board; and with provision for the duration of the agreement to be rolled forward with the agreement of the Audit and Risk Committee.

2. THE INTERNAL AUDIT ARRANGEMENTS

The Chief Internal Auditor of the IJB will provide an annual opinion on the adequacy of arrangements for risk management, governance and control of the delegated resources.

Where reliance is being placed on the work undertaken directly for the IJB Audit and Risk Committee by either the NHS Lothian or Midlothian Council Audit teams the Chief Internal Auditor of the IJB will review to determine whether the work has been completed to a satisfactory standard. To allow this opinion to be reached the Chief Internal Auditor of the IJB will have right of access to the internal audit files of both NHS Lothian and Midlothian Council Audit Teams.

Work undertaken for the IJB by either the Internal Audit Sections of NHS Lothian or Midlothian Council will be undertaken to the standards detailed in the Public Sector Internal Audit Standards as defined by each Internal Audit Team's Audit Charter (Appendix 1 and 2).

The operational delivery of services within NHS Lothian and Midlothian Council on behalf of the IJB will be covered by the respective internal audit arrangements as at present. This would include responsibility for the quality assurance of this work and compliance with Public Sector Internal Audit Standards. Any reports arising from this work will however be shared with the IJB Audit and Risk Committee where they are deemed relevant by the Chief Internal Auditor of the IJB in consultation with the Chief Internal Auditor of NHS Lothian and the Audit Manager of Midlothian Council.

The Chief Internal Auditors from NHS Lothian and Midlothian Council will share information, co-ordinate activities with each other and external providers of assurance and consulting services. This is to ensure that risk based plans for the IJB, NHS Lothian and Midlothian Council are co-ordinated, have proper coverage, avoid duplication and to identify areas of reliance from the work of each audit team.

The Chief Internal Auditor will provide to the IJB Audit and Risk Committee for review and approval:

- a risk based Internal Audit Plan;
- a report on progress against delivery of the Plan;
- individual reports on specific areas from the Plan;
- reporting on whether recommendations made have been implemented;

- an annual audit report which is timed to support the annual governance statement, providing an opinion on the overall adequacy and effectiveness of the IJB governance, risk and control framework (based upon the work done during the year); and
- the level of compliance against the Public Sector Internal Audit Standards for the work undertaken over the year for the IJB by the Internal Audit Service. The Chief Internal Auditor of NHS Lothian and the Audit Manager for Midlothian Council will provide assurance to the Chief Internal Auditor of the IJB that all work undertaken by NHS Lothian or Midlothian Council on behalf of the IJB is in accordance with Public Sector Internal Audit Standards.

In addition the Chief Internal Auditor will support the Audit and Risk Committee with a self assessment of their effectiveness against relevant standards.

The Annual Internal Audit Plan and Annual Report will be shared with NHS Lothian and Midlothian Council Audit Committees. Internal Audit Reports will be provided to the Chief Officer and any other relevant individuals.

The Chief Internal Auditor for the IJB and his / her team shall have unrestricted access to all documents and records relating to the activities of the IJB and be authorised to obtain such information and explanations as considered necessary to form an opinion. This will include access to staff, documents and records for any areas within NHS Lothian or Midlothian Council that are providing services on behalf of the IJB.

Although the Chief Internal Auditor and audit staff who work on behalf of the Chief Internal Auditor are engaged and directed by the IJB their terms and conditions of employment will continue to be defined by their contracts with NHS Lothian or Midlothian Council. Insurance for the work they undertake while engaged and directed by the IJB will be provided through the Clinical Negligence and Other Risks Indemnity Scheme.

3. THE AGREEMENT

3.1 That the internal audit service for the IJB will be provided by Midlothian Council's Internal Audit Section.

3.2 That the Chief Internal Auditor for the IJB will be able to call upon a proportionate level of internal audit capacity where it falls within the scope of both NHS Lothian and Midlothian Council to provide this resource.

4. AUTHORISATION

For Integrated Joint Board

Name: Eibhlin McHugh

Job Title: Chief Officer

Signature:

Date:

NHS Lothian

Name: TBC

Job Title:

Signature:

Date:

Midlothian Council

Name: Kenneth Lawrie

Job Title: Chief Executive

Signature:

Date:

MIDLOTHIAN COUNCIL – INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS. The Internal Audit Manager will periodically review the Internal Audit Charter and present it to senior officers within the Council and the Audit Committee for approval.

Compliance with the PSIAS is mandatory.

The authority for Internal Audit to operate in Midlothian Council is contained in the Local Code of Corporate Governance, the Council's Standing Orders and in the Financial Regulations. This Internal Audit Charter expands upon that framework, defines the detailed arrangements and sets out the Internal Audit Manager's strategy for discharging his / her role and providing the necessary annual assurance opinion.

Midlothian Council's Internal Audit service will comply with the PSIAS and will apply these standards to all Internal Audit service providers, whether in house, shared services or outsourced.

DEFINITIONS (standards 1000, 1010)

Midlothian Council has adopted the definition of Internal Auditing as given in the PSIAS (**standard 1010**):

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.[1]

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of Internal Audit work, at Midlothian Council:

- the 'board' refers to the Council's Audit Committee which has delegated responsibility for overseeing the work of Internal Audit;
- 'senior management' is defined as the Chief Executive and members of the Council's Corporate Management Team; and
- 'Chief Audit Executive' refers to the Internal Audit Manager.

[1] Public Sector Internal Audit Standards (PSIAS) (2013) – Section 3

CODE OF ETHICS AND CONFIDENTIALITY

Internal auditors will conform to the Code of Ethics as set out in the PSIAS (**standard 1010**).[2] This includes the principles of:

- integrity;
- objectivity;
- confidentiality; and
- competency.

Disciplinary procedures of professional bodies and the Council may apply to breaches of this Code of Ethics. Additionally, internal auditors are bound by the rules of confidentiality set out in their local conditions of service and job description. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.
Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles, information on which can be found at www.public-standards.gov.uk.

RIGHTS OF ACCESS AND AUTHORITY (standards 1000, 1010)

The Council has given the Internal Audit Service, for the purpose of its audit work, full, free and unrestricted access at any reasonable time to all the Council's records and other documentation (electronic and manual), personnel, Elected Members, premises, assets, and operations of the Council and partner organisations. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit, investigation, or consultancy work. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL AND REPORTING LINES (standards 1000, 1010, 1110)

Structurally, Internal Audit reports directly to the Chief Executive. At least eight times a year, the Internal Audit Manager meets the Chief Executive to discuss progress with the audit plan, audit findings, the internal control environment, levels of residual risk and governance matters. Reporting at this level helps ensure the independence of Internal Audit, for example in terms of audit selection, scope, audit procedures, frequency of reporting, the content of reports, and that issues raised in reports receive a sufficiently high profile. Additionally, this reporting structure enhances the perception of independence from the perspective of auditees (ie that Internal Audit is free from the influence of Council services).

[2] Public Sector Internal Audit Standards (PSIAS) (2013) – Section 4

The Internal Audit Manager has unrestricted access to the Chair of the Audit Committee, and the Committee Members, and discusses before each Audit Committee, the agenda with the Chair (**standard 1111**). Additionally, Internal Audit has unrestricted access to all Chief Officers and employees of the Council.

The reporting relationship described above along with the access to Audit Committee Members and senior management ensures that "*the Internal Audit activity is reporting to a level within the organisation that allows the internal audit activity to fulfil its responsibilities."* [3]

Functionally, Internal Audit Reports to the Audit Committee (the Board). The Internal Audit Service reports 7 times a year to the Audit Committee, whose membership consists of 6 Elected Members, an independent chair and an independent member.

The Audit Committee will:

- approve the Internal Audit Charter;
- approve the Risk Based Internal Audit Plan;
- approve the Internal Audit budget and resource plan;
- receive communications from the Internal Audit Manager on the Internal Audit activity's performance relative to its plan and other matters;
- approve decisions regarding the appointment and removal of the Internal Audit Manager; and
- make appropriate enquiries of management and the Internal Audit Manager to determine whether there are inappropriate scope or resource limitations.

In addition, the Audit Committee reviews all Internal Audit reports including the Annual Assurance Statement.

The Audit Committee has delegated to the Chief Executive the responsibility of setting the remuneration and performance assessment of the Internal Audit Manager and feedback is also sought from the chair of the Audit Committee. Decisions in relation to the appointment or removal of the Internal Audit Manager have likewise been delegated to the Chief Executive.

This will all be managed within the Council's existing Human Resource policies and procedures.

INDEPENDENCE AND OBJECTIVITY (standards 1000, 1010, 1110, 1111)

In Midlothian Council, Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and will remain free from any undue influence or other pressure affecting its actions and reporting.

At all times, management's responsibilities include:

- maintaining proper internal controls in all processes for which they have responsibility;
- the prevention, detection and resolution of fraud and irregularities;
- providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- sponsoring each audit at Head of Service level;
- considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so;

[3] Public Sector Internal Audit Standards (PSIAS) (2013) – Standard 1110

- implementing agreed management actions in accordance with the agreed timescales; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

In addition, (**standard 1110.A1**) Internal Audit:

- has no executive responsibility, thus protecting its independence of reporting and action;
- has the authority to report in its own name;
- reserves to itself the right to determine its own work plans and priorities, which it will do in full compliance with recognised professional standards. Whilst Internal Audit will respond to requests for specially commissioned assistance, this is always subject to its existing commitments and the respective levels of identified risk; and
- will prepare annually, for the endorsement and agreement of the Audit Committee, a risk based audit plan of the activities and areas that are to be covered by its work. This will be based on an audit risk assessment and prioritisation of key business, operational, management and financial risks.

Given the safeguards in place outlined above and the access Internal Audit has to senior management, the Internal Audit service is free to act independently and objectively. The Internal Audit Manager will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

PURPOSE (standards 1000, 1010, 2000, 2100)

Internal Audit is an independent appraisal function and is part of Midlothian Council's system of Corporate Governance.

The Internal Audit Service's purpose is to support the Council in achieving its objectives by:

- supporting the Council in continuing to improve its governance arrangements;
- contributing to the Council's management of risk;
- supporting the Council in raising the standard of internal control;
- supporting the Director, Resources, Head of Finance & Integrated Service Support (s95 officer), Legal Services Manager (monitoring officer) and the Audit Committee in the discharge of their duties;
- contributing to the development and implementation of the Council's policies and procedures;
- supporting the Council with governance, risk and internal control advice in the development of new systems and improvement of existing systems;
- supporting the Council with governance, risk and internal control advice on projects;
- acting as an aid to ensure that the Council and its Members, managers and officers are operating within the law and relevant regulations;
- contributing towards the accuracy and reliability of financial statements and other published information;
- supporting of the Council in its management of human, financial and other resources in an efficient and effective manner;
- supporting the Council in meeting its social, environmental and community priorities;
- promoting and raising the standards of an anti-fraud and corruption culture; and
- contributing towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

These objectives will be achieved via the delivery of a high quality Internal Audit service that meets the needs of the Council.

The Internal Audit Manager will effectively manage the Internal Audit activity to ensure it adds value to the Council. The Internal Audit Service is effectively managed by:

- the results of the Internal Audit service's work achieving the purpose and responsibilities outlined in this Internal Audit Charter;
- the Internal Audit activity conforming with the *Definition of Internal Auditing* and the *Standards*;
- the individuals who are part of the Internal Audit activity demonstrating conformance with the *Code of Ethics* and the *Standards*; and
- performance against the Internal Audit balanced scorecard reported annually to the Audit Committee.

The Council's Internal Audit Service adds value to the Council by providing objective and relevant assurance, and contributing to the effectiveness and efficiency of governance, risk management and control processes.

Midlothian Council's Internal Audit Service does not provide assurance services to parties external to the organisation. However going forward the Internal Audit Section will with the National Health Service's Internal Audit Section provide Audit support for the Integrated Board for Health and Social Care. The Internal Audit Section will apply the same standards as defined in this Charter to any work undertaken for the Integrated Board.

SCOPE OF INTERNAL AUDIT ACTIVITY (standards 1000, 1010, 2100, 2110, 2120, 2130)

The scope of the work carried out by Internal Audit is designed to evaluate and recommend improvements to the Council's governance, risk management, and control processes using a systematic and disciplined approach (**standard 2100**).

Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Council's governance arrangements and processes;
- the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities;
- the information technology governance of the Council in support of the Council's strategies and objectives;
- the systems and processes in place to ensure effective organisational performance management and accountability;
- the coordination of activities and communication among the Audit Committee, external and internal auditors and management;
- the identification and assessment of risk by management;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the risk appetite of the part of the Council under review and the residual risk;
- the communication of risk and control information in a timely manner across the Council, enabling staff, management and the Audit Committee to carry out their responsibilities;
- the potential for the occurrence of fraud and how the organisation manages fraud risk;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established by the Council or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;

- the economic acquisition of resources;
- the effectiveness of arrangements for safeguarding the Council's assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:
- all Council activities, systems, processes, controls, policies, and protocols;
- all Council departments, cost centres and other business units and establishments; and
- all services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

Where other assurance providers (such as Grant Thornton or Audit Scotland) have undertaken relevant assurance work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards and the nature and quality of the work they have undertaken would make it appropriate to do so.

DUE PROFESSIONAL CARE (standard 1220, 1220.A1, 1220.A2, 1220.A3, 1220.C1)

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. This means internal auditors will be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified (**standard 1220.A3**). Due professional care does not imply infallibility.

Internal auditors will exercise due professional care by considering (**standard 1220.A1**):

- the extent of work needed to achieve the engagement's objectives;
- relative complexity, materiality or significance of matters to which assurance procedures are applied;
- adequacy and effectiveness of governance, risk management and control processes;
- probability of significant errors, fraud, or non-compliance; and
- cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors should consider the use of technology-based audit and other data analysis techniques and significant risks that might affect objectives (**standard 1220.A2**).

Specifically for consulting engagements, internal auditors should consider **(standard 1220.C1**) the:
- needs and expectations of clients including the nature, timing and communication of engagement results;
- relative complexity and extent of work needed to achieve the engagement's objectives; and
- cost of the consulting engagement in relation to the potential benefits.

RESPONSIBILITIES AND REPORTING REQUIREMENTS OF INTERNAL AUDIT (standards 1000, 1010, 2010, 2020 2050, 2060, 2200, 2201, 2210, 2220, 2230, 2240, 2300, 2310, 2320, 2330, 2400, 2410, 2420, 2421, 2440, 2500, 2600)

Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, delivering opinions through the Audit Committee.

The Internal Audit Manager will establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the Council's goals. The plan will be flexible in nature, can be updated to reflect the changing risks and priorities of the Council, and will take into account (**standards 2010, 2010.A1**):

- Midlothian Council's risk registers and risk management framework, including risk appetite levels set by management for the different activities and parts of the Council;
- the balance of coverage required so External Audit can place reliance on Internal Audit's work;
- the Internal Audit Manager's experience from previous Internal Audit Reports;
- establishing whether previous audit recommendations have been implemented satisfactorily;
- the impact of national issues (e.g. economic factors or the introduction of new legislation);
- the impact of local issues (e.g. corporate or service action plans and issues raised by external assurance bodies);
- input from senior management and Members of the Audit Committee;
- the periodic review of core financial and operational systems in line with Internal Audit's three year strategy;
- the available audit resource and skills;
- the need for specialist skills, where they are not available already;
- staff development and training;
- time needed for the management of the Internal Audit service e.g. audit planning, development of the annual opinion, attendance at meetings, the appraisal process, the updating of relevant audit policies and procedures;
- contingency set aside for consultancy, ad hoc reviews or fraud investigations; and
- liaison with other assurance providers, to share information and audit plans, such as the External Auditor.

The risk-based plan and resource requirements, including significant interim changes, are reported to the Chief Executive, the Corporate Management Team which includes the Head of Finance and Integrated Service Support (s95 officer), and the Audit Committee. The Audit Committee will approve, but does not direct the risk-based audit plan (**standard 2020**).

Internal auditors will develop and document a Terms of Reference (i.e. an audit brief) for each engagement, including the engagement's objectives, scope, timing, resource allocations, management expectations and reporting format required (**standards 2200, 2201**). The Terms of Reference will be discussed and agreed with relevant managers and be approved at Head of Service level and by the Internal Audit Manager. Audits are carried out using a risk based approach, and will consider the objectives of the activity being reviewed, the significant risks to the activity, the adequacy of the governance, risk management and control processes and the opportunities to make significant improvements to the activity's processes.

Internal auditors will conduct a preliminary assessment of the risks relevant to the activity under review and document these in the Terms of Reference and engagement objectives will reflect the results of this risk assessment. Adequate criteria are needed to evaluate an activity's governance, risk management and controls. In the public sector, criteria may include value for money (e.g. the effective use of money, people or assets). Audit work will also consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives (**standard 2210**).

The established scope will be sufficient to satisfy the objectives of the engagement. The scope of the engagement will include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties. Internal auditors will determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources (**standards 2220, 2230**).

Internal auditors will develop and document work programmes that achieve the engagement objectives. Work programmes will include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme will be approved by the Internal Audit Manager or Lead Auditor prior to its implementation and any adjustments approved promptly (**standard 2240**).

Internal auditors will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives. Also, internal auditors will document relevant information to support the conclusions and engagement results and base their conclusion on appropriate analyses and evaluation. Records for audit and consultancy engagements are compliant with the Council's retention policies. The Internal Audit Manager will control access to engagement records. The Internal Audit Manager will obtain the approval of senior management and/or Legal Services prior to releasing such records to external parties, as appropriate (**standards 2300, 2310, 2320, 2330**).

Internal auditors will communicate the results of engagements. All audit reports will be communicated to the Audit Committee. Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client. Draft reports will be agreed with relevant management for factual accuracy prior to submission to the Audit Committee. If a final communication contains a significant error or omission, the Internal Audit Manager will communicate corrected information to all parties who received the original communication. Engagement results will specify the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. The Internal Audit service will strive to ensure that communications are accurate, objective, clear, concise, constructive, complete and timely. Additionally, internal auditors are encouraged to acknowledge satisfactory performance in engagement communications (**standards 2400, 2410, 2420, 2421**).

The following table describes the different assurance opinions that are provided by Internal Audit:

Level of Assurance	Reason for the level of Assurance given
Very High	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Moderate	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

Each Internal Audit report, except possibly a report rated with a very high level of assurance, is likely to result in internal audit recommendations (Management Action Plan). The Head of Service in charge of the service/operation/system/process/risk which has been audited will be in charge of the Management Action Plan. If the audit assignment examined a corporate matter (impacting on more than one services, or all services), then a Head of Service will be designated by the Corporate Management Team to take charge of the Action Plan, across services.

At the conclusion of an audit assignment, the Internal Audit Manager and Head of Service will agree recommendations and timescales for these, along with priority ratings (High, Medium or Low). These recommendations will then be input by the Internal Audit Service into Covalent (the Council's performance management system) and will be subject to quarterly performance reporting and Audit Committee scrutiny. If appropriate actions to mitigate an identified risk cannot be agreed with management, this is recorded in the Management Action Plan section of the audit report and the residual risk will be explained and highlighted. If this risk is deemed to be high, then the risk will be reported to the Corporate Management Team and Audit Committee and the Council's risk registers can be updated where appropriate (**standard 2600**).

The Internal Audit Manager is responsible for reviewing and approving the final engagement communication before issue and deciding to whom and how it will be disseminated. When the Internal Audit Manager delegates these duties, he or she retains overall responsibility. The Internal Audit Service follows Midlothian Council's policy on exempt information in the decision of making reports publically available. In compliance with the Data Protection Act and other relevant statutory and professional standards, no personal data is included in final Internal Audit reports (**standard 2440**).

The following table describes the three priority levels given to audit recommendations:

Priority	**Reason for level of priority**
High	The following would be regarded as high risk issues: • Non compliance with Legal / regulatory requirements; • Strategic risks; and • Financial impact of £50K or more and / or national press interest.
Medium	Financial impact of between £5K to £49K and / or local press interest
Low	Financial impact of under £5K and / or no press interest.

The Internal Audit Manager accepts that the responsibility of Internal Audit does not end when the Audit Report is issued, and that there will be a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This will be achieved by undertaking regular reviews of closed issues to confirm that these have been adequately addressed. Additionally, Internal Audit activity will monitor recommendations arising out of consulting engagements to the extent agreed upon with the client (**standard 2500**).

During the Management Action Plan period for **Very Limited** and **Limited** rated reports, Heads of Service are expected to discuss progress with **Limited Assurance** reports at Divisional Management Team level. For **Very Limited** rated reports, it is expected that Corporate Management Team will receive progress reports from Heads of Service.

The Internal Audit Manager, in the discharge of his /her duties, shall be accountable to the Audit Committee and the Chief Executive for:

- providing, at least annually, an opinion on the overall adequacy and effectiveness of Midlothian Council's framework for governance, risk management and control (the entire control environment).
- periodically providing information on the results of the annual audit plan and the sufficiency of the Internal Audit Service's resources;
- periodically reporting to the Audit Committee on the Internal Audit Activity's purpose, authority, responsibility and performance relative to its plan (**standard 2060**);
- reporting on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit Committee;
- periodically reporting on the status of audit recommendations; and
- co-ordinating with other significant assurance functions (**standard 2050**).

The opinion will incorporate a summary of work that supports the opinion, a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme. Additionally, the opinion will include details on the scope and time period of the opinion, scope limitations, reliance on other assurance providers, risk management framework used when forming the opinion and the overall opinion reached. The reasons for an unfavourable overall opinion will be stated (**standard 2450**).

Where other assurance providers (such as Grant Thornton or Audit Scotland) have undertaken relevant assurance and audit work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

CONSULTANCY WORK

Internal Audit may undertake non-assurance, consultative or fraud- related work at the request of senior management. Provided that the independence of the service is not compromised, the request does not impact on core assurance work, sufficient resource is available and there are sufficient skills, knowledge or other competencies needed to perform the engagement (**standard 1210.C1**), then these requests will be considered for acceptance by the Internal Audit Manager. The Internal Audit Manager will consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the Council's operations (**standard 2010.C1**). Accepted engagements will be included in the audit plan.

When performing consultancy work the auditor will remain objective and not take on management responsibility (**standard 2120.C3**). Internal auditors will establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations and this must be agreed with the relevant senior manager. For significant engagements, this understanding will be documented in a Terms of Reference (**2201.C1**).

During consulting engagements, internal auditors will address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. Internal auditors will incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes (**standards 2120.C1/.C3**).

Consulting engagement objectives will address governance, risk management and control processes to the extent agreed upon with the client and will be consistent with the Council's values, strategies and objectives (**standards 2210.C1/.C2**). If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards. In performing consulting engagements, internal auditors will ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations will be discussed with the client to determine whether to continue with the engagement (**standards 2220.A2/.C1**).

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they will be communicated to senior management and the Audit Committee (**standard 2440.C2**).

This work could take many forms, but will typically include special reviews or assignments which fall outside the approved work plan and for which a contingency is included in the audit plan. Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

Examples of such work include, but are not limited to:

- advice on controls for systems and activities to reduce risk;
- advice on opportunities to reduce costs through greater economy and efficiency within systems and activities;
- provision of quality assurance on projects involving major change and systems development; and
- provision of an independent and objective assessment of the evidence on progress in implementing action plans.

Approval will be sought from the Audit Committee if there is to be a significant variation in consultancy work above the contingency included in the audit plan (**standard 1130**).

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review. The Internal Audit Manager is responsible for communicating the final results of consulting engagements to clients (**standard 2440.C1**). Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

Where Internal Audit provides advice on the setting up of controls, it does so as a consultant and the provision of such advice does not prejudice the right of Internal Audit subsequently to review, comment on and make recommendations on the relevant systems or controls in appropriate circumstances.

ARRANGEMENTS FOR AVOIDING CONFLICTS OF INTEREST (standards 1000, 1120, 1010, 1130)

Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. The Internal Audit service will preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest and that the undertaking of non-audit duties does not impair independence. Internal auditors are required within the PSIAS to refrain from participating "*in any activity or relationship which may impair or be presumed to impair their unbiased assessment*."[4]

A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the Internal Audit activity and the profession. A conflict of

[4] Public Sector Internal Audit Standards (PSIAS) (2013) – Section 4 - 2.1

interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal auditors will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the Council's own policies);
- not use information obtained during the course of duties for personal gain;
- disclose all material facts known to them which, if not disclosed, could distort their reports of cones (not disclosing known information), unlawful practice, subject to any confidentiality agreements; and
- comply with the Bribery Act 2010.

Non-compliance with the above will be considered an offence for disciplinary purposes.

Where Internal Audit staff are required to undertake non-audit duties, the Internal Audit Manager will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Internal Audit Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those Internal Audit staff to be subject to audit by those independent from the activity. This could be achieved, for example, by using staff from a partner authority in the case that all internal auditors at Midlothian Council are impaired in terms of their independence.

Internal auditors will refrain from assessing specific operations for which they were previously responsible. Objectivity, for the purpose of audit work, is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year (**standard 1130.A1**). The Internal Audit Manager does not have executive responsibility for any Council functions other than the Internal Audit Service (**standard 1130.A2**).

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities (**standard 1130.C1**). If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure will be made to the Internal Audit Manager and the engagement client prior to accepting the engagement (**standard 1130.C2**).

Where the Internal Audit Manager is engaged in a non-audit role and has been in a position of management responsibility, for example in response to an emergency, the subsequent audit of any such activity will be delegated to an appropriate independent 'deputy' from Internal Audit or a party outside the Internal Audit service to undertake any work that may be necessary and to report independently to those charged with governance.

If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf, considers that there is or is perceived to be a conflict of interest, this will be declared to the Internal Audit Manager who will then consider the validity of the claim. If the claim is found to be accurate and reasonable, then the Internal Audit Manager will direct alternative and independent resources to the audit. If the Internal Audit Manager's own independence is impaired, the Internal Audit Manager will declare this in writing to the Chief Executive and another independent person or body will be appointed to fulfil this role.

FRAUD

As outlined in the Council's *Fraud and Corruption Policy*, the responsibility for the prevention and detection of fraud and corruption rests with management.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service / Divisional Director will immediately notify the Internal Audit Manager for consideration of appropriate action. Managers will only establish the basic facts of the suspicion and should not attempt to carry out any detailed investigation themselves.

Where Internal Audit is satisfied that a matter will be investigated appropriately, the responsibility can be discharged to the Service.

Further information on Internal Audit's role and responsibilities in relation to fraud, are detailed within the Council's *Fraud and Corruption Policy*.

AUDIT RESOURCES AND WORK PRIORITISATION (standards 1000, 1010, 1210, 1230, 2030)

Work is directed according to the assessed level of risk, the judgement of the Internal Audit Manager, with direction from the Audit Committee. The annual risk based audit plan agreed by the Audit Committee will be the main determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed. The Internal Audit Manager will determine the actual deployment of available resources based on the risk assessment described above.

The plan will have within it the provision of resources to address unplanned work. This contingency will be directed towards unplanned work including consultancy engagements and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Internal Audit Manager will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Internal Audit Manager will hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced (**standard 1210**). Each job post within the Internal Audit structure details the skills and competencies within the approved job description and person specification. In line with the Council's competency appraisal framework and the PSIAS, each member of the team will be assessed against these skills, competencies and appropriate work related objectives. Any development and training plans will be regularly reviewed, monitored and agreed with the Internal Audit Manager and the Chief Executive. There will be ongoing assessment of training needs through the competency appraisal framework. Employment of new staff will be in line with the Council's HR policies. External resources will be procured in line with the Council's Financial Regulations, Standing Orders and Procurement Policy.

Additionally, Auditors are also required to maintain a record of their continual professional development in line with their professional body (**standard 1230**).

The Internal Audit Manager will obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement (**standard 1210.C1**). Internal auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Internal auditors will have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing (**standards 1210.A1/.A2/.A3**).

In the event that the audit risk assessment identifies a need for a greater degree of audit work than there are resources available, the Internal Audit Manager will identify the shortfall in the annual Internal Audit Plan and initially advise the Chief Executive. Where the Internal Audit Manager believes that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, the consequences will be brought to the attention of the Audit Committee (**standard 2030**). It shall be for the Audit Committee and the Chief Executive to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires the Chief Executive to identify additional resources.

QUALITY ASSURANCE (standards 1300, 1310, 1311, 1312, 1320, 1321, 1322, 2040, 2430, 2431)

Public Sector Internal Audit Standards require that the Internal Audit service is subject to a quality assurance and improvement programme that will include both internal and external assessments. This will be developed by the Internal Audit Manager and cover all aspects of Internal Audit. These assessments aid the Internal Audit Manager in the annual assessment of Internal Audit's efficiency and effectiveness and in identifying opportunities for improvement.

The Internal Audit Manager is responsible for informing the Audit Committee and Senior Management whether the Internal Audit Service is compliant with the PSIAS and achieves its objectives. An assessment against the requirements of the PSIAS will be completed on an annual basis and, along with the results of the quality assurance program, will be reported to the Audit Committee as part of the Internal Audit Annual Report. The Internal Audit Manager may only state that the Internal Audit service conforms with *the International Standards for the Professional Practice of Internal Auditing* if the results of the quality assurance programme support this statement. Instances of non-conformance will be reported to the Audit Committee and significant deviations will be considered for inclusion in the annual governance statement (**standards 2430, 2431**).

<u>Internal assessments</u>
All of the Internal Audit engagements are subjected to a thorough internal peer review of quality, to ensure that its work meets the standards expected from its staff. For example, the internal quality reviews are undertaken by the Internal Audit service to ensure that:

- all work undertaken is in accordance with PSIAS;
- supervision is provided to all levels of staff ;
- work is allocated to staff with appropriate skills, competence and experience;
- work is monitored for progress, assessed for quality and to allow for coaching;
- the work is planned and undertaken in accordance with risks associated with areas under review; and
- the conclusions are fully supported by the detailed work undertaken and with sufficient and appropriate evidence held on file.

All Auditors have access to an up to date electronic audit manual, the Internal Audit Charter, Midlothian Council Policies and Procedures and the Public Sector Internal Audit Standards (**standard 2040**). Internal auditors are regularly reminded to become familiar with these documents. The Internal Audit service uses resources from CIPFA, IIA, ACCA, and SLACIAG

(Scottish Local Authorities Chief Internal Auditors Group). Additionally, Midlothian Council's Internal Audit service shares audit reports and test plans/strategies with East Lothian Council's Internal Audit service.

External assessments

An external assessment will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. In order to fulfil this requirement Midlothian Council's Internal Audit Service has elected to be part of SLACIAG's validated self-assessment framework. Full details of this scheme were presented to the Audit Committee on 18 March 2014.

This fulfilled the PSIAS requirement to discuss with the Audit Committee:

- the form of external assessments;
- the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and
- the frequency of the external assessments.

APPROVAL

The Charter was reported to and approved by the Audit Committee at its meeting on 18 June 2013, and again on the 28 October 2014. The last review (5 May 2015) was conducted following an assessment against the new Scottish Local Authority Chief Internal Audit Group checklist. The Charter will be subject to continuous review by the Chief Executive, the Internal Audit Manager and the Audit Committee.