Notice of Meeting and Agenda

Midlothian

Audit Committee

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

Date: **Tuesday, 06 December 2022**

Time: **11:00**

Executive Director : Place

Contact:

Clerk Name: Democratic Services
Clerk Telephone:
Clerk Email: democratic.services@midlothian.gov.uk

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

5 Public Reports

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 24 January at 11am.

Minute of Meeting

Midlothian

Audit Committee

Date	Time	Venue
Tuesday 27 September 2022	11.00am	Virtual Meeting by MS Teams

Present:

Councillor Smaill (Interim Chair)
Councillor McEwan
Councillor McKenzie
Councillor Scott

In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Morag Barrow	Joint Director Health and Social Care
Gary Fairley	Chief Officer Corporate Solutions
Alan Turpie	Legal and Governance Manager / Monitoring Officer
Derek Oliver	Chief Officer Place
David Gladwin	Financial Services Manager
Myra Forsyth	Continuous Improvement Officer
Saty Kaur	Executive Business Manager
Michelle Strong	Education Chief Operations Officer
Lesley Aitken	Senior Finance Business Partner
Stephen Reid	External Auditor, E.Y.
Rachel Wynne	External Auditor, E.Y.
Marco Reece-Heal	Business Analyst
Andrew Henderson	Democratic Services Officer

1. Welcome and Apologies for Absence

The Clerk took the opportunity to welcome members to the meeting of Audit Committee and invited members to nominate a chair for the meeting who was a non-cabinet member. A discussion ensued in relation to who was most appropriate member to be nominated as chair of the committee. Councillor Scott, Seconded by Councillor McEwan nominated Councillor Smaill for the position of interim chair. Councillor Smaill agreed and continued to preside as interim chair for the meeting.

Apologies were noted on behalf of Councillor Milligan.

2. Order of Business

The order of business was as detailed in the agenda.

3. Declarations of interest

No declarations of interest were intimated at this stage of the proceedings.

4. Minutes of Previous Meetings

4.1 The minutes of the meeting of 14 March 2022 were submitted and approved as correct record,

4.2 The Action log was submitted, Kevin Anderson provided a brief update in relation to each of the action points.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022	EY, External Auditors

Outline of report and summary of discussion

Stephen Reid, External Auditor EY, provided an overview of the draft Annual Audit Report for 2021/22, outlining the terms of appointment as highlighted in the report and summarised the key conclusions from the external audit process. Stephen Reid made specific reference to 9 adjustments that had been made including 6 that were a result of errors in housing valuations. With reference to the 'wider scope dimensions' Stephen Reid outlined that financial management was classified as amber, financial sustainability was classified as red, urging council to make the serious decisions that would be required to ensure a balanced budget was achieved, and that best value was classified as amber and that management had been provided with 8 recommendations which they had accepted.

Stephen Reid and Gary Fairley took the opportunity to respond to members questions. With regard to housing valuations Gary Fairley clarified that the council maintained a register of assets and that 200 out of 1000 property assets had been evaluated across the year with 6 requiring adjustments and confirmed that this was being looked into to ensure that a solution was implemented. Stephen Reid also highlighted that the valuation of assets was approved alongside the annual of accounts and that external auditors are required to evaluate whether the valuations are 'true and fair'.
Decision
Audit Committee noted the contents of the draft report.
Action
All to note.

Report No.	Report Title	Submitted by:
5.2	Annual Accounts for the year ended 31 March 2022	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
The Chief Officer Corporate Solutions presented the Annual Accounts for the year ended 31 March 2022 advising that the Audit Committee is recommended to approve the 2021/22 audited accounts for signature. He further advised that the unaudited annual accounts had been submitted before the standard date 30 June 2022. Gary Fairley took the opportunity to thank EY External Auditors for their work with Midlothian Council highlighting the end of their appointment and confirmed that should the accounts be approved they would be formally signed off by the end of the week. Gary Fairley then took the opportunity to respond to member's questions in relation to the legislation in relation to the debtor's book, building maintenance services. With regard to the need to make a declaration in relation to overborrowing, Gary Fairley highlighted that this was in line with the financial strategy and Stephen Reid confirmed that there was no requirement for a declaration to be made. With regard to the valuation of the Lothian Buses assets, Gary Fairley highlighted that Midlothian based the valuation on net assets. In responding to a question in relation to the vulnerability of pensions in relation to inflation, Gary Fairley confirmed that confirmed that the pension scheme was 100% funded, that economic factors are taken into account and that Midlothian are compliant with the code of practice on pensions. Councillor Smaill then took the opportunity to thank officers for the well formatted document and along with the Chief Executive continued to thanked Gary Fairley and Stephen Reid for their work on both Annual Audit Report and the Annual Accounts.		
Decision		
Audit Committee approved the 2021/22 audited accounts for signature in light of the appointed auditor's report for 2021/22.		
Action		
Chief Executive		

Report No.	Report Title	Submitted by:
5.3	Risk Management Update – Strategic Risk Profile Quarter 1 2022/23	Chief Officer Place
Outline of report and summary of discussion		
Derek Oliver provided an overview of the Risk Management Update – Strategic Risk Profile Quarter 1 2022/23 report referencing the risk responses Midlothian Council has implemented during Quarter 1 2022/23 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks. A brief discussion followed in relation to the impact of increased costs to the City deal and the impact that this was having to the value of projects, with specific reference being made to the Sherrifhall Project. Derek Oliver confirmed that the City deal maintained its own risk register and how these risks are related to Midlothian and strategic opportunities are highlighted. Grace Vickers highlighted that the Sherrifhall project was a Transport Scotland project and agreed to share slides amongst members from a recent presentation on the project. Kevin Anderson highlighted that the Joint Committee had also provided an update on the A701 and that guarantees had been made by the Scottish Government in relation to Sherrifhall project funding commitment.		
Decision		
Audit Committee noted the risk landscape and organisational response to the most significant risks in Quarter 1 (Q1) 2022/23.		
Action		
All to note.		

Report No.	Report Title	Submitted by:
5.4	Audit Committee – Independent Chair & Independent Non-Voting Member	Executive Director Place
Outline of report and summary of discussion		
In speaking to the report Kevin Anderson outlined that no applications had been received for the position of Independent Chair and Independent Non-Voting member and asked members to consider the recommendations within report, and that Council would also be sighted on the report for a final decision. A brief discussion ensued in relation to the importance of a standalone Audit Committee and the possible options in relation to chairing the committee. Following a motion from Councillor McEwan which was seconded by Councillor Scott, it was agreed that Audit Committee's recommendation to council would be for Audit Committee to remain as a standalone committee with a chair being selected from its membership in accordance to the scheme of administration appended to standing orders.		
Decision		

Audit Committee to recommend to Council that the Audit Committee continue as a standalone committee with an elected member being elected as chair in accordance to the scheme of administration as appended to standing orders.
Action
Executive Director Place.

6. Private Reports

6.1 Shared Chief Auditor post between Midlothian and East Lothian report by Director Place

7. Date of Next Meeting

Date of Next Meeting: Tuesday 6 December 2022 at 11am.

The meeting terminated at 13.06 pm

Action Log

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	**Training for Audit Committee members.**	25/06/2022	Comprehensive training to be provided for new and continuing members of the Audit Committee.	Legal and Governance Manager / Monitoring Officer and Continuous Improvement Manager	Ongoing	Completed Initial Induction sessions. Continuing Professional Development ongoing.
2	**Internal Audit Annual Assurance Report 2021/22**	25/06/2022	Session to be set up with Chief Procurement Officer and audit committee members.	Legal and Governance Manager	21 September, 2022.	Completed. All members Procurement Briefing session held on 21 September, 2022.
3	**Future of Audit Committee and Independent Chair and independent Non – Voting member**	25/06/2022	Elected Members to take time to consider the future of the audit committee, be that a standalone committee or combined with another committee. The recruitment of an independent chair and independent non-voting member is part of these considerations.	Executive Director: Place	4 October, 2022	Completed. Council agreed to continue with an independent Audit Committee with an elected member chair selected from its membership in accordance to standing orders.

Audit Committee
Tuesday 6 December 2022
Item No 5.1

Treasury Management Mid-Year Review Report 2022/23

Report by David Gladwin, Acting Chief Financial Officer

Report for Decision

1 Recommendations

Audit Committee is invited to comment on this report before it is presented to Council. In particular, Audit Committee should note the following recommendations which are proposed to be put to Council on 13 December 2022:-

a) Note the report and the treasury activity undertaken in the period to 30 September 2022, as outlined in Section 5;
b) Note the actual and forecast activity during the second-half of the year as outlined in Section 6;
c) Note the technical revisions to the Prudential Indicators in Section 7 of this report;
d) Note the updated Treasury Management Practices and the self-assessment tool on the scrutiny of Treasury Management as published by CIPFA and undertake a self-assessment in line with the tool.

2 Purpose of Report/Executive Summary

The purpose of this report is to inform members of the Audit Committee, and subsequently Council, of the Treasury Management activity undertaken during the first half of 2022/23 and the forecast activity for the second half of 2022/23 in accordance with the Treasury Management and Annual Investment Strategy approved by Council in February 2022. It also provides an update to the Treasury and Prudential Indicators for 2022/23.

Date: 21 November 2022
Report Contact:
Gary Thomson, Senior Finance Business Partner
gary.thomson@midlothian.gov.uk **0131-271-3230**

3 Background

Audit Committee Role

The Prudential Code recommends that the main Treasury Management reports are presented for scrutiny by Audit Committee in advance of consideration by Council. This report is being presented to Audit Committee on 6 December 2022 for consideration prior to being presented to Council on 13 December 2022. Any revisions arising from Audit Committee consideration of the report on 6 December 2022 will be incorporated into the final version of the report to Council on 13 December 2022.

Treasury management

Treasury management is defined in the Prudential Code as:

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

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

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

Council, on 15 February 2022, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2022/23.

4 Economic update for first half of 2022/23

An economic update for the first part of the 2022/23 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2, and Bank Rate / SONIA rates for the first half of the year are outlined in Appendix 3.

5 Treasury Activity during first half of 2022/23

The main points arising from treasury activity in the year to 30 September 2022 were:-

- Long term borrowing of £0.433 million matured, this £0.327 million of Market Loans, £0.083 million of Salix loans and £0.023 million PWLB Annuities;
- £90.000 million of new funds on deposit were placed with high credit-worthy banks, with approved counterparties in line with the 2022-23 Treasury Management and Annual Investment Strategy approved by Council on 15 February 2022;
- The average interest rate earned on external funds on deposit in the first half of the year was 1.37%, exceeding the benchmark rate of 1.01%.

Loan Portfolio

The Council's loan portfolio as at 30 September 2022 is shown in table 1 below (position at 31 March 2022 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2022 and 30 September 2022.

Loan Type	**31 March 2022**		**30 September 2022**	
	Principal Outstanding £000's	**Weighted Average Rate**	**Principal Outstanding £000's**	**Weighted Average Rate %**
PWLB Annuity	553	8.91%	530	8.91%
PWLB Maturity	284,776	2.92%	284,776	2.92%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	17,542	2.68%	17,215	2.68%
Temporary Market Loans	0	n/a	0	n/a
Other Loans	400	0.00%	317	0.00%
Total Loans	**323,271**	**3.02%**	**322,838**	**3.01%**
Underlying Borrowing Requirement*	**307,247**		**319,801**	
Future Years' Borrowing Requirement Fully Financed (Over Borrowed)	**16,024**		**3,037**	

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

At 30 September 2022 the Council was over borrowed by £3.037 million (0.95%) – this is the extent to which the Council has financed its current and future borrowing requirement from long term loans. This position reflects the Council's £50.000 million long-term borrowing undertaken in December 2021 at historically low PWLB rates of 1.26%-1.36% to forward finance borrowing arising from the Council's capital plans.

As can be seen from PWLB rates during the first half of 2022/23 (ranging from a low of 2.52% to a high of 5.80% for 25 year borrowing), this strategy to lock into long-term borrowing at historically low interest rates in December 2021 has proved prudent and allowed the Council to defer any new long-term borrowing during the first half of 2022/23 at higher interest rates.

Debt Rescheduling

Debt rescheduling opportunities in the first half of the year have been limited, reflective of the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken in the first half of the financial year.

Funds on Deposit

The Council's funds on deposit portfolio as at 30 September 2022 is shown in table 2 below (position at 31 March 2022 also shown for comparison):-

Table 2: Council's Funds on Deposit Portfolio at 31 March 2022 and 30 September 2022

Type	31 March 2022		30 September 2022	
	Principal Outstanding £000's	**Weighted Average Rate**	**Principal Outstanding £000's**	**Weighted Average Rate %**
Money Market Funds	30,323	0.52%	32,400	2.09%
Bank Call Accounts	31,059	0.64%	14	1.92%
Bank Notice Accounts	14,985	0.73%	14,985	0.87%
Bank Fixed Term Deposits	35,000	0.41%	80,000	1.77%
Bank Certificates of Deposit	0	n/a	10,000	2.85%
Deposits with other Local Authorities	45,000	1.56%	30,000	1.71%
Total Deposits	**156,367**	**0.84%**	**167,399**	**1.80%**

£80.000 million of Bank Fixed Term Deposits and £10.000 million of Bank Certificates of Deposit were placed in May/June 2022. These deposits were placed with approved counterparties in line with the 2022-23 Treasury Management and Annual Investment Strategy approved by Council on 15 February 2022.

Of this, £65.000 million were in relation to significantly higher levels of short-term surplus cash that the Council is holding due to Government Grant and other receipts that have been paid in advance, a position that is reflected across the majority of Scottish Local Authorities. These deposits were placed with strong credit-worthy counterparties for a short term laddered duration of between 5 and 6 months.

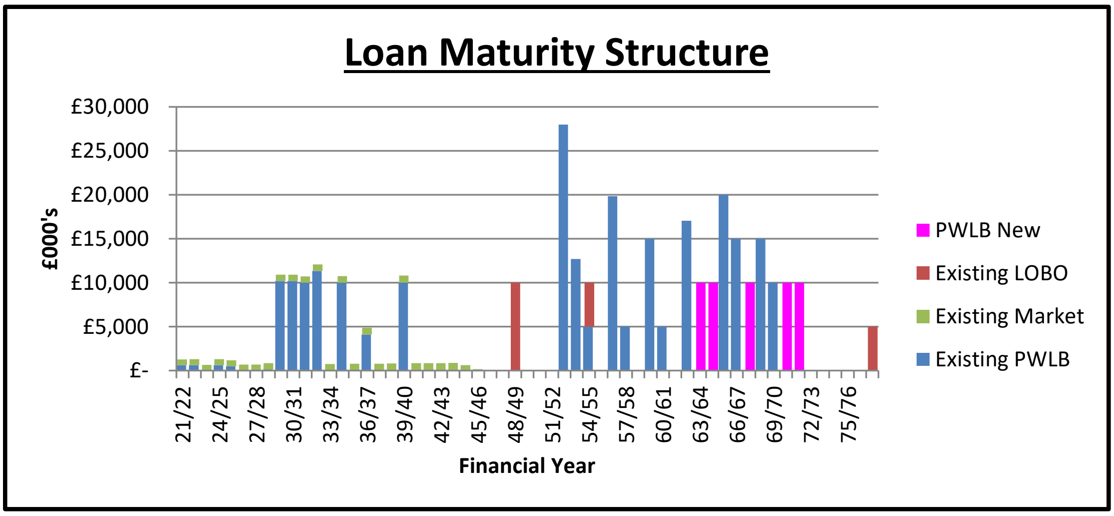
The remainder, £25.000 million, were placed for a period of 12 months, in line with the approved strategy to cash back the Council's useable reserves. These deposits were placed with strong credit-worthy counterparties with maturity of these funds extended into the early part of the 2023/24 financial year.

6 Actual/Expected Treasury Activity during second half of 2022/23

Borrowing

Long term borrowing of £1.084 million will mature in the second half of 2022/23, this being £0.648 million PWLB Maturities, £0.329 million of Market Loans, £0.082 million of Salix loans and £0.025 million PWLB Annuities.

Proactive Treasury Management by the Council in the last decade has placed the Council in an extremely strong refinancing position for its existing external debt portfolio, as can be noted in the table below, with only £5.414 million, or just 1.68%, of the Council's total Loan Portfolio of £322.838 million requiring refinancing over the remainder of the current, and forthcoming four, financial years.



Financial Year	2022/23 Remaining £000's	2023/24-2026/27 £000's	2027/28-2031/32 £000's	2032/33-2036/37 £000's	2037/38+ £000's
Debt Maturing	1,084	4,330	33,857	29,258	274,309
% of total portfolio	0.32%	1.26%	9.88%	8.53%	80.01%

This extremely low short-term exposure to refinancing risk puts the Council in a strong position to plan its borrowings in advance, take advantage of any dips in longer-term borrowing rates from PWLB and other sources, and maintain a low weighted average coupon rate on external debt.

It is expected that any further long-term borrowing that is undertaken in 2022/23 to finance the current & future year capital plans will be sourced by drawing long-term PWLB loans. Consideration for any new borrowing will balance (a) de-risking the longer term borrowing requirement at historically low longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections. Council officers will continue to monitor daily long-term borrowing rates in order to take advantage of any dips in the market.

Appendix 4 provides forecasts for interest rates from the Council's Treasury Management advisor, Link Treasury Solutions Limited.

Debt Rescheduling

Now that the whole of the yield curve has shifted higher there may be opportunities for debt rescheduling in the future.

This would involve the Council repaying loans prematurely (both market and PWLB) whilst high discount rates on premature repayment prevail.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling taking place would include:

- the generation of cash savings at minimum risk;
- to reduce the average interest rate;
- to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Council officers will explore debt rescheduling opportunities with Link Treasury Solutions; only prudent and affordable debt rescheduling that considers both the short and medium-longer term impact will be considered.

Funds on Deposit

In accordance with the Prudential and Treasury Management Codes, it is the Council's priority for funds on deposit to ensure security of capital first, then liquidity, and finally to obtain an appropriate level of return which is consistent with the Council's risk appetite.

£65.000 million of fixed term deposits held at 30 September 2022 mature in late October/November.

As noted in Section 5 above, these fixed term deposits were initially placed in early 2022/23 in relation to the significantly higher levels of short-term surplus cash that the Council is holding due to Government Grant and other receipts that have been paid in advance. As such, the expected application/utilisation of these balances are now expected to be longer in duration than normal. It is expected that these maturing deposits will be refinanced with strong credit-worthy counterparties in accordance with the list of Permitted Investments as approved by Council on 15 February 2022 in the 2022-23 Treasury Management and Annual Investment Strategy, with maturity of funds laddered into late 2022/23 and early 2023/24 to ensure the Council's cashflow requirements can be met, and earning a return commensurate with both these factors.

In addition, £27.985 million of fixed term deposits held at 30 September 2022 mature in late October/early December, and £15.000 million in March 2023. These fixed term deposits were originally placed in line with the currently approved strategy to cash-back the Council's reserves. Based on the expected future profile of the Council's reserves, and particularly the HRA and Capital Fund balances, it is expected that these deposits will be refinanced in line with the Council's current approved policy to cash-back reserves, with any new deposits placed with strong credit-worthy counterparties in accordance with the list of Permitted Investments parties as approved by Council on 15 February 2022 in the 2022/23 Treasury Management and Annual Investment Strategy, and with maturity of these funds extended into the latter half of the 2023/24 financial year, earning a return commensurate with the extended duration.

Day to day liquidity to meet cashflow requirements is sourced from the Council's three Money Market Funds, which all operate on an instant access basis. Interest rates receivable from these are currently between 2.83% and 3.00%, reflective of the increases to the Bank of England Base Rate throughout the 2022/23 financial year.

Given the accelerating interest rate environment Council officers, in conjunction with Link Treasury Solutions Limited, will continue to review the range of all options for funds on deposit available to the Council within its stated policy in the Treasury Management & Annual Investment Strategy approved by Council on 15 February 2022 in order to select appropriate creditworthy counterparties to ensure the security of Council funds, and from that list select the range of deposit products that offer best value to the Council's portfolio.

The Acting Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2022/23.

An updated list of Countries for Deposits as at 21 November 2022 is included as Appendix 5. There are no changes from the list of Countries for Deposits as approved by Council in the 2022/23 TMSS in February 2022.

Expected Loan & Fund on Deposit Portfolio at 31 March 2023

Taking all of the above into account, the expected loans and funds on deposit portfolio at 31 March 2023 is shown in Tables 3 and 4 below:-

Table 3: Council's forecast Loan Portfolio at 31 March 2023

Loan Type	**31 March 2023**	
	Principal Outstanding £000's	**Weighted Average Rate**
PWLB Annuity	505	8.90%
PWLB Maturity	314,128	2.97%
LOBO	20,000	4.51%
Market Loans	16,886	2.68%
Temporary Market Loans	0	n/a
Other Loans	235	0.00%
Total Loans	**341,754**	**3.05%**
Underlying Borrowing Requirement	**359,008**	
Borrowing Requirement Financed Internally (Under Borrowed)	**17,254**	

Table 4: Council's forecast Funds on Deposit Portfolio at 31 March 2023

Type	**31 March 2023**	
	Principal Outstanding £000's	**Weighted Average Rate**
Money Market Funds	19,460	3.75%
Bank Call Accounts	0	n/a
Bank Notice Accounts	0	n/a
Bank Fixed Term Deposit Accounts	105,000	3.89%
Bank Certificates of Deposit	10,000	2.85%
Other Local Authority Fixed Term Deposits	2,000	1.60%
Total Deposits	**136,460**	**3.76%**

7 Prudential Indicators 2022/23

The following prudential indicators have been refreshed from those reported to Council on 15 February 2022 in the original Treasury Management and Annual Investment Strategy Statement 2022/23.

These are technical revisions to the Prudential Indicators as a consequence of the revisions to the Council's General Services and HRA Capital Plans and are based on the actual capital plan outturns for 2021/22, and revisions to the capital expenditure and income budgets for 2022/23.

Table 5: Prudential Indicators 2022/23 – Mid Year Update

Indicator	**2022/23 Original Estimate £000's**	**2022/23 Current Position £000's**	**2022/23 Revised Estimate £000's**
2022/23 Capital Expenditure	193,134	21,010	93,433
2022/23 Required Borrowing	153,098	15,317	57,427
2022/23 Underlying Borrowing Requirement*	460,381	319,801	359,008
2022/23 Gross External Borrowing	460,381	322,838	341,754
2022/23 Over/(Under) Borrowing	0	3,037	-17,254
Operational Boundary – Borrowing	460,381	359,008	359,008
2022/23 Capital Financing Requirement**	552,814	417,135	451,441

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

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

8 Other Treasury related issues

Prudential and Treasury Management Code Revisions

CIPFA, in late 2021 and early 2022, released the new editions of the Treasury Management Code and Prudential Code, along with the Treasury Management Guidance Note for Local Authorities.

CIPFA expect the Codes to be fully effective from the start of the 2023/24 financial year.

The main areas of the Code that have been updated are as previously noted to Council, including TMP 1 for Environmental, Social & Governance considerations, TMP 10 Knowledge and Skills schedule, and the separation of Treasury Management Investments and Non-Treasury Management Investments. The Council's updated Treasury Management Practices are included as Appendix 6 to this report, which reflects these updates to the Code.

The revised suite of Prudential & Treasury Management Indicators (including new indicators for (i) Long-Term Investments, (ii) Net Income as a Percentage of Net General Services Revenue Stream, and (iii) The Liability Benchmark), will be reported as part of the Treasury Management and Investment Strategy & Prudential Indicators 2023/24 presented to Council in February 2023, to ensure full implementation of the requirements of the Codes for the 2023/24 financial year.

In addition, CIPFA have recently published a document covering Effective Scrutiny of Treasury Management, which is a self-assessment tool to support the development of effective scrutiny. This is attached as Appendix 7 to this report. There are several ways in which it can be used, as noted in the CIPFA publication, and Audit Committee are recommended to undertake a self-assessment using the tools within the CIPFA publication.

9 Summary

Treasury Management activity during the year to 30 September 2022 has been effective within the parameters set by the strategy for the year.

Any further long-term borrowing for the remainder of 2022/23 will be in line with the approved strategy, and reflective of the borrowing requirement arising from the General Services and HRA capital plans reported to Council on 15 November 2022.

Officers will continue to review the opportunities available to the Council for deposit of funds as governed by the approved strategy.

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

10 Report Implications

10.1 Resource

Revenue expenditure and variance against revenue budget as a consequence of treasury management activity is reported to Council in the regular quarterly financial reports. The quarter 2 positions for the General Fund and the Housing Revenue account were presented to Council on 15 November 2022.

10.2 Digital

None.

10.3 Risk

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved, which are updated and attached as Appendix 5 of this report, reflecting the revised Prudential and Treasury Management Codes.

As part of their wider scope audit procedures for 2021/22, the Council's external auditors carried out an interim review of the Council's Treasury Management activity in 2021/22. This reviewed four key areas, with no material findings reported.

10.4 Ensuring Equalities

There are no equalities issues arising directly from this report.

10.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcome

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

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Background Papers:

Appendix 1: Economic Update for first part of 2022/23 financial year
Appendix 2: PWLB Borrowing Rates 1 April 2022 to 30 September 2022
Appendix 3: Bank Rate and SONIA Rates 1 April 2022 to 30 September 2022
Appendix 4: Link Treasury Solutions Limited Interest Rate Forecasts
Appendix 5: Approved Countries for Deposits as at 18 November 2022
Appendix 6: Treasury Management Practices
Appendix 7: Effective Scrutiny of Treasury Management (CIPFA)

Appendix 1: Economic Update for first part of 2022/23 financial year

The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

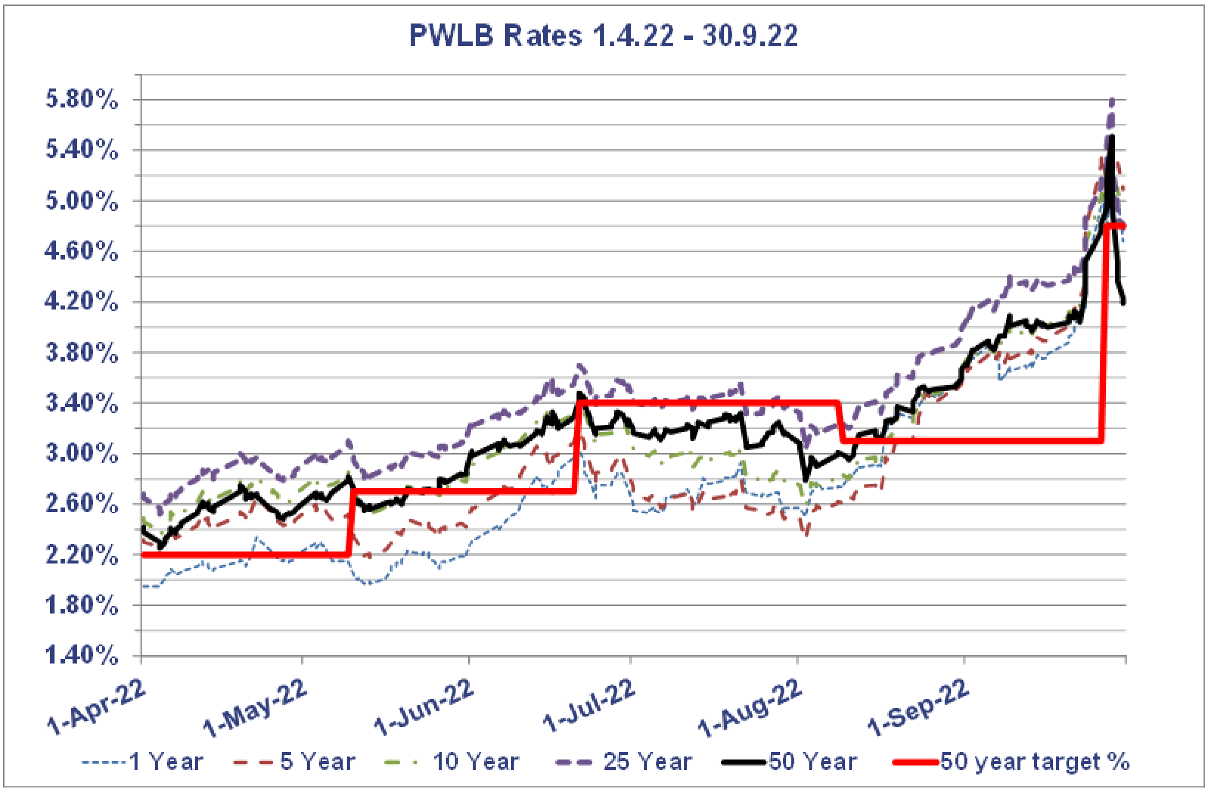
After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

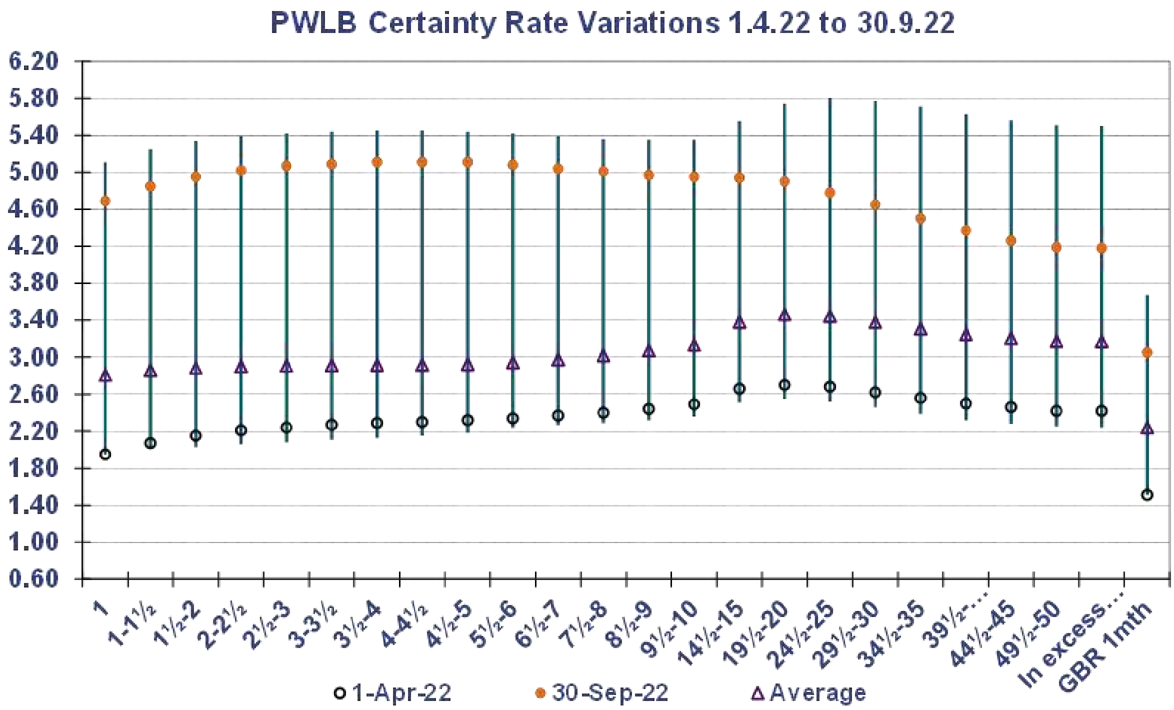
Appendix 2: PWLB Borrowing Rates 1 April 2022 to 30 September 2022

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

PWLB certainty rates 1 April 2022 to 30th September 2022

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%



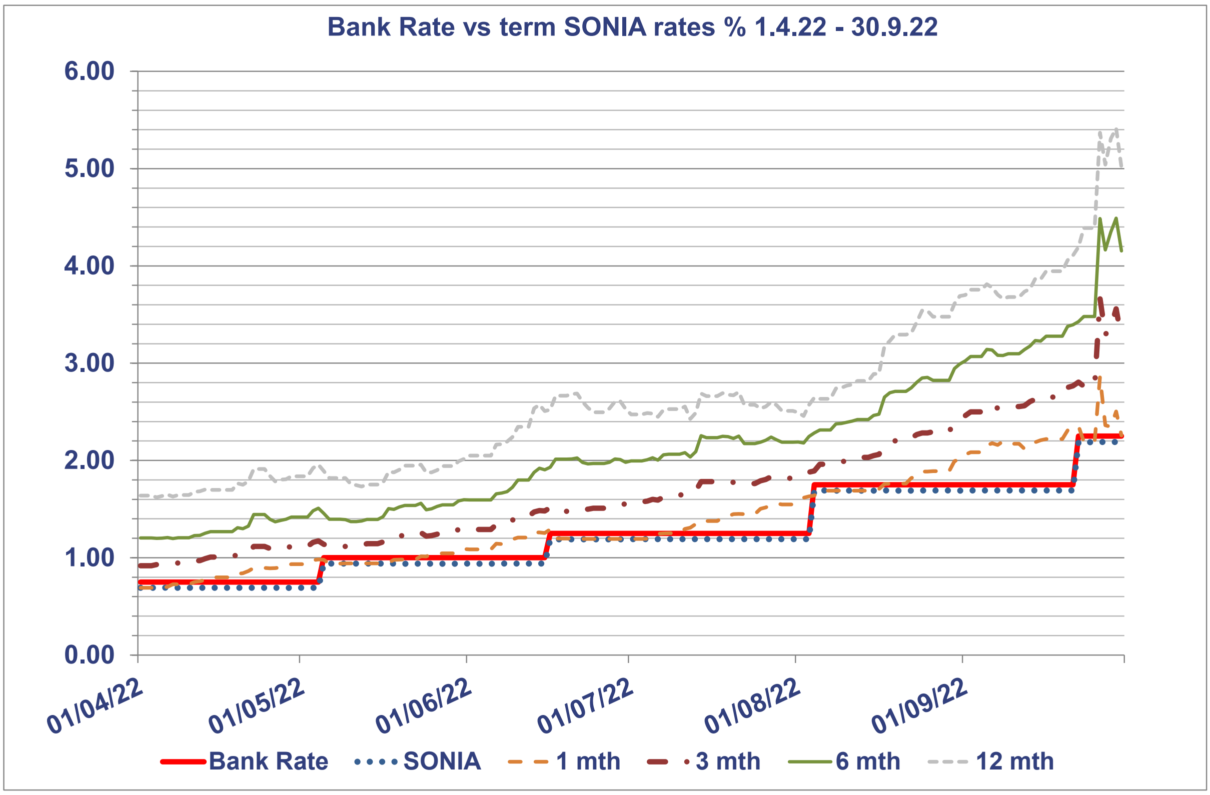


Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 4.80% in September.

Appendix 3: Bank Rate and SONIA Rates 1 April 2022 to 30 September 2022

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



QUARTER ENDED 30/9/2022						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

Appendix 4: Link Treasury Solutions Limited Interest Rate Forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

On 2 November 2022, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 3.00% from 2.25%. The increase reflected a split vote – seven members voting for a 75 basis points increase, one for 50 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.

Moreover, the UK has a new Prime Minister, Rishi Sunak, a new Chancellor, Jeremy Hunt, and new fiscal policies that seek to ensure that the public finances are kept on a sound footing and that any projected gaps are fully funded from services efficiencies and/or net tax increases.

In the interim period, since the end of September, the Government scrapped the reduction in the basic rate of income tax by 1p in the £; maintained the higher band 45p in the £ income tax rate; did not reduce Corporation Tax to 19% from 25%; only put in place support for businesses and households for 6 months (October to March) regarding caps on the unit costs of gas and electricity.

In addition, the Bank of England has had to intervene in the longer part of the gilt market to ensure that pension funds did not have to undertake a "fire sale" of assets to raise cash to pay for margin calls, arising from the sell-off of long-dated gilts (yields rising) in the wake of the former Chancellor's policy to seek to boost growth with unfunded tax cuts.

Since then, calm has returned to the markets, the £ has risen from a historic low of $1.03 to $1.19, and the cumulative movement in gilt yields since the turn of the year is now broadly in line with that seen in the US and Euro-zone bond markets.

Turning back to the MPC meeting on 2 November 2022, the Bank's Quarterly Monetary Policy Report detailed that the UK economy is headed for eight quarters of negative growth based on the market's expectation for Bank Rate to increase to 5.25%. Since then, market expectations have been recalibrated, and now view a peak in Bank Rate of between 4.5% and 4.75%. These views are similar to those held by Link Group's Interest Rate Strategy Group (IRSG). IRSG has reduced its view on the peak of Bank Rate from 5% to 4.5%. However, although Link's IRSG see rates peaking in May of 2023, they now also believe there are several challenges to the Bank that could see them leave rates at this level until early 2024.

The first of those challenges is the tight labour market (unemployment is at a 48 year low 3.5%), which shows no signs of dissipating, and that could mean wage increases continue to be north of 5% well into 2023 (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth. And, of course, inflation could be somewhat "sticky" if the Russian invasion of Ukraine remains unresolved and puts continued pressure on global energy prices and staple foods (e.g., wheat), among the many areas negatively impacted.

Against this backdrop, the Link IRSG believe the MPC will have to tread carefully. It will need to evidence to the markets that it sees the reduction in inflation as a primary objective, but also that it remains alert to the fact that it does not want any recession to be deeper and more prolonged than it needs to be. On that basis the Link IRSG forecast sees Bank Rate increasing 50 basis points in both December and February before the MPC scales down the rate of increase to just 25 basis points in both March and May 2023.

Regarding the forecast for PWLB rates, as already stated, the impact of the Truss/Kwarteng fiscal experiment has faded in the past month but Link's IRSG think investors will still remain a little nervous over the UK's future fiscal policy and therefore have reduced the forecast for near-term PWLB rates across the curve, compared to September's forecast, but have left the longer end of the curve slightly higher to reflect the potential demand by foreign investors for a "confidence premium" in the light of recent market volatility.

As for the housing market, the most recent survey by Nationwide Building Society showed house prices starting to fall and the MPC will be very cognisant that affordability could be stretched now that fixed rate mortgages are somewhat higher than they were a few weeks ago. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it may be willing to leave rates less high than the market had been pricing in prior to the 3rd of November Quarterly Monetary Policy Report but keep them there for longer as a compromise of sorts.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 375 basis points in the year to date and is expected to increase rates further before the end of the year, and possibly into 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that will have the greatest impact on global bond markets.

Geo-political events continue to lead to frequent whipsawing in equity, bond, commodity and currency markets. And the weather will also play a large part in how high energy prices stay and for how long. Not forgetting developments in Iran, North Korea, Taiwan and China.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** continue to rise strongly and pull gilt yields up even higher than currently forecast.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears for inflation and/or recession ebb and flow. The overall longer-run trend is for gilt yields and PWLB rates to remain high in the near-term, given the extent to which market expectations are already priced in and then to fall back once inflation starts to fall through 2023.

Bank Rate

The Link IRSG now expect the MPC to swiftly increase Bank Rate during the remainder of 2022 and into Q2 2023 to combat the sharp increase in inflationary pressures.

The new Government's policy of emphasising fiscal rectitude will however likely mean Bank Rate does not now need to increase to further than 4.5%.
Further down the road, the Link IRSG anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind the UK – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present so as to prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, the Link IRSG forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Creditworthiness

Following the Government's fiscal event on 23rd September, Fitch, Moody's and S&P all placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

CDS prices

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Appendix 5: Approved Countries for Deposit as at 18 November 2022

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

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

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

MIDLOTHIAN COUNCIL

TREASURY MANAGEMENT PRACTICES

Gary Thomson
Senior Finance Business Partner
November 2022

Contents

TMP1 Risk Management

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

The Council uses the Link Group Treasury Solutions 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:-

Link Colour Code	**Maximum Suggested Duration for Investment**
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	2.5 years
Blue	1.25 years***
Orange	1.25 years
Red	7 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 Link) 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 Link, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with;
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors;
3. Treasury Management consultants will provide regular updates of changes to all ratings relevant to the council;
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits;
5. Credit ratings for individual counterparties can change at any time. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties;
6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press;
- Market data;
- Information on government support for banks; and
- The credit ratings of that government support.

7. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows (current as at time of writing and reflecting those approved in the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators report approved by Council on 15 February 2022): -

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%**	**5 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 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 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 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**

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%**	**1.25 years**
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	**100%**	**1.25 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 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 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 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 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.

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 CNAV	AAA	Instant	No	**100%**	**1 day**
Money Market Funds LVNAV	AAA	Instant	No	**100%**	**1 day**
Money Market Funds VNAV	AAA	Instant	No	**100%**	**1 day**
Ultra Short Dated Bond Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	**100%**	**1 week**
Ultra Short Dated Bond 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**

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	**100%**	**50 years**

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+0	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 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 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**

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**	**25 years**
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	**£0.326m**	**22 years**
Midlothian Energy Limited: ESCO	n/a	Term	No	**£10.2m**	**n/a**

8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
   - Maximum amount to be placed with any one institution - £15 million (£30 million for Lloyds Banking Group and The Royal Bank of Scotland);
   - Group limits where a number of institutions are under one ownership – maximum of £15 million per group (£30 million for Lloyds Banking Group and NatWest Group);
   - Country limits – a minimum sovereign rating of AA- is required for an institution to be placed on our approved lending list. The list of countries which currently meet this criteria (current as at time of writing and reflecting those approved in the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators report approved by Council on 15 February 2022): -

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

This list is updated as a minimum annually as part of the Treasury Management and Investment Strategy Prudential Indicators report approved by Council in advance of each financial year

The Council's policy in relation to its environmental, social and governance (ESG) investment considerations are as set out in Appendix 1. This is a developing area, and it is not implied that the Council's ESG policy will currently include ESG scoring or other real-time ESG criteria at an individual deposit level.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons:-

- To fund the current capital programme;
- To finance future debt maturities;
- To ensure an adequate level of short-term investments to provide liquidity for the organisation.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities
   At the end of each financial day, any unexpected surplus funds are transferred to the Council's instant access account with The Royal Bank of Scotland.
b. Bank overdraft arrangements
   Any overdraft position is chargeable at 5% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's main 3 accounts.
c. Short-term borrowing facilities
   The Council accesses temporary loans through approved brokers within the United Kingdom. The approved borrowing limit for short term debt is 50% of current external debt. In monetary terms this is £161.4 million at time of writing.
d. Insurance/guarantee facilities
   There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.
e. Special payments
   Best practice to aid cashflow management and minimise banking charges is that any large payments should be notified to Treasury at least one working day in advance.

1.3 Interest Rate Risk Management

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 organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Details of approved interest rate exposure limits

Upper limit for Fixed Rate exposure is 100% of gross borrowing and investments.

Upper limit for Variable Rate exposure is 30% of gross borrowing and 100% of investments.

1.3.2 Policies concerning the use of instruments for interest rate management.

a. forward dealing
   Consideration will be given to dealing from forward periods depending upon market conditions. When forward dealing is more than one week forward then the approval of a Senior Finance Business Partner or the Financial Services Manager is required.

b. LOBOs (borrowing under lender's option/borrower's option)
   Use of LOBOs and other similar instruments is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Financial Services Manager or the Chief Officer, Corporate Solutions.

c. Callable Deposits
   The Council will use callable deposits as part of its Annual Investment Strategy. The credit criteria and maximum periods are as set out in the Annual Investment Strategy.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

The Council from time to time purchases goods from abroad but these items are de minimis in terms of the overall budget and require no formal exchange rate policy.

1.5 Inflation Risk Management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

1.6 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

1.6.1 Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to Council in the next available Review Report.

1.6.2 Projected Capital Investment Requirements

The responsible officer will prepare a minimum five year plan for capital expenditure for the Council. The capital plan will be used to prepare the associated debt (loan) charges which would be incorporated into a five year Medium Term Financial Strategy.

In addition, the responsible officer will draw up a capital strategy which will give a longer-term view.

The use of accounting practices to define capital expenditure is contained in Section 12 of the Local Government in Scotland Act 2003.

1.6.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available or estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the four following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this five year period.

The Council will use the definitions provided in the Prudential Code for borrowing (88), capital expenditure (89), capital financing requirement (90), commercial property (91), debt (92), financing costs (93), investments (95), net revenue stream (96), other long term liabilities (97), treasury management (98) and transferred debt (99).

1.6.4 Policy on Borrowing in Advance of Need

Decisions taken to borrow in advance will form part of the next treasury management report submitted to the appropriate oversight committee. The report will justify the decision to borrow in advance, reflecting the strategy and original assumptions, provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the following reasons:-

- to fund the current capital programme;
- to finance future debt maturities, or
- to ensure an adequate level of short-term investments to provide liquidity for the organisation.

As a minimum, justification for any borrowing in advance will include the following:-

- Details of the borrowing in advance undertaken;
- The borrowing within the context of the overall requirement of the authority over the medium term (covering both capital programme needs and the existing debt maturity profile);
- The anticipated timing (date or financial year) as to when those funds are expected to be required;
- The prudential indicator which demonstrates that, in the medium term, borrowing will only be for capital purposes;
- The anticipated rate/s of interest expected to apply if the borrowing is deferred until the time the funds are required;
- The anticipated rate/s of interest expected to be achieved by investing the sums borrowed in advance;
- Details of how interest rates have been forecast and an explanation of the reasonableness of such forecasts should be provided;

- Any third party information or advice used or sought in this regard;
- The risks associated with borrowing in advance and what controls are in place to manage that risk;
- A discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

The business case recommending any borrowing in advance of need will be prepared by the Senior Finance Business Partner for approval by the Financial Services Manager and the Chief Officer, Corporate Solutions.

1.6.5 PFI, Partnerships, ALMOs, Joint Ventures and Guarantees

The Council has entered into the following PFI, DBFM and Joint Venture Arrangements:-

Dalkeith Schools Campus
This is a 30-year PPP contract with Dalkeith SPV Ltd for the provision and facilities management of the Campus. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance - free life of five years. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with one contract months' notice.

Midlothian Schools Ltd
This is a PPP contract for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a usable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with six months' notice.

Newbattle Community Campus
This is a 25-year Not for Profit Distributing Model (NPDM) contract with hubCo for the provision and lifecycle maintenance of the Campus. The facility opened in the financial year 2018/19 on 25th May 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with variable notice periods as defined in the contract.

Food Waste Treatment Plant, Millerhill
This is a 20- year Design, Build, Finance and Maintain (DBFM) contract which was jointly procured between Midlothian and the City of Edinburgh Council. At the end of the concession period in 2036 the asset will not revert

back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying the market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

Residual Waste Treatment Plant, Millerhill
This is a 25- year DBFM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At 1 April 2020 the contract was in the commissioning phase, with full service commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

Midlothian Energy Limited Joint Venture
The Council has entered into a 50:50 joint venture with Vattenfall Heat UK to create Midlothian Energy Limited, a company set up specifically to generate, distribute and supply energy within Midlothian. The carrying value of the Council investment in Midlothian Energy Limited at 31 December 2021 was £1.510 million

1.7 Legal and Regulatory Risk Management

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.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.7.1 References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

- Part VII Local Government (Scotland) Act 1973;
- Schedule III Local Government (Scotland) Act 1975;
- The Local Government in Scotland Act 2003 Part 7 section 36;
- S.S.I. 2003 No.134 (C.7) The Local Government in Scotland Act 2003 (Commencement No.1) Order 2003;
- S.S.I. 2004 No.28 (C.1) The Local Government in Scotland Act 2003 (Commencement No.2) Order 2004;
- S.S.I. 2004 No.29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004;
- Finance Circular 4/2007 Guidance on proper accounting practices March 2007;
- Finance Circular 5/2010 Investment of Money by Scottish local authorities 1.4.10;
- S.S.I. 2010 No.122 Local Authority Investments (Scotland) Regulations 2010 (these regulations disapply the Trustee Investments Act 1961 (b) to the extent to which it applies to local authority investment of money, except in so far as that Act (or any provision of it) is applied by or under any other enactment);
- S.S.I 2016 No. 123 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016;
- Finance Circular 7/2016 (New Arrangements for Loans Fund Advances and Repayments)
- Requirement to set a balanced budget - Local Government (Scotland) Act 1973 section 108(2)and Local Government Finance Act 1992 section 93(3);
- Local Government (Scotland) Act 1973 section 95 – duty on the CFO to ensure proper financial administration;
- Local Government (Scotland) Act 1975 – power to maintain a loans fund;
- Scottish Office Circular 29/1975 – prescribes annual repayments of principal to the loans fund;
- Housing (Scotland) Act 1987 – requirement to maintain an HRA; schedule 15 sets out income and expenditure to be charged to it;
- Housing (Scotland) Act 1987 section 203(1) - definition of HRA capital expenditure;
- CIPFA Treasury Management Codes of Practice and Guidance Notes 2021;
- CIPFA Prudential Code for Capital Finance in Local Authorities 2021;
- CIPFA Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners 2018

- CIPFA Local Authority Capital Accounting – a reference manual for practitioners;
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996;
- CIPFA Standard of Professional Practice on Treasury Management 2002;
- CIPFA Standard of Professional Practice on Continuous professional Development 2005;
- CIPFA Standard of Professional Practice on Ethics 2006;
- The Good Governance Standard for Public Services 2004;
- LAAP Bulletins;
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice;
- IFRS: Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice
- PWLB circulars on Lending Policy: The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority);
- Financial Conduct Authority's Code of Market Conduct;
- The Council's Standing Orders relating to Contracts;
- The Council's Financial Regulations;
- The Council's Scheme of Delegation.

1.7.2 Procedures for Evidencing the Council's Powers and Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government in Scotland Act 2003, section 40
Borrowing: Schedule III Local Government (Scotland) Act 1975 and SSI. 2016 No. 123 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

In addition, it will make available on request the following: -

a. the scheme of delegation of treasury management activities which is contained in Standing Orders and Financial Regulations.
b. the authorized signatories database detailing which officers are authorized signatories.

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

This is updated annually as part of the Treasury Management and Annual Investment Strategy & Prudential Indicators report.

1.7.3 Statement on the Council's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

1.7.4 Monitoring Officer

The monitoring officer is the Legal Services Manager; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.7.5 Chief Financial Officer

The Chief Financial Officer is the Chief Officer, Corporate Solutions; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

1.8 Fraud Operational Risk, including Fraud, Error and Corruption

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks;
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are;
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision;
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.8.1. Details of Systems and Procedures to be Followed, Including Online Services

Authority

- The Scheme of Delegation sets out the delegation of duties to officers;
- All loans and funds on deposit are negotiated by the responsible officer or authorised persons;
- Loan procedures are defined in the Council's Financial Regulations.

Procedures

- Electronic banking is undertaken by way of the Royal Bank of Scotland Bankline system.
- CHAPS payments and Faster Payments are made via Bankline;
- Access to the Logotech Public Sector Treasury Management System is limited to authorised officers and administered by the Assistant Accountant Treasury.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Logotech PSTM system;
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation;
- Written confirmation is received and checked against the dealer's records for the transaction;
- Any discrepancies are immediately reported to the Senior Finance Business Partner for resolution;
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. The lender's Standard Settlement Instructions are also requested for any new counterparties that the Council have not previously dealt with and checked against the back office confirmation from the broker. Bank details for any repayment of loan funds borrowed through brokers are checked against these SSI's or the existing details held for that counterparty on the Council PSTM system. Any discrepancies are immediately reported to the Senior Finance Business Partner for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties, which is updated as a minimum annually in the Treasury Management and Annual Investment Strategy & Prudential Indicators report;
- The Logotech PSTM system prompts the Assistant Accountant Treasury that money borrowed or lent is due to be repaid;
- All loans raised and repayments made go directly to and from the bank account of approved counterparties;

- Counterparty limits are set for every institution (see TMP1.1) that the Council invests with;
- Brokers have a list of named officials authorised to agree deals;
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions;
- Payments can only be authorised by an authorised signatory(ies) listed on the internal authorised signatory database;
- The Logotech PSTM system can only be accessed by a password;
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out four weekly from the bank statement to the financial ledger;
- The Logotech PSTM system balances are reconciled to the balance sheet ledger codes at the end of each ledger period and at the financial year end;
- Loan charge estimates (debt charges and investment income earnings, net of expenses) are prepared every quarter as part of the quarterly monitoring and outturn reports to Council;
- The Council complies with the requirements of the Code of Practice on Local Authority Accounting and accounts for the loans fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Logotech PSTM system;
- The Logotech PSTM system automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders;
- Average weighted capital loans fund interest rates and debt management expenses are calculated annually using information from the financial ledger and the Logotech PSTM system;
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the General Fund and the Housing Revenue Account, which is apportioned between the two accounts using the methodology approved by Council.

1.8.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

Accommodation is available in other Council Buildings and all computer files are backed up on servers to enable files to be accessed from remote sites.

An electronic diary system is in use should all electronic aids be unavailable.

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

1.8.3 Insurance Cover Details

Fidelity Insurance

The Council has 'Fidelity Guarantee' Insurance cover with Maven Public Sector which covers fraudulent acts by employees. The cover has a limited liability of £2m any one loss with an excess of £25,000 for each and every loss.

Business Interruption

The Council is insured for £2m 'Business Interruption' cover as part of its Property Policy with Zurich Municipal Insurance Company

1.9 Market Risk Management

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.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.9.1 Details of Approved Procedures and Limits for Controlling Exposure to Investments the Capital Value of which may Fluctuate (Gilts, CDs, Etc.)

These are controlled through setting limits on funds on deposit instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

a. reviews carried out by the treasury management team;
b. reviews with our treasury management consultants;
c. annual review after the end of the year as reported to full council;
d. mid-year review reports to full council;
e. comparative reviews;
f. strategic, scrutiny and efficiency value for money reviews.

2.1.1 Periodic reviews during the financial year

The Senior Finance Business Partner reviews treasury activity throughout the year to evaluate actual activity against the Treasury Management and Annual Investment Strategy and cash flow forecasts. This information is discussed with the Financial Services Manager and Chief Officer, Corporate Solutions as part of the quarterly financial monitoring reports to Council, the strategy reviews with treasury consultants, the annual outturn position, the setting of the strategy report to Council, and at other times throughout the year as deemed appropriate.

This will include:-

a) Total debt (both on-and off balance sheet) including average rate and maturity profile;
b) Total funds on deposit including average rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants at least twice annually to review the performance of the investment and debt portfolios.

2.1.3 Annual Treasury Management Review Report after the end of the financial year

An Annual Treasury Management Report is submitted to Council each year after the close of the financial year, which reviews the performance of the debt and investment portfolios. This report will be produced within three months after the financial year end and will contain the following: -

a. total external debt (gross external borrowing plus other long term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement;

b. borrowing strategy for the year compared to actual strategy;
c. whether or not a decision was made to defer borrowing or to borrow in advance;
d. outline the level of internal borrowing and whether it has materially changed during the year;
e. assumptions made about interest rates;
f. investment strategy for the year compared to actual strategy;
g. explanations for variance between original borrowing and investment strategies and actual;
h. debt rescheduling done in the year;
i. actual borrowing and investment rates available through the year;
j. the performance and return of all investments by type of investment, evaluated against the stated investment objectives;
k. the Report shall identify investments where any specific risks have materialised during the year and report on any financial consequences of that risk; together will details of any remedial action take. This includes reporting any short term borrowing costs incurred to remediate any liquidity problem;
l. the Report shall include details of any review of long term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy;
m. compliance with Prudential and Treasury Indicators.

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year;
- CIPFA Treasury Management Forum.

2.2 Benchmarks and Calculation Methodology:

2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

2.2.2 Investment.

The performance of in house investment earnings will be measured against the backward looking compounded SONIA appropriate for the average duration of the portfolio.

The Council also participates in the Investment Benchmarking service offered by Link Treasury Solutions, which allows a comparison of the Council's investment portfolio against other peers both within the Investment Benchmarking group and throughout the UK to be undertaken.

2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender every five years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

If tendering is not considered appropriate a specialist banking company will be appointed to ensure that the terms offered represent value for money.

2.3.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers has been established which takes account of both prices and quality of services. The Council currently transacts with counterparties using the following brokers as intermediaries:-

Broker	Main Contact	Contact Number	Address
RP Martin	Norman Clements Norman.Clements@Martin-Brokers.com	0131 257 4450	26 Fredrick Street Edinburgh EH2 2JR
Tullet Prebon	Gary Christopher gchristopher@tulletprebon.com	0207 200 7042	155 Bishopgate London EC2M 3TQ
Tradition	Nick Bramley Nick.Bramley@tradition.com	0207 422 3566	Beaufort House 15 St Botolph Street London EC3A 7OX
King & Shaxson	Patrick McFann Patrick.McFann@kasl.co.uk	0207 929 8529	Candlewick House 120 Cannon Street London EC4N 6AS
ICAP	Anthony Lunn Anthony.Lunn@icap.com	0203 933 2288	2 Broadgate London EC2M 7UR

2.3.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants.

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:
+

3.1.1 Records to be kept

The Treasury section has a computerised system in which all investment and loan transactions are recorded.

The following records will be retained:-

- Daily cash balance forecasts;
- Money market rates obtained by telephone from brokers;
- Dealing slips for all money market transactions;
- Brokers' confirmations for investment and temporary borrowing transactions;
- Confirmations from borrowing and lending institutions where deals are done directly;
- PWLB loan confirmations;
- PWLB debt portfolio schedules;
- Certificates for market loans, local bonds and other loans.

3.1.2 Processes to be pursued

- Cash flow analysis;
- Debt and investment maturity analysis;
- Ledger reconciliation;
- Review of opportunities for debt restructuring;
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money);
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Council will:

a) Above all be clear about the nature and extent of the risks to which the Council may become exposed;
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping;

d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets, to ensure that its capital plans and investments are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail over the period of the Medium Term Financial Strategy. Evaluation will also consider a longer period to ensure that plans remain affordable, proportionate, prudent and sustainable in the longer term;
b) not borrow to invest primarily for financial return;
c) not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so;
d) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council;
e) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
f) undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt. The Council does not have any investments in Commercial Debt therefore this is not applicable;
g) evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
h) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
i) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding;
j) ensure that treasury management decisions are made in accordance with good professional practice.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

c) Ensure that any long-term treasury investment is supported by a business case.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

4.2 Approved Instruments for Investments

Refer to the Treasury Management and Investment Strategy & Prudential Indicators report.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities are not required to opt up to professional status when trading with UK banks in fixed term deposits. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments. (N.B. some money markets funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status.

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Money Market Funds
Aberdeen MMF (formerly Standard Life MMF)
Federated MMF

Other Counterparties/Companies
King & Shaxson
Tullet Prebon ICAP
Tradition
RP Martin
Link Treasury Solutions

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government in Scotland Act 2003 and the 2016 Local Authority Capital Finance & Accounting Regs and within this the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and Capital Grants
Lottery monies
PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy

4.7 Non-treasury management investments

Appendix 3 lists the Non-Treasury Management Investments that the Council holds – these are all classified under the Treasury Management Code as Service Investments.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Council

- receiving and reviewing reports on treasury management policies and activities;
- approval of annual strategy;
- budget consideration and approval;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approval of amendments to the organisation's adopted clauses, treasury management policy statement.

(ii) Audit Committee

- In accordance with the Prudential Code, Audit Committee shall scutinise all Treasury Management Reports (Strategy, Mid-Year and Outturn) and provide recommendations for revision in the report for presentation to Council.

(iii) Chief Officer, Corporate Solutions

- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment;
- approval of treasury management practices and amendments thereto.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing	Setting of parameters of borrowing and negotiation/authorisation of deal. Receipt of brokers confirmation note and diarisation of loan receipt against cashflow forecast. Bank/journal posting and bank reconciliation.
Authorisation & repayment of deal	Entry onto system. Approval and payment.

5.3 Treasury Management Organisation Chart

Chief Officer,
Corporate Solutions

I

Financial Services
Manager

I

Senior Finance
Business Partner

I

Treasury Team

5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Officer, Corporate Solutions. This person will carry out the following duties: -

a) recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
b) submitting regular treasury management policy reports;
c) submitting budgets and budget variations;
d) receiving and reviewing management information reports;
e) reviewing the performance of the treasury management function;
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
g) ensuring the adequacy of internal audit, and liaising with external audit;
h) recommending the appointment of external service providers;
i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments;
j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Financial Services Manager, Senior Finance Business Partner, the Assistant Accountant, Treasury or the

Trainee Accountants must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave or sickness;

k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible;

l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations;

m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investments Products Code) for principals and broking firms in the wholesale markets.

5.4.2. Senior Finance Business Partner

The responsibilities of this post will be: -

a) execution of transactions;
b) adherence to agreed policies and practices on a day-to-day basis;
c) maintaining relationships with counterparties and external service providers;
d) supervising treasury management staff;
e) monitoring performance on a day-to-day basis;
f) submitting management information reports to the responsible officer;
g) identifying and recommending opportunities for improved practices;
h) Preparing business case on borrowing in advance and/or fixed term deposits for approval by Financial Services Manager and Chief Officer, Corporate Solutions.

The Treasury Team additionally includes the following persons:-

Assistant Accountant, Treasury

The responsibilities of this post include the day to day operational tasks to prepare the daily treasury bank position including forecast movements during the day, preparation of Faster and CHAPS payments, transmission of BACS files, completion of end of day banking, and reconciliation of all treasury / loans fund ledger codes.

5.4.3. Knowledge & Skills Schedule

See TMP10 and Appendix 2.

5.4.4. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented;
b) Ensuring that the responsible officer reports regularly to the Council on treasury policy, activity and performance.

5.4.5. The Monitoring Officer – the Legal Services Manager

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law;
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice;
c) Giving advice to the responsible officer when advice is sought.

5.4.6. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices;
b) Reviewing division of duties and operational practice;
c) Assessing value for money from treasury activities;
d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

In the absence of the Senior Finance Business Partner, the Financial Services Manager with either fulfil the Senior Finance Business Partners' duties or delegate these to another Senior Finance Business Partner.

In the Absence of the Assistant Accountant, Treasury the Trainee Accountants will fulfil that role.

5.6 Dealing Limits

There are no dealing limits for individual posts.

5.7 List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 2.3.3.

5.8 Policy on Brokers' Services

It is this Council's policy to rotate business between brokers.

5.9 Policy on Taping of Conversations

It is not this Council's policy to tape brokers conversations.

5.10 Direct Dealing Practices

The Council will consider dealing direct with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows:-

- Business Reserve Accounts;
- Call Accounts:
- Money Market Funds.

5.11 Settlement Transmission Procedures

Payments will be made through the Bankline system to be completed by 2.00pm on the same day (CHAPS payments and Faster Payments).

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year:-
   a) review of the organisation's approved clauses, treasury management policy statement and practices;
   b) strategy report on proposed treasury management activities for the year comprising of the Treasury Management and Annual Investment Strategy & Prudential Indicators.
   c) Capital strategy to cover the following:-
      - Give a long-term view of the capital programme and treasury management implications therefor beyond the five year time horizon for detailed planning;
      - An overview of the treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, proportionality, between both types of investments;
      - Schedule of non-treasury investments.
b) Mid-year review (or more frequently if necessary);
c) Annual review report after the end of the year;
d) Quarterly reporting of Treasury Management and Prudential Indicators with the existing suite of financial monitoring reports.

6.2 Annual Treasury Management and Annual Investment Strategy & Prudential Indicators report

1. The Treasury Management and Annual Investment Strategy & Prudential Indicators report sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to Audit Committee for scrutiny and then presented to the full Council for approval before the commencement of each financial year;
2. The formulation of the Treasury Management and Annual Investment Strategy & Prudential Indicators report involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise;
3. The Treasury Management and Annual Investment Strategy & Prudential Indicators report is concerned with the following elements:
   a) Prudential and Treasury Indicators;
   b) current Treasury portfolio position;
   c) borrowing requirement;
   d) prospects for interest rates
   e) borrowing strategy;
   f) policy on borrowing in advance of need;
   g) debt rescheduling;
   h) investment strategy;
   i) creditworthiness policy;
   j) policy on the use of external service providers;
   k) any extraordinary treasury issues.

4. The Treasury Management and Annual Investment Strategy & Prudential Indicators report will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios;
5. Whether the CIPFA Treasury Management Code and the CIPFA Prudential Code have been adopted in full, or if not, provide an explanation;
6. The Council's risk appetite in respect of security, liquidity and optimum performance;
7. The definition of high credit worthiness;
8. Which instruments the Council will use (permitted investments) separately identified as relating to Common Good and other;
9. Limits (by sum of money or percentage of the local authority's total investments) for each permitted investment. Alternatively an investment may be 'unlimited';
10. The objectives of each type of investment;
11. The different types of risks that each permitted investment is exposed to;
12. The controls in place for limiting those risks;
13. Explanations for an unlimited categorisation;
14. Whether they will be used by the in house team, external managers or both (if applicable);
15. The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list;
16. Which credit rating agencies the Council will use;
17. How the Council will deal with changes in ratings, rating watches and rating outlooks;
18. Limits of amount and duration for individual counterparties and group limits;
19. Country limits;
20. Maximum value and maximum periods for which funds may be prudently invested;
21. Levels of cash balances and investments over the same time period as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels;
22. Interest rate outlook;
23. Budget for investment earnings;
24. A review of the holding of longer term investments;
25. Details of how policies and practices will be scrutinised before being accepted and how they will be monitored and changed;
26. Use of a cash fund manager (if applicable);
27. Policy on the use of external service providers;
28. Details as to where policies referred to in the Strategy may be obtained.
29. Treasury limits which are set through Prudential and Treasury Indicators.

6.5 Policy on Prudential & Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

6.5 Mid year review

A mid-year review report will be presented to Council outlining treasury management activities and strategy. This review will consider the following: -

a) activities undertaken;
b) variations (if any) from agreed policies/practices;
c) interim performance report;
d) regular monitoring;
e) monitoring of treasury management indicators for local authorities;
f) Projected performance for the second half of the year;
g) Updated prudential indicators.

6.6 Annual Review Report on Treasury Management Activity

An annual report will be presented to the full Council at the earliest practicable meeting after the end of the financial year. This report will include the following: -

a) Transactions executed and their revenue effects;
b) Report on risk implications of decisions taken and transactions executed;
c) Performance report;
d) Report on compliance with CIPFA Code recommendations, approved policies and practices, the member approved treasury management strategy and on statutory/regulatory requirements.

6.7 Quarterly Review

The quarterly review will comprise the monitoring of the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring reports.

6.7 Management Information Reports

Management information reports are prepared weekly and detail the current level of debt and investments held by the Council (Prudential Indicators Report). Quarterly loan charges projections are prepared by the Senior Finance Business Partner for the Financial Services Manager and Chief Officer, Corporate Solutions. These projections provide measurements of performance against budget including the projected level of loan charges/investment income. They will also highlight any change to the original strategy along with an explanation of variances, and outline any non-compliance with Prudential limits or other treasury management limits. Annual loan charges projections are also provided to the Financial Services Manager and Chief Officer, Corporate Solutions to ensure budget planning for the 5 year budget cycle.

6.8 Publication of Treasury Management Reports

The reports outlined in Section 6.1 above are published on the Council's website.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Chief Officer, Corporate Solutions will prepare a five year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following four years. This will bring together all the costs involved in running the function, together with associated income. The Financial Services Manager will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records;
- Maturity analysis of loans outstanding;
- Certificates for new long term loans taken out in the year;
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type;
- Calculation of loans fund interest and debt management expenses;
- Details of interest rates applied to internal investments;
- Calculation of interest on working balances;
- Interest accrual calculation ;
- Principal and interest charges reports from the Logotech PSTM system;
- Analysis of any deferred charges;
- Calculation of loans fund creditors and debtors;
- Annual Treasury Report
- Treasury Management and Annual Investment Strategy & Prudential Indicators report;
- Review of observance of limits set by Prudential and Treasury Indicators.

7.4 Quarterly Budget Monitoring Report

Quarterly Budget Monitoring reports go to the full Council. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing and Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

8.2 Bank Statements Procedures

The Council receives a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.

A formal bank reconciliation is undertaken on a four weekly basis by the Financial Services team.

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors as soon as possible but not later than 30 days after receipt of the invoice and this effectively schedules the payments.

8.4 Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be deposited in the Council's banking accounts. The cashiers will notify the Treasury Team each morning of cash and cheques banked the previous day so that the figures can be taken into account in the daily cash flow.

8.5 Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following:-

- Identify and assess the risks of money laundering and terrorist financing;
- Have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through risk assessments;
- appoint a nominated officer;
- implement internal reporting procedures;

- train relevant staff in the subject;
- establish internal procedures with respect to money laundering;
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is the Chief Officer, Corporate Solutions.
f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Chief Officer, Corporate Solutions and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fsa.gov.uk.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on www.fsa.gov.uk).

All transactions will be carried out by CHAPS for making deposits or repaying loans.

TMP 10 Training and Qualifications

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that Elected Council and Audit Committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements, including a knowledge and skills schedule, are detailed in Appendix 2 to this document.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Chief Officer, Corporate Solutions, the Financial Services Manager and the Senior Finance Business Partner will review and identify the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Senior Finance Business Partner to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Financial Services Manager will maintain records on all staff and the training they receive.

10.3 Experience and Approved Qualifications for Treasury Staff

See Appendix 2.

10.4 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained;
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press;
- Market data;
- Information on government support for banks;
- The credit ratings of that government support.

11.1.1 Banking Services

a) Name of supplier of service is The Royal Bank of Scotland.
b) Regulatory status – banking institution authorised to undertake banking activities by the FSA;
c) The branch address is:
63 High Street Dalkeith EH22 1JA
Tel :- 0131 523 3505 – David Rennie, Relationship Director
d) Cost of service is variable depending on schedule of tariffs and volumes but is currently estimated to cost around £20,000 per annum;
e) Payments due quarterly;

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Senior Finance Business Partner every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Financial Services Manager.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the Financial Services Manager every year to check whether performance has met expectations.

a) Name of supplier of service is Capita Asset Services (Treasury Solutions), 40 Duke's Place, London EC3A 7NH. Tel: 0871 664 6800
b) Regulatory status: investment adviser authorised by the FSA;
c) Cost of service is £19,450.00 per year;
d) Payments due on 1 January each year.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions;
b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code;
c. The following documents are available for public inspection: -

Treasury Management Policy Statement;

Annual Treasury Management and Investment Strategy & Prudential Indicators report;

Annual Treasury Management Outturn Report;

Treasury Management monitoring reports (e.g. half yearly);

Annual accounts and financial instruments disclosure notes;

Annual budget;

5 Year General Services Capital Plan & 15 year HRA Capital Plan;

Capital Strategy

Minutes of Council / Cabinet / committee meetings

Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

Appendix 1: Environmental, Social & Governance Risk Management

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*
>
> *At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*
>
> *In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*
>
> *In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*
>
> *With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness."*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody’s and Standard & Poor’s to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

Appendix 2: Knowledge & Skills Schedule

This appendix details the knowledge, experience and qualification requirements for all staff and elected members involved in Treasury Management.

It also details the actual treasury management qualifications and experience of these individuals.

One of the qualifications for upgrading to professional status under MIFID II is at least 1yr experience in professional position in financial markets which requires knowledge of transactions or services envisaged. There is no guidance on how to interpret and apply this requirement – it could therefore mean that there must be a minimum of one senior person in authority in the treasury management function who has such qualifying experience and then all staff acting under that delegated authority are covered.

The Scottish Treasury Management Toolkit – Developed in partnership with CIPFA – a series of new online learning modules developed to assist Officers and Elected Members to have a minimum level of knowledge and understanding of Treasury Practices. These will be made available in early 2023.

CIPFA have recently published a document covering Effective Scrutiny of Treasury Management which is a self-assessment tool to support the development of effective scrutiny. There are several ways in which it can be used, as noted in the CIPFA publication.

Audit Committee / Elected Members

Key Knowledge and skills required:

- Effective scrutiny of all Treasury Management reports (Strategy, Mid-Year and Outturn)
- Provision of recommendations to Council of revisions to Treasury Management reports;

Recording of Training & Development

- 17/02/2021: Elected Member Briefing on Treasury Management
- Completion of CIPFA Self-Assessment toolkit: Effective Scrutiny of Treasury Management

Chief Officer, Corporate Solutions

Key Knowledge and skills required:

- Recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Review of management information reports;
- Reviewing the performance of the treasury management function;
- Ensure 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;
- The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments;
- The responsible officer may delegate his power to borrow and invest to members of his staff. The Financial Services Manager, Senior Finance Business Partner, the Assistant Accountant, Treasury or the Trainee Accountants must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave or sickness;
- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible;
- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations;
- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investments Products Code) for principals and broking firms in the wholesale marketsApproval of the division of responsibilities;
- Approving the selection of external service providers and agreeing terms of appointment;
- Approval of treasury management practices and amendments thereto.
- Full member of accountancy body (CIPFA/ACCA/CIMA)

Recording of Training & Development

- 12 years experience in leading Treasury Management team
- 05/10/2022: Treasury Strategy Meeting (Link)
- 19/01/2022: Treasury Strategy Meeting (Link)
- 11/01/2022: Scottish Treasury Management Workshop Webinar (Link)
- 26/10/2021: Treasury Strategy Meeting (Link)

- 17/02/2021: Elected Member Briefing on Treasury Management
- Various: Directors of Finance Meetings

Financial Services Manager

Key Knowledge and skills required:

- Development of strategic financial planning for the Council's capital and revenue budgets including loan charges
- Management of the Council's Treasury Management Activities (loan portfolio of £320 million and investment portfolio of £150 million)
- Developed understanding of strategic and operational Treasury Management issues and its importance in the Council
- Understanding of the Council's borrowing requirements arising from its current capital plans, its existing debt portfolio and future capital strategies
- Full member of accountancy body (CIPFA/ACCA/CIMA)

Recording of Training & Development

- 12 years experience in managing the provision of Treasury Management activities
- 05/10/2022: Treasury Strategy Meeting (Link)
- 19/01/2022: Treasury Strategy Meeting (Link)
- 26/10/2021: Treasury Strategy Meeting (Link)
- 17/02/2021: Elected Member Briefing on Treasury Management
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane

Senior Finance Business Partner

Key Knowledge and skills required:

- Developed understanding of strategic and operational Treasury Management issues and its importance in the Council
- Management of the Council's loan and investment portfolios
- Understanding of the Council's borrowing requirements arising from its current capital plans, its existing debt portfolio and future capital strategies
- Knowledge of available loan and deposit options available to the Council and ability to carry out detailed financial appraisal / business case to recommend preferred options for borrowing and deposits to senior management
- Detailed understanding of execution of loan and deposit transactions and the relative risks and benefits of each to the Council
- Knowledge of operational systems used by Council for Treasury Management and payment purposed (Logotech PSTM Treasury Management recording system; PT-X transmission of BACS files; Integra for financial accounting & internal control)
- Detailed knowledge of how to deal/transact with brokers/banks and placement of deals
- Lead Treasury Management Strategy meetings with External Advisors and Senior Management
- At least 1 year experience in professional position in financial markets which requires knowledge of transactions or services envisaged (in accordance with MIFID II & Code requirements)
- Attendance at Treasury Management Online Seminars & Training Workshops
- Attendance at bi-annual Treasury Management Forum
- Supervision of Treasury Management staff;
- Completion of available Scottish Treasury Management Forum Toolkit Modules
- Full member of accountancy body (CIPFA/ACCA/CIMA

Recording of Training & Development

- 12 years experience in leading Treasury Management team
- 06/10/2022: Scottish Strategic Treasury Issues Webinar (Link)
- 05/10/2022: Treasury Strategy Meeting (Link)
- 15/06/2022: Investment Benchmarking Meeting East of Scotland (Link)
- 01/06/2022: CIPFA Scottish Treasury Management Forum
- 28/03/2022: Scottish Strategic Treasury Issues Webinar (Link)

- 23/02/2022: RBS bank review meeting
- 19/01/2022: Treasury Strategy Meeting (Link)
- 11/01/2022: Scottish Treasury Management Workshop Webinar (Link)
- 23/11/2021: Investment Benchmarking Meeting East of Scotland (Link)
- 26/10/2021: Treasury Strategy Meeting (Link)
- 20/10/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 07/07/2021: Investment Benchmarking Meeting East of Scotland (Link)
- 14/05/2021: CIPFA Scottish Treasury Management Forum AGM
- 23/03/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 17/02/2021: Elected Member Briefing on Treasury Management
- XX/XX/XXXX: Logotech Workshop
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane
- Various: Scottish Treasury Management Forum Executive Committee
- Full member of accountancy body (CIPFA) since 2008

Assistant Accountant, Treasury

Key Knowledge and skills:

- Developed understanding of all operational aspects of Treasury Management
- Knowledge of differing types of loans and deposits available to the Council
- Experience of execution of loan and deposit transactions
- Excellent organisational skills
- Knowledge of Logotech PSTM Treasury Management recording system
- Knowledge of PT-X and transmission of BACS files from start to finish
- Knowledge of Integra financial accounting system and internal control arrangements for making payments
- Knowledge of how to deal/transact with brokers/banks and placement of deals.
- Attendance at Treasury Management Strategy meetings with External Advisors and Senior Management
- Attendance at Treasury Management Online Seminars & Training Workshops
- Attendance at bi-annual Treasury Management Forum
- Ongoing Logotech workshops with updates on software
- Training in the use of PT-X and bank software
- Completion of available Scottish Treasury Management Forum Toolkit Modules

Recording of Training & Development

- 15 years experience in leading Treasury Management operational activities
- 06/10/2022: Scottish Strategic Treasury Issues Webinar (Link)
- 05/10/2022: Treasury Strategy Meeting (Link)
- 28/03/2022: Scottish Strategic Treasury Issues Webinar (Link)
- 23/02/2022: RBS bank review meeting
- 19/01/2022: Treasury Strategy Meeting (Link)
- 11/01/2022: Scottish Treasury Management Workshop Webinar (Link)
- 26/10/2021: Treasury Strategy Meeting (Link)
- 20/10/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 23/03/2021: Scottish Strategic Treasury Issues Webinar (Link)
- 17/02/2021: Elected Member Briefing on Treasury Management
- 29/10/2019: Logotech Workshop
- 24/11/2022-25/11/2022: Treasury Management Seminar in Dunblane

Appendix 3: Investment Management Practices for Non-Treasury Investments

This organisation recognises that investments taken for non-treasury management purposes requires careful investment management. Such activity includes loans supporting service outcomes and investments in subsidiaries.

This organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

This organisation will ensure that all the organisation's investments are covered in the Treasury Management and Annual Investment Strategy, or Capital Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities, which are predominantly service lead, may differ from that for treasury management.

The Council has the following investments for non-Treasury Management purposes. These are classified as Investments for Service Purposes (or Service Investments) which are taken or held primarily and directly for the delivery of public services (including housing, regeneration & local infrastructure) or in support of joint working with others to deliver such services.

Equity Shareholding in Lothian Buses

Midlothian Council holds a 5.5% shareholding in Lothian Buses plc, a company incorporated in January 1986 under the terms of the Transport Act 1985 to operate buses in the City of Edinburgh and its surrounding area.

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of equity attributable to equity holders, this equates to £4.642 million in line with the published results for the year ended 31 December 2021.

Excluding 2020 and 2021, there has been no default on the dividend payable to the Council over the period the Council has held this investment.

Subordinated Debt Subscription to the SPV set up to deliver the Newbattle Centre project

This involved the Council subscribing £0.333 million of subordinated debt to the SPV that was set up to deliver the Newbattle Centre project.

The length of the investment is 25 years (DBFM contract period) with the subscription made at operation commencement of the contract.

The repayment profile will comprise 81% of the principal remaining invested until the final two years of the contract.

The principal on this investment will be repaid fully over the 25-year project life, with the majority (81%) remaining invested until the final two years of the contract. Interest is paid biannually at a 10.50% coupon based on the average principal outstanding over the relevant 6-month period.

Whilst the investment is sellable in the secondary market, the valuation basis for the Council's shareholding (current nominal value of loan stock £0.324 million) is calculated based on the subscription value less repayments of principal, as there is no equivalent market data to estimate resale value.

Whilst there are no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis.

The Treasury risk associated with this type of investment will be mitigated through an 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. 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.

Midlothian Energy Limited ESCO

Midlothian Energy Limited (MEL) is a Joint Venture between Midlothian Council and Vattenfall to deliver energy supply to Shawfair using heat supplied from the Millerhill Energy from Waste plant and related projects. The carrying value of this investment represents the funds invested in 2022, totalling £1.510 million.

The Council is in a joint venture partnership and therefore party to the governance and controls within the project structure. As such the Council is well placed to influence and ensure the successful completion of the project's term.

Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance. The Council will continue to review the performance of the company on an annual basis.

Effective Scrutiny of Treasury Management

Self-assessment by members responsible for the scrutiny of treasury management

CIPFA's Treasury Management In The Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 edition) requires public service organisations to nominate a responsible body for the scrutiny of treasury management strategy and policies. To undertake this role effectively, the nominated committee will require support, training and guidance. CIPFA's publication Audit Committees: Practical Guidance for Local Authorities and Police (2022 edition) provides guidance for the audit committee if it is nominated to take on the scrutiny role. It also identifies core areas of knowledge committee members would need to undertake this role effectively.

Effective scrutiny is important. As well as demonstrating compliance with the Treasury Management Code, scrutiny is an important part of ensuring effective governance of treasury management.

- It helps develop a better understanding of the treasury risks faced by the organisation.
- It helps ensure better decision making on strategy and policy matters.
- It improves accountability and transparency.
- It improves knowledge and understanding of treasury matters among the members of the governing body.

This self-assessment tool has been designed to support the development of effective scrutiny. There are several ways it can be used, including the following.

- For self-assessment by the committee responsible for undertaking the scrutiny.
- For self-assessment by the responsible committee with additional input from the audit committee (where the audit committee doesn't undertake this function directly).
- For review as part of an internal audit of treasury management.
- For review by the treasury officers/finance team responsible for reporting to the committee.

The most important thing is that the review is used to identify any areas where support or training is needed to ensure the development of effective scrutiny.

This assessment tool replaces the 2014 edition.

CIPFA Better Governance Forum and Treasury Management Network 2022

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Clearly defined responsibility					
Has the organisation nominated a responsible committee for scrutiny in compliance with the CIPFA Treasury Management Code of Practice?					
Does the committee responsible for scrutiny have appropriate and up-to-date terms of reference outlining its role in relation to treasury management?					
Knowledge and training					
Do those responsible for scrutiny have an appropriate level of knowledge in the following areas:					
• Regulatory requirements?					
• Treasury risks?					
• The organisation's treasury management strategy?					

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
• The organisation's policies and procedures in relation to treasury management?					
Have committee members been provided with training for their role?					
Support for effective scrutiny					
Has adequate time been made on the committee agenda to allow for sufficient scrutiny to take place?					
Have reports and briefings been provided in good time to committee members?					
Have reports and briefings been presented to the committee with adequate explanations and minimal jargon?					

Aspects of delivering effective scrutiny	**Yes**	**No**	**Partly**	**Comments/examples**	**Action plan for improvement or development**
Coverage of the required areas					
During the past year, has the committee undertaken scrutiny as follows:					
• Reviewed whether appropriate policy and procedures have been adopted?					
• Reviewed the robustness of the process for strategy development – for example, whether option appraisals and opportunity costing have been used?					
• Received regular briefings on performance, issues and trends affecting treasury management?					
• Reviewed the organisation's risk profile and treasury risks and how these are managed?					

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
• Reviewed the role of external advisors and the adequacy of other sources of financial information?					
• Reviewed assurances on treasury management, including internal audit reports and management reports?					
During the past year, has the committee scrutinised how effectively decision-making bodies are performing their roles as defined by clauses 2 and 3 in the Treasury Management Code of Practice? For instance, does the committee know whether the nominated body responsible for implementation and monitoring (clause 3) has carried out this role satisfactorily?					
Quality of scrutiny					
Is the committee able to demonstrate its effectiveness in providing scrutiny in any of the following ways:					

• Questioning and constructive challenge?					
• Recommendations for additional actions?					
• Ensuring that adequate plans are in place to provide assurance?					
• Following up any recommendations or action plans?					
• Providing a report to full council on the scrutiny undertaken?					
• Other examples?					
Impact of scrutiny					
Is the committee able to demonstrate the impact of undertaking scrutiny?					

Examples might include the following: • Improvements in internal controls as a result of scrutiny of policies and procedures. • Improvements made to reports to make them more understandable. • Members of full council can better understand the risks shaping the organisation's treasury strategy.					

Completion date of assessment:

Completed by:

Internal Audit Work to October 2022

Report by Principal Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;

b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; and

c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

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

The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

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

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

Date 1 November 2022

Report Contact:
Elaine Greaves
elaine.greaves@midlothian.gov.uk

3 Progress Report

3.1 The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out the following work in the period from 1 April to 31 October 2022 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

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

3.3 Internal Audit issued final assurance reports on the following subjects:

- Freedom of Information and Environmental Information Regulation Requests;
- Street Lighting; and
- PPP Schools Contract Management and Payment Mechanism.

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

The definitions for Internal Audit assurance categories are as follows:

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

Current Internal Audit Assurance Work in Progress

3.5 Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2022/23 consists of the following:

Audit Area	Audit Stage
Accounts Receivable - Sundry Debt	Drafting the report
Utilities: Energy and Water Consumption	Drafting the report
Employability Funded Programmes	Testing underway
Care at Home	Testing underway
Performance Management and Performance Indicators	Testing underway

Internal Audit Consultancy and Other Work

3.6 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:

a) In its critical friend role provided an independent view and challenge at various forums including Capital Plan and Asset Management Board, Capital Plan Programme Board - Children Young People & Estates, Capital Plan Management Group, UKSPF Oversight Board and Information Management Group;

b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings; and

c) Monitored publication of Audit Scotland reports and co-ordinated submission by management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.

Recommendations

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

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

3.8 The table below summarises the number of Internal Audit recommendations made during 2022/23:

Recs Rating	2022/23 Number of Recs
High	0
Medium	7
Low	8
Sub-total reported this period	**15**
Previously reported	0
Total	**15**

Recommendations agreed with action plan	15
Not agreed; risk accepted	0
Total	**15**

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

4.1 Resource

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

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

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

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

4.4 Ensuring Equalities

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

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

4.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

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

A.5 Involving Communities and Other Stakeholders

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

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

APPENDIX 1

<table>
<tr><td rowspan="2">Report</td><td rowspan="2">Summary of key findings and recommendations</td><td colspan="3">Recommendations</td><td rowspan="2">Status</td></tr>
<tr><td>H</td><td>M</td><td>L</td></tr>
<tr><td>Subject: PPP Schools Contract Management and Payment Mechanism

Category: Assurance – Cyclical

Date issued:
8 September 2022 Draft
27 September 2022 Final

Level of Assurance:
Substantial for monitoring, helpdesk systems and payment mechanisms.
Limited for lifecycle reporting, variations, site visits and recording of helpdesk tasks for 1 provider.</td><td>The purpose of the audit was to review the contract management arrangements over the Council's schools PPP (public-private partnership) contracts and the Not for Profit Distributing Model (NPDM) contract including review of the monthly payment mechanisms.

The Council has two Public Private Partnership contracts: PPP1: Dalkeith Schools Community Campus; PPP2: 7 Primary School sites; and one Not for Profit Distributing Model (NPDM) contract (Newbattle Community Campus – NCC).

Midlothian's PPP Services team are responsible for the management of Midlothian's school PPP contracts. For PPP1, the net cost after funding for 2021/22 was £2.320m and performance deductions of £2,126 were applied. For PPP2 the net cost after funding was £2.151m and no performance deductions were applied. For NCC the net cost after funding was £0.670m and performance deductions of £8,428 were applied.

Internal Audit considers that the level of assurance is substantial in terms of the monitoring undertaken, the adequacy of the helpdesk systems, the application of the payment mechanism, and the monthly monitoring over the wider aspects of the Facilities Management. Assurance over monitoring of lifecycle reporting is Limited. Improvements are required over the contract change and variation process including clarifying the authorisation processes and retaining the audit trail of the budget holder's request, formalising the site visit process including the annual planning of this, the recording of completed helpdesk tasks for PPP2 schools, and creating a PPP Services risk register in line with the Council's Risk Management Policy.

Internal Audit made the following recommendations:

• The process for site visits should be formalised and an annual plan developed to ensure sufficient site locations are covered over a multi-year period. An appropriate pro-forma should be developed to document the completion of any site visits carried out. (Low)

• Helpdesk guidance issued to school staff should be reviewed and issued for each contract. Management should review if remote access could be granted to the PPP1 helpdesk. Timescales for completion of tasks detailed in the helpdesk system should be reviewed with the PPP2 FM provider. (Low)</td><td>0</td><td>2</td><td>3</td><td>Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.</td></tr>
</table>

	• The audit trail and evidencing of segregation of duties for PPP Contract Changes and Variations should be improved. Clarification on authorisation thresholds should be sought and these should be documented in a relevant procedure. Appropriate evidence of competition/tendering should be sought, if relevant, for all change request. Additionally, PPP2 malicious damage forms should be provided to the Council. A financial reconciliation of the lifecycle element of all change requests should be undertaken. (Medium) • All relevant contractually required lifecycle information should be obtained and reviewed by PPP Services. (Medium) • A risk register, in line with the Council's Risk Management Policy, should be created for PPP Services. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Street Lighting Category: Assurance – Cyclical Date issued: 01 September 2022 Draft 29 September 2022 Final Level of Assurance: Limited	The purpose of this assurance audit was to review the controls over the installation of new street lighting and the maintenance of existing street lighting. Street lighting assets include columns, billboards, signs and cabinets and these are recorded on a database (Lighting+) which was developed in-house. The Lighting Service is responsible for carrying out repairs, undertaking inspections, and day-to-day operations including overseeing the maintenance of traffic signals which is externally contracted. The Capital Investment Strategy 2018 highlighted the continued replacement of old galvanised steel with aluminium columns and upgrades to LED at the same time**.** The contracts for delivering the capital works programme for street lighting (£3.5m) and for traffic signal term maintenance and installation of new equipment (£2m) have both recently been re-tendered as they expired in July 2022 and March 2021 respectively. Internal Audit considers that the level of assurance is Limited. The Lighting+ database is inaccurate, incomplete and no longer fit for purpose, inspections of street lighting are not undertaken on a timely basis and there is a 3 year backlog of scheduled maintenance. Calculation of the Performance Indicators were found to be inaccurate and incomplete and checks on work undertaken by contractors are not documented before invoices are approved for payment. Internal Audit made the following recommendations: • An effective lighting inspection programme should be developed and maintained. This should include night time inspections. (Medium) • An effective system for recording and maintaining street lighting assets should be implemented. (Medium) • When calculating Performance Indicators the following should be implemented: retain an audit trail of source documentation for reported PIs; create procedure notes to enable indicators to be produced in the absence of key individuals; undertake quality assurance checks; and consider benchmarking information with other council's to identify areas of improvements. (Medium) • Policies and procedures require to be reviewed and updated to reflect current practice and standards for street lighting. In addition, all policies and procedures should have adequate version controls. (Low)	0	3	3	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations. Management are currently reviewing the market for an IT application to maintain assets.

	• Documentation of checks undertaken during site visits should be recorded to confirm the value of work undertaken by the contractor before payment is made. All issues reported to the contractor should be recorded and details of how the issue was rectified should also be noted. (Low) • The service risk register requires to be reviewed and updated. (Low)				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Freedom of Information and Environmental Information Regulation Requests Category: Assurance – Cyclical Date issued: 7 September 2022 Draft 27 September 2022 Final Level of Assurance: Substantial for governance, system, procedures and training Limited for response times, authorisation and appeals	The purpose of the audit was to review the controls in place to ensure Freedom of Information (FOI) and Environmental Information Regulation (EIR) requests are dealt with adequately and in a timely manner. This included a review of the implementation of the new customer services platform for the FOI and EIR module. The Freedom of Information (Scotland) Act (FOISA) 2002 gives everyone the right to ask for information held by Scottish Public Authorities. The FOISA is enforced by the Scottish Information Commissioner (SIC) and responses must be provided within 20 working days of receipt of the request. The Environmental Information (Scotland) Regulations (EISA) 2004 give everyone the right to ask for environmental information held by a Scottish Public Authority (and some other bodies due to the definition being more broadly defined within the EIRs). EIRs should be responded to within 20 working days. The Council replaced its FOI and EIR system with an off-the-shelf solution in March 2022. The implementation of the new system is part of the Council's wider Customer Services e-Platform project. Information requests are made online via a self-service portal. A disclosure log has been introduced to enable the public to search online for previously made information requests and check if their query has already been answered before making a request. An audit trail of the FOI/EIR response is recorded and an authorisation hierarchy is in place within the system to ensure there is quality control over all FOIs/EIRs before they are published. Management have advised that the new system will have improved reporting functionality, however at the time of reporting this is not yet in place due to delays from the provider. It has been advised that this will be introduced within the next month. The Council is currently under Stage 1 Monitoring by the SIC due to the number of FOIs and EIRs responded to late or not responded to exceeding 20% over the past two years. The percentage of FOI and EIRs responded to late or not responded to in the required timescale was 26.7% for Q1 2022/23 (it was noted that Health and Social Care did not have any late responses). The changes introduced by management and the replacement FOI/EIR system will provide improved visibility over areas where there are bottlenecks once the reporting tool is in place.	0	2	2	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	Internal Audit considers that the level of assurance is Substantial over: the governance framework established to respond to FOI and EIR requests; the systems and procedures in place to receive, allocate and respond to requests; and the training provided to staff. Assurance over responding to FOI and EIR requests in the required timescales is Limited. Not all FOIs/EIRs were being submitted for authorisation within the system as per the new FOI/EIR procedures, processes for FOI/EIR internal reviews require strengthening to ensure there is sufficient independence over reviews, user guidance over the use of the disclosure log requires expansion, and some procedures require update. Management have advised that they intend to introduce periodic quality assurance processes but this will require implementation of the reporting functionality. Internal Audit made the following recommendations: • Management should continue to review the reasons for late response times and reporting should be developed and provided to service managers to allow services to identify bottlenecks in order to improve the response times. (Medium) • The authorisation process for FOIs and EIRs should be reiterated to users to ensure they are aware of the new requirements. Monitoring should be undertaken to ensure requests are appropriately authorised and feedback provided when requests are not correctly authorised. (Medium) • The FOISA and EIR guidance should be updated to take into account changes introduced by the new system, any additional guidance from the SIC, changes in the Council structure and the membership of the FOI officer advisory group. (Low) • Appeal procedures and processes should be enhanced to ensure independence and fairness over reviews. The use of the disclosure log should be reviewed to ensure officers follow best practice on whether to disclose the response. The possibility of introducing system enforced processes for reviews should be explored. (Low)				

Follow-Up Reviews of Completed Internal Audit Recommendations & Progress Update

Elaine Greaves, Principal Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

a) Note the results from the sample check of Internal Audit recommendations that have been marked as completed by Management in the period April 2021 to March 2022 to improve internal controls and governance, and mitigate risks;

b) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, to mitigate risks, and consider whether it is satisfied with the progress made by Management;

c) Considers whether it is satisfied with the outcomes or whether any further action is required; and

d) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide an update to members of the Audit Committee on the results of the Internal Audit Follow-up Review which included a sample check on the adequacy of new internal controls for Internal Audit Recommendations marked as completed by Management in the period April 2021 to March 2022.

This report also provides an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.

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

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

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

Date 9 November 2022

Report Contact:
Elaine Greaves
Principal Internal Auditor
elaine.greaves@midlothian.gov.uk

3 Background

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

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

3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit final report stage, the audit recommendations are input to the Pentana Performance system, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.

3.4 Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been reported as complete and reviews the adequacy of the actions taken and improvements made. The second reports on the progress Management have made in implementing the recommendations by the expected date. This year we have combined the two follow up reviews into one report.

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

4 Review of Completion of Internal Audit Recommendations

4.1 The objective of this follow-up audit was to review a sample of Internal Audit recommendations that have been signed off by Management as complete during the period 1 April 2021 to 31 March 2022 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk.

4.2 A sample of 40 audit recommendations were selected, which were shown at the 'completed' status on the Pentana Performance system, relating to the following Internal Audit reports and evidence was obtained to support the satisfactory completion of each recommendation sampled. Details are as below:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2016/17	Sundry Debt	1		1	
2017/18	Climate Change Reporting 17/18	1		1	
2018/19	Follow-up of Audit Actions	1		1	
2018/19	Revenue Financial Budget Monitoring	1		1	
2018/19	Sales to Cash	1			1
2019/20	Asset Registers	2		2	
2019/20	Business Planning, Budget Setting and Monitoring	2		2	
2019/20	Change and Transformation	1	1		
2019/20	Commercial Rents	2		1	1
2019/20	Electronic Payments	1			1
2019/20	Leisure Management system	2		2	
2019/20	Procurement and Management of Contracts	2		2	
2020/21	Council Tax	2			2
2020/21	Devolved School Management (DSM)	3		3	
2020/21	Fleet Management	2		2	
2020/21	Property Maintenance	2	1	1	
2020/21	School Expenditure	1		1	
2020/21	Social House Rents	1			1
2021/22	Business Continuity Framework	1	1		
2021/22	Homelessness	5		2	3
2021/22	ICT and Cyber Security	1	1		
2021/22	Income Collection	1			1
2021/22	Invoice Approval	2		1	1
2021/22	Roads Maintenance	1		1	
2021/22	Scottish Welfare Fund (SWF)	1			1
	Total	**40**	**4**	**24**	**12**

4.3 From the 40 recommendations tested, 36 (90%) were found to have been completed satisfactorily, 3 (7.5%) were identified as partially satisfactory requiring further work, and 1 (2.5%) was not satisfactory.

4.4 For the 36 Audit recommendations that were found to have been completed satisfactorily the evidence that was provided by Management indicated that they have been implemented satisfactorily and the action taken had the desired effect on improving internal control and governance and reducing risk.

4.5 Of the 3 audit actions identified as partially satisfactory requiring further work: 1 was Low-rated and related to addressing Property Investment Accounts (PIA) with high credit balances; and 2 were Medium-rated and related to fully updating the DSM scheme once the Early Years and ASN reviews are complete; and reviewing and updating asset registers in terms of IT locations. The 3 Audit recommendations identified as partially satisfactory requiring further work are shown below:

Audit	Recommendation	Rating
2019/20 – Asset Registers	Digital Services asset registers needs to be reviewed and updated.	Medium
2019/20 - Commercial Rents	Monitoring and review of the PIA control accounts should be carried out to ensure accuracy with the support from Financial Services, and the two large credit and one large debit balances should be addressed.	Low
2020/21- Devolved School Management (DSM)	The new DSM scheme currently being developed should redress inequalities inherent in the application of the current DSM scheme and ensure that allocations consistently and reliably reflect school contexts and the growth across Midlothian.	Medium

4.6 1 audit action was identified as not satisfactory which was Low-rated and related to undertaking a sample check on the VAT treatment for income collected via the ICON receipting system as detailed below:

Audit	Recommendation	Rating
2018/19 – Sales to Cash	A sample check should be undertaken on the VAT treatment for the income collected via the ICON receipting system.	Low

4.7 Discussions have been held between Internal Audit and the action owners to highlight what is required to ensure the remaining elements of the audit actions are fully completed or a sustained control is established. The 4 audit actions have been re-opened on the Pentana Performance system to enable the action to be completed by the new agreed action date with evidence of the improvement action undertaken.

5 Progress Update

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

5.2 An Internal Audit action report was generated from the Pentana Performance system on 7 November 2022 which reflected the Quarter 2 updates 2022/23. The 76 audit actions (including sub actions) that are in progress can be summarised as follows:

Financial Year	High	Medium	Low	Total
2018/19	2	1	1	**4**
2019/20	1	2	5	**8**
2020/21	2	8	5	**15**
2021/22	5	22	22	**49**
Total	**10**	**33**	**33**	**76**

5.3 The table demonstrates that there are 10 High-rated, 33 Medium-rated and 33 Low-rated audit actions in progress. There have been occasions when it is necessary to grant extra time to complete audit actions or update the wording of audit actions to reflect current practice. Managers have requested extensions to due dates for some audit actions which have been agreed with Internal Audit, based on further work required to implement these audit actions in full.

5.4 The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team on 23 November 2022.

5.5 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2022/23 for Midlothian Council which is scheduled for presentation to the Audit Committee in May 2023.

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

6.1 Resource

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

6.2 Digital

There are no digital implications arising from this report.

6.3 Risk

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

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

6.4 Ensuring Equalities

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

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

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

☒ Holistic Working
☒ Hub and Spoke
☒ Modern
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☒ Transformational
☒ Preventative
☒ Asset-based
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☒ One size fits one
☐ None of the above

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

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

A.5 Involving Communities and Other Stakeholders

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

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Risk Management Update – Strategic Risk Profile Quarter 2 2022/23

Report by Derek Oliver, Chief Officer Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Note the current risk landscape and organisational response to the most significant risks in Quarter 2 (Q1) 2022/23 (1 July to 30 30 September 2022)

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with:

- An update on the risk responses Midlothian Council has implemented during Q2 2022/23 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current risks
- Strategic opportunities for the Council

6 December 2022

Report Contact:
Derek Oliver, Chief Officer Place

Derek.Oliver@midlothian.gov.uk

3 Q2 risk management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 2 2022/23 (1 July to 30 September 2022) whilst operating within challenging circumstances as the county recovers from a global pandemic.

3.2 The Council continues to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary corporate oversight over the broader strategic landscape continues through the Risk and Resilience Chief Officer's group and Corporate Management Team (CMT).

3.3 Changes this quarter include the introduction of a new risk – Cost of Living Crisis – and an increase in the risk of Growing Council from Medium in Q1 22/23 to High in Q2 22/223. This is in recognition of the current and ongoing financial challenge that the Council faces alongside the pressures of a growing council.

Cost of Living Crisis

3.4 The Council agreed to establish a Cost of Living Crisis Task Force at its meeting on 28 June 2022. The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40 year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.

3.5 One key aspect of the 'cost of living crisis' is the rapid rise in energy costs. In the year to April 2022, domestic gas prices increased by 95% and electricity prices by 54%. Furthermore, on 1 April 2022 the new price cap came into force, leading to default tariffs increasing from £1,277 to up to £1,971 per year. Prepayment customers have seen an increase of £708 from £1,309 to up to £2,017.

3.6 Increases in food and drink prices are also exacerbating the 'cost of living crisis'. Food and non-alcoholic drink prices were 6.7% higher in the year to April 2022, which is up from 5.9% in March and the highest rate of increase since June 2011. Several factors have led to food and drink price rises including supply chain challenges, rising wholesale costs and labour shortages. The Russian invasion of Ukraine has also affected food prices on international markets.

3.7 The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics; Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.

3.8 The Cost of Living Crisis Task Force is chaired by the Council Leader and its membership includes cross party representation, the Council's Corporate Management Team, Group Manager Communities, Lifelong Learning and Employability and Director of Public Health. Since its establishment a number of mitigating actions have been implemented including:

- allocation of LACER funding to support those most vulnerable
- identification of 15 'trusted partners' to distribute funding in communities to those most affected by the crisis to support food, fuel, wash and dry costs and establish re-heatable food initiatives
- appointment of a strategic evaluation partner to create a poverty profile
- Midlothian Strategic Poverty Prevention Group established by the Community Planning Partnership
- Child Poverty self-evaluation underway with the Improvement Service
- appointment of a new Child Poverty chair and lead

3.9 The current risk assessment is Medium for Q2 22/23.

Strategic Risk Profile Summary

3.10 The SRP is split into three sections:

- Strategic issues
- Strategic risks
- Opportunities

STRATEGIC ISSUES - SUMMARY

Strategic issues	Likelihood	Impact	Score	Evaluation Q1		Q4 21/22
COVID 19	4	4	16	High		Critical
The Change Programme	5	5	25	Critical		Critical
Financial Stability	5	5	25	Critical		Critical

COVID-19

3.11 The risk evaluation was reduced from Critical to High in Q1 22/23 and remains as high for Q2 22/23. The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery. In July 2022 the Council's recording of COVID related absence also changed to be included as part of normal sickness absence.

The Change Programme

3.12 The Change Programme remains at Critical having been increased to this evaluation in Q4 21/22. The financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. Council agreed to a solution to balance the 2022/23 budget, however the increased costs associated with delivering change and transformation require longer term financial solutions. Work is ongoing to develop the next Medium Term Financial Strategy and 5 year Strategic Plan which will inform the future direction of the programme.

Financial Sustainability

3.13 Scottish Government grant settlements fall short of the resources needed to sustain core services. This core funding shortfall, combined with inflation pressures, pay awards and demographic pressures arising from a continued increasing ageing population of over 75's, increasing population of 0-15 age group and at a time when there are rising customer expectations poses a significant challenge for the Council.

3.14 The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council (with the most recent financial position on 15 November 2022). Discussions on proposals to inform the Medium Term Financial Strategy are ongoing. Balancing the budget for future years will require cross party support and agreement to identify sustainable solutions. Due to the current uncertainty and lack of a revised Medium Term Financial Strategy this issue remains Critical.

STRATEGIC RISKS – SUMMARY

Strategic Risks	Likelihood	Impact	Score	Evaluation Q2		Q1 22/21
Climate change	5	5	25	Critical		Critical
Financial Sustainability in future years	5	5	25	Critical		Critical
The Long Term Change Programme	5	5	25	Critical		Critical
Early Years Expansion (1140 Hours)	4	5	20	High		High
Scottish Child Abuse Inquiry	4	4	16	High		High
UK decision to leave the EU	4	5	20	High		High
Growing Council	4	4	16	High		Medium
*Cost of Living Crisis**	3	5	15	Medium		N/A – new risk for Q2
National Care Service	3	5	15	Medium		Medium
Asset Management	3	5	15	Medium		Medium
Cyber Security	3	5	15	Medium		Medium
Health and Safety	3	5	15	Medium		Medium
Care at Home	3	4	12	Medium		Medium

Governance and standards	3	4	12	Medium		Medium
Employee performance	3	4	12	Medium		Medium
Emergency planning and business continuity	3	4	12	Medium		Medium
Legal and Regulatory compliance	3	3	9	Medium		Medium
Internal control environment	3	3	9	Medium		Medium
Corporate policies and strategies	2	3	6	Low		Low

**New risk for Q2*

STRATEGIC RISKS – RATED CRITICAL/HIGH

Climate Change

3.15 The Council developed a Climate Change Action Plan as part of its Climate Change Strategy approved by Council in August 2020, as well as making the commitment to achieve Carbon Neutral by 2030.

3.16 The Carbon Neutral by 2030 strategic board is developing the overall cross Council response to the Council's statutory requirements. There are a range of projects underway which will contribute to the overall ambition but development of the programme and these projects is identifying that there is a significant financial investment that is required to be made to retrofit buildings, fleet replacement and change working practices.

3.17 The current financial resource and staffing capacity across the Council is insufficient and poses a critical risk to delivery. This is also impacted by the financial sustainability challenge that is articulated in this report.

3.18 A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council in Q3/Q4 2022/23. The risk evaluation continues to remain Critical in Q2.

Early Years Expansion (1140 hours)

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

3.20 This risk evaluation continues to remain High.

Scottish Child Abuse Inquiry (SCAI)

3.21 The SCAI risk remains High. The inquiry is currently taking evidence in relation to Section 21 submissions re foster care. To date Midlothian Council have not been called to give evidence. File reading continues.

UK decision to leave the EU

3.22 The last two quarters have demonstrated that the rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams. This was reported to the Business Transformation Steering Group (BTSG) in Q1 and also through progress reports on programmes to Council i.e. the delivery of the A701 and increased school build costs. The current Capital Programme is subject to a reprioritisation review and will be reported to Council in Q3/Q4 22/23.

3.23 A report was commissioned on the economic impacts of EU Exit and report with its findings and recommendations was presented to BTSG in Q2 and Council in Q3 for adoption. The findings will also inform the refresh of the Economic Strategy. This risk evaluation remains High.

Growing Council

3.24 In Q2 22/23 this risk has increased from Medium to High. This is in response to the current financial challenge as described above and the increased pressure the Council faces with growth. Some current examples of this include:

- Inflationary impact on the delivery of the capital programme
- Cost of living crisis and rent freeze response that could risk the delivery of the house building programme
- Pressure on the care sector as people are living longer and require more care provision
- General population growth places additional demand on infrastructure such as GPs, schools, waste services etc.

3.25 Work is ongoing to review the Learning Estate Strategy and a reprioritisation of the Capital Programme.

STRATEGIC OPPORTUNITIES

Shawfair

3.29 The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste. The Energy Services Agreement with Shawfair LLP has now been signed and work progresses to deliver the Energy Centre.

Easter Bush

3.30 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. The rate of inflation is impacting on the costs of the A701 improvements which will was reported to Council at the end of June 2022. An funding application has been submitted to the UK Government's Levelling Up fund to close the funding gap, with the results to be announced in Q3 2022/23.

City Deal

3.31 Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity. In 2021, the chairing of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

Creating a world class education system

3.32 The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school. Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

None

4.3 Risk

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

The report provides an overview of the significant risks faced by the Council during Quarter 2 2022/23 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

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

There are no direct equalities issues arising from this report.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications
Appendix B – Strategic Risk Profile (Quarter 2 2022/23)

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Appendix B

Strategic Risk Profile

Strategic Issues

SRP.IR.10 COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	**Risk cause:** COVID 19 Virus **Risk event:** Virus evident in all communities with rates of positive infection increasing. In a Sottish setting the focus on increase is within the central belt. **Risk effect:** Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission. Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services. Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery in line with new controls.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place, Chief Officer Place, Chief Officer Corporate Solutions	1. CIMT established to take the strategic approach to managing the response to COVID 19 and stands ready to be re-initiated at any time. 2. Hybrid working has been adopted by the Council as well as a dedicated Hybrid Working Board as part of the Transformation Programme 3. COVID-19 guidance monitored and continually revised, with particular focus on Adult Services, Children's Services, Education and Communities and Lifelong Learning around how they would continue to maintain contact with children and young people who were deemed to be at risk. 4. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers. 5. Promotion of digital tools to support employees and prevent employees becoming isolated. 6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 7. A range of interventions, including digital equipment and tools such as MS Teams put in place to support remote and hybrid working 8. Following safe working guidance issued by Scottish Government relevant to sectors. 9. Economic Recovery Strategy 10. School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk (and personal risk assessments where required)	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
CODE TBC	Hybrid Working Project	**Q2 22/23:** Hybrid Working project is a key project contributing to the Council's transformation programme. Project Board regularly reports to Business Transformation Board and Business Transformation Steering Group. Key activity in Q2 was the issue of the hybrid working staff survey.	Executive Director Place	March 2023	

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation. **Risk event** Delayed progress or non-achievement of outcomes and benefits. **Risk effect** Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions, Chief Finance Officer	1. Strategic Boards established reporting to the Business Transformation Board covering the full range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub & Spoke Place Based Solutions; Remote Working. 2. Report to Council on 23 August 2022 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. 3. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a 5 year Strategic Plan to support decisions about what services, beyond those which are statutory can be provided 4. Financial monitoring reports and work of the Financial Management Corporate Management Team evidence continued financial sustainability, in so far as services are delivered within the overall budget in year.	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.08	Strategic Plan 2022 to 2027	**Q2 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023.	Executive Directors, Chief Finance Officer	February 2023	

		Q2 22/23: An ongoing assessment of the projected gap for 2023/24 through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income.			

SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	**Risk cause** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations. **Risk event** Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps **Risk effect** Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions, Chief Finance Officer	1. There is an approved Capital Strategy and Reserve Strategy in place 2. There is an approved budget for 2022/23. Services are being delivered within the totality of that budget and the 2022/23 budget has been approved albeit with heavy reliance on one off funding. 3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus. 4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services. 5. Strategic Boards in place and BTB focus and attention on driving transformation to support future years financial sustainability 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate. 8. Scottish Governments May 2022 Resource Spending Review	5	5	

			provided planning parameters for term of parliament, albeit these are challenging and present a real terms reduction in grant funding of circa 7% over the period 9.Report to Council 23 August 2022 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. 10.“Mini Budgets” progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic. 11. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a 5 year Strategic Plan to support decisions about what services, beyond those which are statutory can be provided			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.09	Strategic Plan 2022 to 2027	**Q2 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023. **Q2 22/23:** An ongoing assessment of the projected gap for 2023/24 through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income.	Executive Directors, Chief Finance Officer	February 2023	

Emerging risks (new)

NEW RISK CODE TO BE ENTERED: Cost of Living Crisis

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
RISK CODE TO BE ALLOCATED	**Risk cause** The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40 year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases. **Risk event** Rapid ongoing rise of energy prices (gas, electricity and fuel) as well as food and drink prices. **Risk effect** The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics; Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.	Chief Executive; All Directors	1. Council Cost of Living Task Force to oversee the Council's response to the crisis 2. Allocation of LACER funding to support those most affected 3. Strategic Evaluation Partner appointed to create poverty profile 4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health 5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships) 6. Child Poverty self-evaluation underway with Improvement Service	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
Action code to be allocated	Cost of Living Task Force	**Q2 22/23:** The Council agreed to establish a Cost of Living Crisis Task Force at its meeting on 28 June 2022 and is now meeting fortnightly. Membership is drawn across CMT, cross party member representation and NHS.	Chief Executive	June 2022	
Action code to be allocated	LACER funding	**Q2 22/23:** Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish reheatable food initiatives.	Group Manager Communities; Lifelong Learning and Employability	June 2022	

Current risks (existing)

SRP.IR.11 National Care Service						
Risk Code	**Risk Identification**	**Managed by**	**Risk Control Measures**	**Likelihood**	**Impact**	**Risk Evaluation**
RISK CODE TO BE ALLOCATED	**Risk cause** In August 2022 the Scottish Government launched a 12 week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS. **Risk event** A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service. **Risk effect** The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be. At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care. It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place	7. The Bill is under consultation and it is anticipated that additional information will be released by April 2023. 8. Officer Working Group established to engage with the NCS Design School and to continue the existing work with COSLA, SOLACE, SOLAR and other relevant bodies 9. Ongoing briefings with elected members 10. Continued dialogue and engagement with Scottish Government and IJB/H&SCP/Children's Services	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
Action code to be allocated	Elected member briefing sessions to be organised	**Q1 22/23:** Scheduled for Q2 in diaries **Q2 22/23:** Briefing took place on 15 August 2022	Legal & Governance	August 2022	

SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	**Risk cause:** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements. **Risk event:** Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	1. Development of Strategic plan and MTFS for term of new Council. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Route Map through and out of the Pandemic budget approved for 22/23 albeit with reliance on one off funding sources 8. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to specific risk on NCS for further detail)	5	5	

	Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit. The pace of growth coupled with the shortfall in grant settlements adds pressure to Council budgets which will be unable to deliver capital and revenue work programmes.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023. Q2 22/23 An ongoing assessment of the projected gap for 2023/24 through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income.	Executive Directors, Chief Finance Officer	February 2023	
SRP.RA.02.04	Strategic Plan 2022 to 2027	**Q2 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	

SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**Risk cause** A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future	Chief Executive; Head of Adult and Social Care; Head of Children's	1. Development of Strategic plan and MTFS for term of new Council and service options which identify what can /cannot be delivered within the resources available. 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group.	5	5	

	Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision **Risk event** Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation **Risk effect** Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in short term savings instead of transformation	Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change. 6. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to new risk on NCS for further detail)			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.06	Strategic Plan 2022 - 2027	**Q2 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023. Q2 22/23: An ongoing assessment of the projected gap for 2023/24 through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income.	Executive Directors, Chief-Finance Officer	February 2023	

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 potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer(s), Legal and Governance Manager	1. Executive Directors, Chief Officer(s) and Head(s) of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan 7. BTSG oversight of new legislation	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.02	Rights of the Child Bill	**Q1 21/22:** Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.	Chief Executive, Executive Director Education, Head of Children's Services	31 March - 2023	
SRP.RA.03.05	Standing Orders	**Q2 22/23:** Structural reviews within the Midlothian Council resulting in the Standing Orders being outdated. Authorised Officers within Regulatory Services may be open to challenge in relation to statutory enforcement work on grounds of delegated authority. Statutory enforcement work including the service of Statutory Notices, Fixed Penalties and Court proceedings may require to be withdrawn resulting in reputational damage and or financial penalty (e.g. case costs awarded against the LA). Structural reviews approved by Council have been incorporated into Standing Orders. There is a Standing Orders Working Group reviewing SOs post elections and work continues to ensure that these issues are included within this work programme and that all staffing changes are incorporated into the Scheme of Delegation. In the interim, mitigations will be put in place to ensure authorisations are valid.	Executive Director Place, Legal and Governance Manager	31 December 2022	

SRP.RR.04 Employee performance

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

SRP.RR.04	**Risk cause** Employees not suitably trained/developed for the roles required of them. Limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance Salaries significantly lower in social work area in comparison to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff **Risk event** Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change **Risk effect** Difficulties recruiting the right staff Challenges retaining quality staff Challenges recruiting experienced staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan. **Attendance / Wellbeing** 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers. **Performance** 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc. **Organisational Change** 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. **Conduct** 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme. **Communication** 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.	3	4	

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

SRP.RA.02.04	Revisions to Service Workforce Plans	Revision to Service Workforce Plans and Action Plans are required including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting. **Q2 22/23**: Workforce plan guidance issued to all Directorates. Refreshed workforce plans to be developed in line with the new service plans for the next financial year 23/24	Executive Directors, Chief Officers, Heads of Service	31 March 2023	
SRP.RA.02.06	Workforce wellbeing	**Q2 22/23:** Continuing to embed the new Employee Health and Wellbeing Strategy.		31 Dec 2022	

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	**Risk Cause:** Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices **Risk Event:** The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering. **Risk Effect:** Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.	Chief Executive, Executive Directors, Chief Officers, Heads of Service, Information Governance/ Security Services Lead	1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.21	Appropriate Technical and Organisational Measures	Q2 New action/mitigation includes:-	Information	31 March 2023	

			1. Appointment of Cyber Security Analyst to support the Cyber Lead 2. On-going phishing exercise on staff and the purchasing of new cyber security training software 3. The implementation of new software to scan for security vulnerabilities 4. Establishing new password security protection software	Governance and Security Lead		

SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	**Risk cause** Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity. **Risk event** Capacity of Community Support outstripped by demand **Risk effect** There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. Care at Home winter assurance plan and business continuity plan complete 2. Development of Care at Home Service Improvement action plan near completion 3. External commissioning complete and ongoing contract monitoring in place 4.External provider audits complete 5. Re-established Multi-Agency Quality in Care at Home quarterly review meetings jointly with East Lothian 6. Weekly provider meetings in place 7. Additional locum team members and contracts with agency staff in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at hone support in place	3	4	

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

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

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

SRP.RR.08	**Risk cause** Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services. **Risk event** Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance. **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 also the risk of two-tier accommodation, some high quality, some low.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. There is provision 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: . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Established Capital Plan and Asset Management Board and dedicated Asset Management Board 9. Establishment of 7 thematic Estate Safety and Management Groups chaired by Chief Officer Place	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	**Q1 22/23:** Programme of work agreed to progress for building condition surveys on a phased approach, over a three year period. Move to implementation into 22/23.	Executive Directors, Chief Officers and Heads of Service	31-Mar-2023	
SRP.RA.08.05	Learning Estate Strategy	**Q2 22/23:** Potential risk to delivery of Learning Estate projects due to .inflated costs from a number of factors. Factoring the commitment to net zero into our projects has added another cost pressure and may affect the affordability and viability of some projects. Oversight of Learning Estate programme through the Capital plan & Asset Management Board	Executive Director Education, Head of Development	31 March 2023	
NEW ACTION	Asset Management systems	**Q2 22/23:** Work is ongoing through Place services to identify appropriate asset management systems	Chief Officer Place	31 March 2021	

SRP.RR.09 Emergency Planning and Business Continuity Management

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

						Evaluation
SRP.RR.09	**Risk cause** The Council not preparing or timeously reviewing Emergency Plans 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 (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Protective Services	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, - Risk and Resilience 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 in-line with key partner organisations. 04 – As part of the Council's Emergency response 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. 05 – Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan, Ukrainian and UASC support programmes	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	**Q2 22/23:** New Contingency Planning Officer in post and work progressing on improvement plan	Senior Manager Protective Services	31 December 2022	
SRP.RA.09.03	Business Continuity System	**Q2 21/22:** System currently being populated ahead of roll out to all services. A small number of Council services engaged to test and validate operational functionality. Project governance now overseen through the Customer Service Platform Board	Chief Officer Place, Senior Manager Protective Services	31-Mar-2023	

SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	**Risk cause** Code of conduct for Members and employees actions falling short of International Standards. **Risk event** Failure in openness, accountability, clarity.	Chief Executive, Executive Director Place, Chief Officer Corporate Solutions, Legal	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	3	4	

	Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	and Governance Manager	in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration 07 Scheme of Delegation			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.10.0 1	Corporate Governance	**Q2 22/23:** Annual Assurance Statement, People Policies and Standing Orders subject to review process (see separate risks contained within the strategic risk profile for further information)		31 March 2023	

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	**Risk cause** Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. **Risk event** Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic 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 of strategic priorities.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in October 2022 5. Procurement Strategy 2018 6. Capital Strategy 7. Integrated Joint Board (IJB) Plan 8. IJB Strategic needs assessment 9. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.	2	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW	Strategic Plan 2022 - 2027	**Q2 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.11.0 2	Accessibility Strategy	**Q1 22/23:** Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a work stream will be progressed to ensure Council compliance.	Chief Operating Officer Education, Chief Officer Place	31 March 2023	

SRP.RA.11.0 5	Antisocial Behaviour Policy	**Q1 21/22:** Work continues following appointment of new Senior Manager in Housing & Wellbeing.	Chief Officer Place	31-Dec-2022	
SRP.RR.11.0 1	Parental Engagement Strategy	**Q1 22/23:** Parental Learner Liaison Officer has produced a draft Parental Engagement Strategy looking at examples throughout Scotland and a consultation with all stakeholders is underway. Following a review with Parent Council Chairs, a Parental Engagement calendar has been created for next session to support PC Chairs with the information and structure they need. The National Parental Involvement & Engagement survey has been rolled out to all Primary, Secondary & Special School parents with data to be evaluated in July. Parent Working Groups have been created to support specific interests and priorities – Consultation, Equity, Digital Learning, ASN & DWY/Positive Destinations. A Parent Council 'Toolkit' has been created to inform Parents of the functions of a Parent Council, provide support, signposting and remits. This will provide a more consistent structure within Midlothian of all Parent Councils and potentially boost numbers. Social Media has been created for Parental Engagement and the design of a webpage to add to the Council Website is underway. Draft plans for our first Parent Conference in Q1 of next session is underway. The same is to be said for a Pupil Conference. The PLLO is now an active member in the SEIC Young Persons Involvement Group and regularly meets the Education Scotland's Attainment Advisor.	Children's Services Management Team; Children's Services, Partnership and Communities	31-July-2022	

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. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information **Risk event** Persons exploiting opportunities to commit fraud Waste and errors Changing risk landscape associated with remote working solutions. **Risk effect** Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy (subject to review) 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement. 9. Continue remind staff of secondary employment/outside interests and gifts & hospitality 10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation. 11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational	3	3	

	service performance		regulatory obligations. 12. The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW ACTION	Review of Serious Organised Crime (SOC) group	**Q2 22/23**: Review of SOC has begun with stakeholder engagement underway	Chief Officer Place	31 March 2023	

SRP.RR.13 Climate Change

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** 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.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars	5	5	

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

SRP.RA.13.03	Recruitment of Climate Change Officer	**Q2 22/23:** Service Review continues.	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	30-Sep-2022	
SRP.RA.13.04	Delivery of the BTB Board Carbon Neutral by 2030	**Q2 22/23:** Carbon Management Plan requires to be reviewed and resourced adequately. There is a requirement for a cross Council approach to achieve carbon neutral by 2030. Work is underway in discrete areas to contribute to achievement of the ambition, but financial resource and staffing is required to develop an overarching engagement and action plan.	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	31-Mar-2030	
NEW	Development of the Strategic Plan 2022-27	**Q2 22/23:** Carbon Neutral by 2030 is a strategic priority within the draft 5 year strategic plan	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	31 March 2023	

SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	**Risk Cause:** Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them. **Risk Event:** The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority. The Inquiry Team have established a Project Plan covering: 1. Residential establishments, List D Schools and Foster Carers: identifying Children’s homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council’s existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council’s historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information	4	4	

	volume of files that require to be read and analysed. **Risk Effect:** If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.		retrieval when requested by the Inquiry. The Project Team have established a Project Plan covering: 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings from the file read.			

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

SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	**Risk cause** Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increase by 100% between 2014 and 2039. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Plan Prioritisation6.Strategic Housing Investment Strategy 7. Rent Review Strategy 8. Joint needs assessment used to develop - IJB Strategic Plan 9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the	4	4	

	Risk effect Inadequate capacity within the learning estate to cope with the projected increase in pupil numbers. Ability to fund affordable homes required by planning policy also constrained by rent freeze and cost of living crisis. Insufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.		delivery on assets required to support capital growth. 10. City Deal provides the opportunity to support inclusive growth.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	**Q2 22/23:** Latest roll projections indicate that that we will breach capacity in some schools in Aug 2023. Capital programme updated based on outcome of review of Learning Estate Strategy underway	Executive Director Education, Executive Director Place, Head of Development	Aug 2023	
NEW ACTION CODE	Capital Plan reprioritisation	**Q2 22/23**: In light of rising costs through inflationary impacts, EU Exit and post pandemic economic shifts, work is ongoing to review the current capital plan and reprioritise the programme. This will be reported to Council in Q4 22/23 for review and approval.	Executive Director Place, Head of Development	March 2023	

SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	**Risk cause** UK vote to leave the European Union **Risk event** UK leaving the European Union **Risk effect** The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	01 – Risk and Resilience Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.	4	5	

	nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW	Refresh of Economic Strategy	**Q1 22/23:** Report on economic impacts complete and will be presented to October Council. This will inform the refresh of the Economic Strategy. **Q2 22/23:** Report recommendations agreed by Council in Oct 2022. Work is now underway to refresh the Economic Strategy by March 2023	Chief Officer Place	31 March 2023	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	**Risk cause** Failing to identify and rectify non-compliance with Health and Safety regulations. **Risk event** Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements. **Risk effect** Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Protective Services	1 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021) 3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.	3	5	

	Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.01	Delivery of Health, Safety and Wellbeing Strategy	**Q1 22/23:** Review of Strategy to commence upon appointment of Team Manager Health, Safety and Resilience **Q2 22/23:** Appointment made for Team Manager Health, Safety & Resilience. Due to take up post in Jan 2023.	Chief Officer Place, Senior Manager Protective Services	31 March 2023	
SRP.RA.19.07	H&S audit across all Council estate	**Q1 22/23:** Protective Services and Property Service are progressing a Health and Safety building audit across the full Council estate, which will inform the development of associated action plans taking a risk based assessment of the findings. Asbestos inspection programme commenced with first round of inspections focussed on the learning estate over the summer holiday period. Review of arrangements for first aid and fire warden provision commenced.	Chief Officer Place	31 December 2022	

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	**Risk cause** Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. The sustainable rate review may lead to significant increase in funding to providers; maintaining current rate is not an option if not deemed sustainable. The result could lead to a funding gap in future years.	Head of Adult and Social Care; Director of Education; Chief Executive	1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections will be reviewed and updated 5. Business Support and Finance Business Partners reviewing external funding landscape closely for future funding options	4	5	

	Risk effect Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.					

Related Action Code	**Related Action**	**Related action latest note**	Managed By	**Due Date**	**Status**
SRP.RR.20.01	1140 future years funding	**Q1 22/23:** Continuation of current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council if £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. Associated risk due to possible increase in the sustainable rate to be paid to partner providers. **Q2 22/23**: Potential increased costs associated with paying a sustainable rate to partner providers may place further pressure on containing service delivery costs within available funding. .Scottish Government funding for 2023/24 will be known during Q3.	Executive Director Children, Young People and Partnerships, Chief Operating Officer Education, Chief Officer Corporate Solutions	31 March 2023	

Strategic opportunities

SRP.OP.01 Shawfair

Risk Code	**Risk Identification**	**Managed by**	**Risk Control Measures**	**Likelihood**	**Impact**	**Risk Evaluation**
SRP.OP.01	The delivery of a new sustainable low carbon community at Shawfair.	Chief Executive, Executive Director Place, Chief Officer Place, Senior Manager Planning, Sustainable	1. Shawfair Landowners Group meets quarterly. 2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure. 3. Approved masterplan and design guide for the entire community 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary,	5	4	

		Growth and Investment	Secondary & Life Long Learning provision 7. New Primary schools 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.01.02	Energy Service Agreement	**Q2 22/23:** Energy Services Agreement with Shawfair LLP has now been signed and work progressing to deliver Energy Centre ongoing		30-Jun-2022	

SRP.OP.03 Easter Bush - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A2	A701/A702 Trunk Road Improvements	**Q2 22/23:** Escalating costs of this project has resulted in a significant funding gap which requires to be addressed in order for the project to proceed. MLC has submitted an application to the Levelling Up Fund to address this gap. Progress report to Council on 28 June – STAG Appraisal (stage 2) complete. Report highlighted that cost inflation and increased project costs as outstanding areas of concern.		31-Dec-2022	

SRP.OP.04 City Deal

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

SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.02	Realisation of outcomes of respective work streams	**Q2 22/23:** For the 2022 calendar year Midlothian is the chair of the CRD programme (annual rotation across the six Local Authorities).	Executive Director Place	31-Mar-2023	

SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. Risk event: The Phase 2 *Equipped for Leaning* plan has a strong focus on transforming classroom practice and learner outcomes. This can only be achieved if effective technical support for EfL is in place to support this change. Risk Effect: Without the technical support and appropriate infrastructure we will not achieve the change resulting in a negative impact on learners experiences and outcomes	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence	4	5	

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

SRP.OP.A.07 .01	Research and development	**Q1 22/23** CIVTECH research project progressing well in partnership with University of Edinburgh and SFT. Ongoing dialogue with the University of Edinburgh and Edinburgh College in relation to the new centre of excellence.	Executive Director Children, Young People and Partnerships	31-Aug-2023	
NEW ACTION	Equipped for Learning	**Q2 22/23:** Recruitment has commenced for the Google Administrator post which will provide additional capability and enhance the programme delivery	Executive Director Children, Young People and Partnerships	31 Dec 2022	

Audit Scotland Counter Fraud Reports

Report by Principal Internal Auditor

Report for Information

1 Recommendations

The Audit Committee is asked to:

a) Acknowledge the Audit Scotland counter fraud reports published in recent months; and

b) Acknowledge that the Integrity Group of officers considered both reports as part of their counter fraud role and responsibilities.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of recently published counter fraud reports by Audit Scotland and the Management Actions required in response for improvement and assurance purposes.

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

Date 3 November 2022

Report Contact:
Elaine Greaves
elaine.greaves@midlothian.gov.uk

3 Background

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

3.2 The following reports have been published by Audit Scotland in recent months relating to fraud risks and outcomes:

https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-202122 (published July 2022) A summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2021/22. Covid-19 raises the risk of public-sector fraud.

https://www.audit-scotland.gov.uk/report/the-national-fraud-initiative-in-scotland-2021 (published August 2022) Scotland's public finances have been boosted after a data-sharing exercise identified £14.9 million of potential fraud and errors across the public sector. The overall level of fraud identified by the NFI has fallen since the last exercise. Outcomes from the Scottish NFI exercise fell by £0.4 million in 2020/21, from £15.3 million in 2018/19. The reduction in outcomes could be due to less fraud and error in the system, strong internal controls or due to some key data sets from previous exercises not being included in the latest exercise. NFI participants have identified pressures on staffing and services particularly because of the Covid-19 pandemic, and the strengthening of controls where previous fraud or error has been identified, as contributing to reduced outcomes in the 2020/21 exercise.

3.3 This provided an opportunity for the Integrity Group to consider the recently published counter fraud reports by Audit Scotland and determine whether any Management Actions are required for improvement and assurance purposes. The purpose of the Integrity Group, which is integral to delivering the Counter Fraud Strategy, is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). One way to achieve that is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.

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

4.1 Resource

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

4.2 Digital

None.

4.3 Risk

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

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

4.4 Ensuring Equalities

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

4.5 Additional Report Implications (See Appendix A)

5 Additional Documents

Appendix B: Fraud and irregularity 2021/22
Appendix C: The National Fraud Initiative in Scotland 2022

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of the Council to achieve its key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

The Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy. The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

None.

Fraud and irregularity 2021/22

Sharing risks and case studies to support the Scottish public sector in the prevention of fraud

AUDIT SCOTLAND

Prepared by Audit Scotland for public bodies and auditors
July 2022

Key messages

The Covid-19 pandemic heightened the risk of fraud as new systems and ways of working were introduced.

1. The Covid-19 pandemic introduced many challenges for the Scottish public sector

Public Bodies delivered both existing and new services in new working environments. These changes resulted in additional fraud risks for public bodies to manage.

2. New challenges

Despite these new challenges, auditors have found that most bodies have responded well by introducing new systems, procedures, and controls.

Key messages continued

3. The Covid-19 pandemic has seen new fraud introduced

For example, fraudsters have targeted the grants to support businesses through the pandemic. Steps have subsequently been taken to reduce fraud and error in these schemes by grant-paying bodies and government.

4. Weaknesses in controls contributed to seven cases of fraud and irregularities totalling over £354,000

During 2021/22, internal control weaknesses contributed to seven cases of fraud and irregularity valued at over £354,000 being identified in public bodies. In comparison, 13 cases of fraud and irregularity valued at £401,500 were identified during 2020/21. Despite many challenges facing public bodies over the past two years because of the Covid-19 pandemic, the value of fraud and irregularity detected remains low compared to the 2021/22 annual Scottish budget of £54 billion.

Audit Scotland's counter-fraud hub contains useful counter-fraud information.

Recommendations

Public bodies should ensure effective counter-fraud arrangements are in place. These include:

- having effective governance and oversight arrangements for counter-fraud
- understanding the current and emerging counter-fraud risks facing the body
- regularly reviewing their counter-fraud strategy and counter-fraud plan
- regularly assessing and reviewing internal controls and governance arrangements to ensure they remain effective
- considering whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions
- reviewing the independent reviews and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems.

Auditors should confirm that:

- the governance arrangements in place in their audit clients are effective, regularly reviewed and amended as appropriate for new fraud risks
- internal controls are operating effectively to help prevent fraud and irregularity, including the examples detailed in this report.

Fraud and irregularity identified during 2021/22

Auditors have provided Audit Scotland with details of cases of fraud and other irregularity discovered in their audited bodies during 2021/22. This report sets out examples of the various categories of fraud and irregularity reported during 2021/22 and the control weaknesses which contributed to these cases.

Aims of this report

This report shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity, to help prevent similar circumstances happening again. External auditors have shared specific details about significant frauds and other irregularities in public bodies during 2021/22. The level of fraud and irregularity reported by external auditors was over £354,000, which is a very small proportion of the 2021/22 Scottish budget of £54 billion.

External auditors are required to report frauds, or suspected frauds, to Audit Scotland where they are caused or facilitated by weaknesses in public bodies' **internal controls**. Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significance owing to the nature of the activity.

The cases included in this report are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

Reporting cases about fraud and irregularity and sharing information about what happened helps highlight weaknesses in internal controls and aims to help prevent similar circumstances from happening in other public bodies.

Internal controls help organisations to respond to risks, to comply with legislation and regulations and to prepare quality financial information. This includes policies and procedures organisations put in place to help prevent errors and irregularities.

Public bodies are encouraged to consider whether the weaknesses in internal control that facilitated each of the cases highlighted in this report may also exist in their own arrangements and take the required corrective action.

Fraud and irregularity identified during 2021/22

Fraud and irregularity reported during 2021/22 totals over £354,000 and falls into the following categories:

1 case
Pension fund

1 case
Procurement cards

1 case
Invalid supplier

1 case
Ticket income

2 cases
Covid-19 funding - 2 cases are included in this report as examples.

1 case
IT and cybercrime

Control weaknesses

The fraudulent and irregular activity reported by external auditors during 2021/22 highlighted control weaknesses which contributed to the fraudulent and irregular activity.

- Not checking customer details are up to date
- Procedures not followed
- Weak IT security arrangements
- A lack of staff training
- A weak authorisation process for payments
- Easily circumvented procedures

Specific details of the fraud and irregularity are reported on the following pages.

Pension fraud

Pension fraud relates to people receiving payments from a pension fund to which they are not entitled.

Case Study 1: Pension fraud

A family member of a deceased pensioner continued to collect £300,000 of pension payments over a 31-year period from a public sector pension fund.

Key features

The pension fund was not notified of the death of the pensioner and the pension payments continued to be paid.

The fraud was discovered by the pension fund after mail sent to the deceased pensioner was returned.

The fraud was possible as the pensioner's death pre-dated data-matching controls which are now in place to automatically highlight when a pensioner has died.

The pension payments have been stopped and the matter reported to Police Scotland.

Expenditure fraud

Expenditure frauds relate to cases where a body has incurred additional expenditure because of fraud. This may be due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

Action Fraud UK is the national centre where individuals can report fraud and cybercrime.

Case Study 2: Corporate procurement card fraud

A council employee misused a corporate procurement card to fund personal purchases valued at over £7,300.

Key features

The employee used an emergency authorisation process to bypass the requirement to obtain authorisation at a local level. It was therefore not identified that the purchases were not legitimate. The employee also dishonestly accessed emails and misused a computer system to fraudulently authorise their own purchases.

The fraud was identified through budgetary control processes.

The employee has been dismissed and reported to the Procurator Fiscal. Two managers are also subject to the council's disciplinary procedures.

The council has since provided staff with detailed instructions and training which outline the proper process for using and authorising corporate procurement cards.

Case Study 3: Invalid supplier

A third party defrauded over £23,000 from a public body by purporting to be a supplier to the body.

Key features

The public body received a request by email to amend a supplier's bank account details. The supplier's email address had been intercepted by a fraudster who requested the change.

The fraud was possible as the public body did not telephone the supplier to verify the change of bank details.

The issue was identified when the genuine supplier queried why the payment had not been received.

The public body's internal audit team has reviewed the process for changing suppliers' bank account details. Improvements have been made to procedures and training has been provided for relevant staff.

The matter has been reported to Police Scotland and **Action Fraud UK** has also been notified of the case.

Income fraud

Income fraud relates to cases where a body has lost income because of fraud.

Case Study 4: Admission ticket income

Third parties defrauded over £8,600 in admission ticket income from a public body.

Key features

Unknown third parties fraudulently purchased and then resold admission tickets for events. The purchases were made using credit cards issued by an international provider. A loss was incurred as tickets had been used before the fraud was identified.

The fraud was discovered when the genuine cardholders subsequently requested refunds.

The fraud was facilitated by the international card provider not having secondary authentication procedures in place. The public body has stopped accepting credit cards without any secondary authorisation procedures in place.

Processes have been put in place to enhance card holder authentication for card payments.

Covid-19 funding fraud

Covid-19 funding fraud relates to cases where fraudulent funding applications have been paid.

UK Government funding to the Scottish Government to support businesses and individuals throughout the Covid-19 pandemic was provided quickly, and often with lower levels of scrutiny and due diligence than are normally in place. Support was often provided to individuals and businesses that the paying organisation had no previous relationship with. This made verification of claims for funding difficult. To get the funding out quickly to those in need, the Scottish and UK governments introduced schemes which relied on self-declaration by the claimant.

This has resulted in applicants being paid funding which subsequently have been found to have been fraudulent.

The value of some **grants** paid by councils depended on the type of business and the rateable value of the business premises.

Case Study 5: Covid-19 funding (1)

A council paid out a £10,000 Covid-19 business support **grant** which later was discovered to be fraudulent.

Key features

A fraudster submitted an application supported by a forged lease document for the business premises and a forged bank statement. A previous fraudulent change in ratepayer had been notified to the council.

The fraud was identified when the legitimate applicant submitted a grant application.

A second subsequent application has since been made for another grant in a subsequent grant-funding phase. The council did not process this second application.

The council has shared the details of the fraudulent application with other public bodies and has notified Police Scotland.

Covid-19 funding fraud (continued)

Case Study 6: Covid-19 funding (2)

A public body paid out a grant of £5,250 to a business based on an application having been received with a self-declaration by the business. The business stated that it had been adversely impacted by Covid-19. The public body paid out funds in accordance with the instructions and procedures issued by the Scottish Government.

Key features

The public body subsequently received a communication from a third party highlighting concern over the award of the funding to this business. The public body's internal audit team carried out a review and requested further supporting evidence. This established that the recipient did not meet the eligibility criteria for the funding.

The public body is seeking recovery of the grant paid.

Cybercrime

Cybercrime relates to losses due to crime which has been committed using computer systems and IT networks.

Case Study 7: Cyber-attack

SEPA suffered a cyber-attack and subsequent data loss on 24 December 2020. Our 2020/21 Fraud and irregularity report contained initial details which were known at that time. Further details and learning from the attack are now available and a summary is provided below.

Key features

The cyber-attack resulted in SEPA being unable to retrieve a significant amount of its data. This was despite independent reviews finding that SEPA had a high level of cyber security maturity. The criminals demanded a ransom which SEPA did not pay.

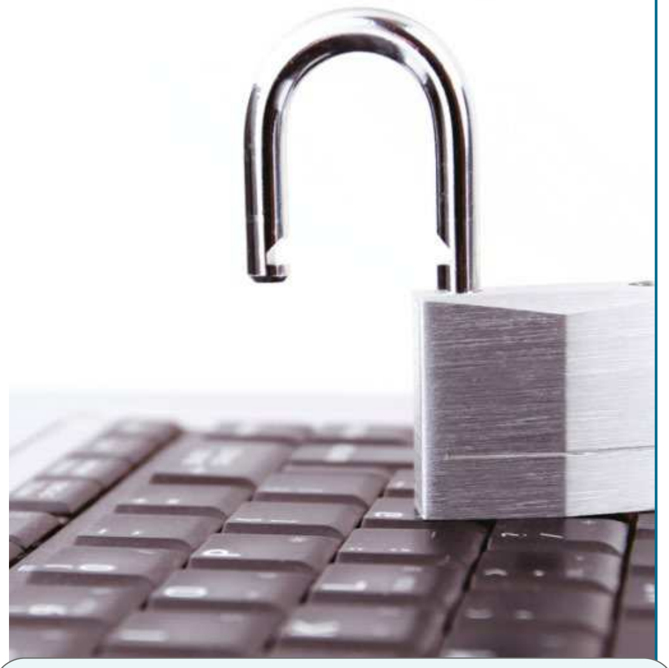
Investigations have not yet identified the exact route source of where the cyber-attack breached SEPA's systems. However, there are indications that it was through a **phishing** attack. This means there may have been a degree of human error involved, which is very difficult to mitigate against.

SEPA immediately implemented its emergency management arrangements in response to the cyber-attack. It also worked with the Scottish Government, Police Scotland, the National Cyber Security Centre (NCSC) and the Scottish Business Resilience Centre (SBRC) to deliver a recovery strategy.

SEPA commissioned independent reviews to assist it and other public-sector organisations in learning from the incident and to help protect itself and others from ongoing cyber threats. The independent reviews identified a number of recommendations.

Public-sector bodies should review these recommendations and learn lessons from what has happened to SEPA. This incident highlights that no organisation can fully mitigate the risk of the ever-increasing threat and sophistication of a cyber-attack but it is crucial that organisations are prepared.

The Auditor General has published a report on the cyber-attack against SEPA.



Phishing is where criminals send emails purporting to be from reputable sources to deceive individuals into providing information or data such as passwords, or to click on a link that allows malware to be downloaded.

Ways to reduce counter-fraud risks

There are many ways that public bodies can attempt to mitigate the risk of fraud as well as trying to prevent fraudulent activity from occurring. This includes:

- understanding the organisation's fraud risks. An appropriate counter-fraud strategy and plan should be in place
- ensuring appropriate governance arrangements are in place, with oversight of counter-fraud arrangements
- agreeing the organisation's fraud risk appetite and approach to newly-emerging risks
- having appropriate fraud prevention and detection processes in place
- regularly carrying out a fraud risk assessment to identify vulnerable areas
- having internal audit regularly reviewing and evaluating controls to ensure they operate effectively and can adapt to new or emerging risks
- ensuring staff are appropriately trained in their area of work. This will include counter-fraud training specific to their role
- ensuring processes are in place to report any suspected fraud or error
- having effective fraud response arrangements in place
- reviewing any instances of fraud or error for any lessons that could be learnt to prevent future losses
- using digital innovations, eg data analytics, to help identify weakness in controls
- using data matching such as the National Fraud Initiative **(NFI)** and analytical procedures to help identify fraud or error
- working collaboratively with partners to prevent and detect fraud
- ensuring IT systems are protected and the latest guidance from bodies such as the National Cyber Security Centre is followed.

The NFI is a data matching exercise that matches electronic data within and between public and private-sector bodies to prevent and detect fraud.

Further information

Further information about Audit Scotland's work to support counter-fraud and good governance is available on our website. This includes information about:

Website:
Our work on counter-fraud

Report:
Covid-19: Emerging fraud risks
July 2020

Report:
Red flags in procurement
October 2019

Website:
The National Fraud Initiative

Blog:
Cybercrime: A serious risk to Scotland's public sector
May 2021

Report:
How councils can safeguard public money
April 2019

Report: **The 2020/21 audit of the Scottish Environment Protection Agency**
February 2022

Fraud and irregularity
2021/22

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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The National Fraud Initiative in Scotland 2022

Prepared by Audit Scotland
August 2022

Key messages

The National Fraud Initiative (NFI) is a counter-fraud exercise which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. The NFI shares and matches data held by public bodies and helps confirm that services and payments are provided to the correct people. See Appendix 1 for more information about the NFI exercise.

1 The 2020/21 NFI exercise has identified **outcomes** valued at £14.9 million (see page 4).

2 The cumulative outcomes from the NFI in Scotland since 2006/07 are now £158.5 million. Across the UK, the cumulative total of NFI outcomes are now £2.4 billion (see page 4).

3 The overall level of fraud identified by the NFI has fallen since our last report. Outcomes from the Scottish NFI exercise fell by £0.4 million in 2020/21, from £15.3 million in 2018/19. The reduction in outcomes could be due to less fraud and error in the system, strong internal controls or due to some key data sets from previous exercises not being included in the latest exercise (see page 4).

An NFI **outcome** describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise as well as an estimate of future losses that it prevents (see Appendix 3).

4 Data sharing enables matches to be made between bodies and across national borders. Data submitted by Scottish bodies for the 2020/21 NFI exercise helped other organisations in Scotland and across the UK to identify outcomes of £1.2 million (see page 17).

5 Most bodies that participate in the NFI continue to demonstrate a strong commitment to counter fraud and the NFI (see page 18–19). However, a lower percentage of participating public bodies managed their roles in the 2020/21 NFI exercise satisfactorily compared to the 2018/19 NFI exercise.

6 Pilot work to look at potential data matches for future NFI exercises identified £2.2 million in incorrect non-domestic rates relief. The pilot work also identified one £25,000 fraudulent Covid-19 grant payment and 1,737 national entitlement travel cards which should have been cancelled (see pages 20–23).

Recommendations

1. Maximise the benefits

All participating bodies in the NFI exercise should ensure that they maximise the benefits of their participation. This includes reviewing matches timeously and prioritising high-risk matches.

NFI users should review the guidance within the NFI secure web application, to help ensure the most effective use of limited resources when reviewing and investigating NFI matches.

2. Self-appraisal

The NFI self-appraisal checklist should be reviewed by the audit committee, or equivalent, and staff leading the NFI process. This is to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate.

3. Take improvement action

Where local auditors have identified specific areas for improvement, participating bodies should act on these as soon as possible.

Outcomes from 2020/21 National Fraud Initiative

Trends in overall outcomes between 2018/19 and 2020/21 NFI exercises

The number of public bodies participating in the NFI exercise has increased by eight since the last exercise, to 132 bodies.

Outcomes in Scotland have fallen by £0.4 million since the last exercise, from £15.3 million to £14.9 million.

The number of matches generated has fallen by over 73,000 since the last exercise, to 507,354.

NFI participants include all councils, NHS bodies, colleges and all larger central government bodies, for example, the Scottish Government, Revenue Scotland and Transport Scotland. In addition, 14 councils include data from Arm's-Length External Organisations (ALEOs), joint boards or subsidiaries within their NFI submissions. A list of all participating bodies is available on our website.

Reduced levels of outcomes could be due to less fraud and error in the system, strong internal controls or some key datasets from previous years not being included in the latest exercise. Residential care home data, direct payments and social care customers' data were not matched in the 2020/21 exercise due to a legal question being raised around the definition of patient data. Immigration data was also not included in the 2018/19 and 2020/21 exercises due to restrictions placed on it by the Home Office.

NFI participants have identified pressures on staffing and services particularly because of the Covid-19 pandemic, and the strengthening of controls where previous fraud or error has been identified, as contributing to reduced outcomes in the 2020/21 exercise.

NFI outcomes

20/21

£14.9 million

NFI outcomes in Scotland from the 2020/21 exercise

Since 06/07

£158.5 million

NFI outcomes cumulatively in Scotland since 2006/07

UK NFI outcomes

£442.6 million

from the 2020/21 exercise

£2.4 billion

cumulatively since 2006/07

4 cases

referred for prosecution in Scotland

Having fewer outcomes provides some assurance there does not appear to be significant problems in the areas covered by the exercise. However, participants still benefit from the deterrent effect the NFI creates.

The fall in the number of matches is mainly due to the matches between housing benefit and payroll or pensions not being included in the matches returned to councils during the 2020/21 NFI exercise. Instead, this data was matched in Department for Work and Pensions (DWP) systems (see page 11). In addition, the removal of immigration, residential care home, direct payments and social care customers' data has also reduced the number of matches.

Four cases were referred to the Crown Office and Procurator Fiscal Service for prosecution. One resulted in Police Scotland issuing a caution and the offender is now repaying the money. The outcomes from the other three cases are not yet known.

Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments.

A breakdown of the recorded outcomes for Scottish participants is on our Counter-fraud hub.

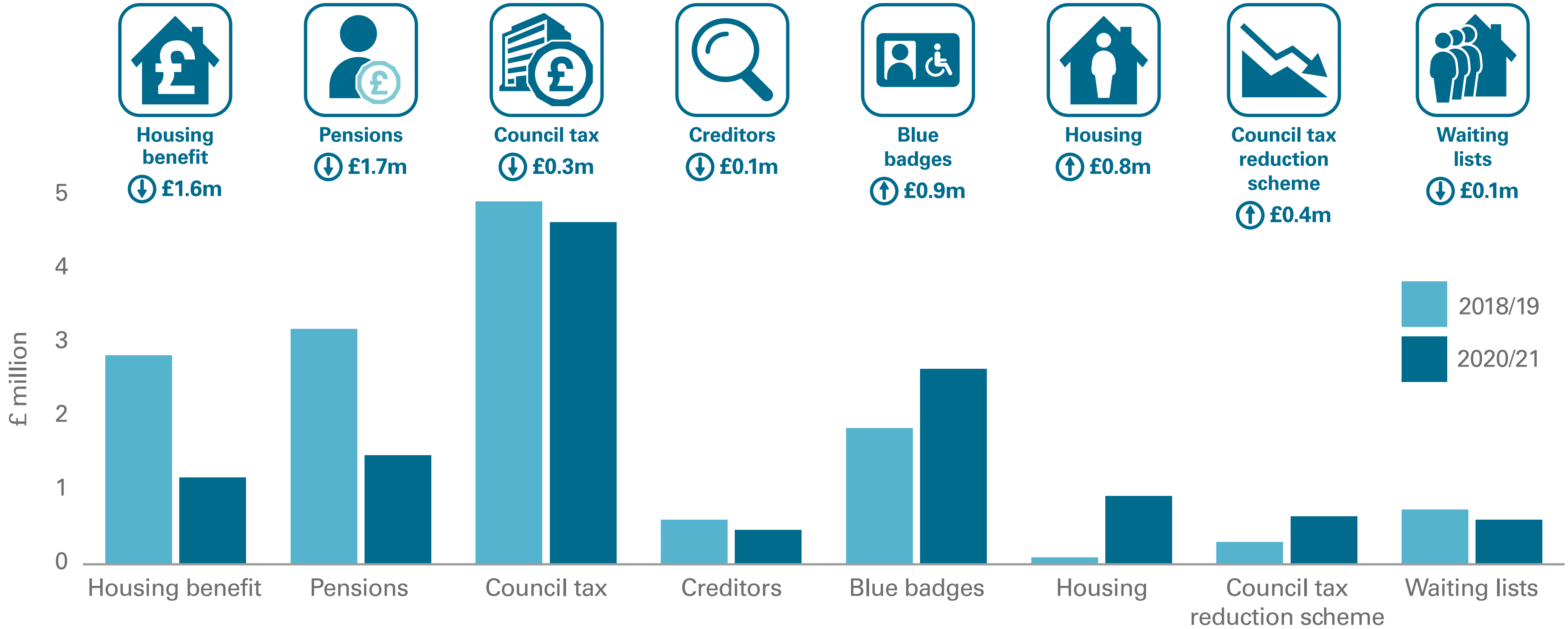
Results

Overall outcomes

How the latest outcomes compare to the last exercise

The areas with significant changes are:

NFI outcomes in Scotland have fallen by £0.4 million, to £14.9 million in the 2020/21 exercise



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NFI participants have cited the following reasons as to why outcomes are less in the 2020/21 exercise:

- staff have had less time available to commit to NFI because of the added pressures on services caused by the Covid-19 pandemic
- external agents were used instead of the NFI to carry out certain data matching such as the council tax single occupant discounts
- new controls were introduced because of previous errors identified through the NFI
- a new system was introduced for reporting the death of customers.

More information about the outcomes for each category is provided on pages 8 to 15.

A full breakdown of outcomes for each participating body is available on our Counter-fraud hub.

Once overpayments have been identified, public bodies can take appropriate action to recover the money.

At 31 March 2022
£4.3 million
(95%) of cash overpayments were being recovered

How NFI matches help to identify areas for improvement

The NFI exercise has helped participants to identify system weaknesses and to make improvements. These include the introduction of:

- a more robust control environment in the creditors system. This includes monthly purchase ledger reviews, improved checks on new suppliers, and controls to identify duplicate payments and duplicate suppliers
- revised procedures when setting up new suppliers
- a review and cleansing of data held in systems
- strengthened controls in the blue badge system
- improved controls around the change of bank details
- a review of policies aimed at supporting good governance such as declaring interests, registering of conflicts of interest and checks for identifying potential related parties.

Council tax discounts

People living on their own, or with no countable adults in the household, are eligible for a 25 per cent single person discount (SPD) on their annual council tax bill.

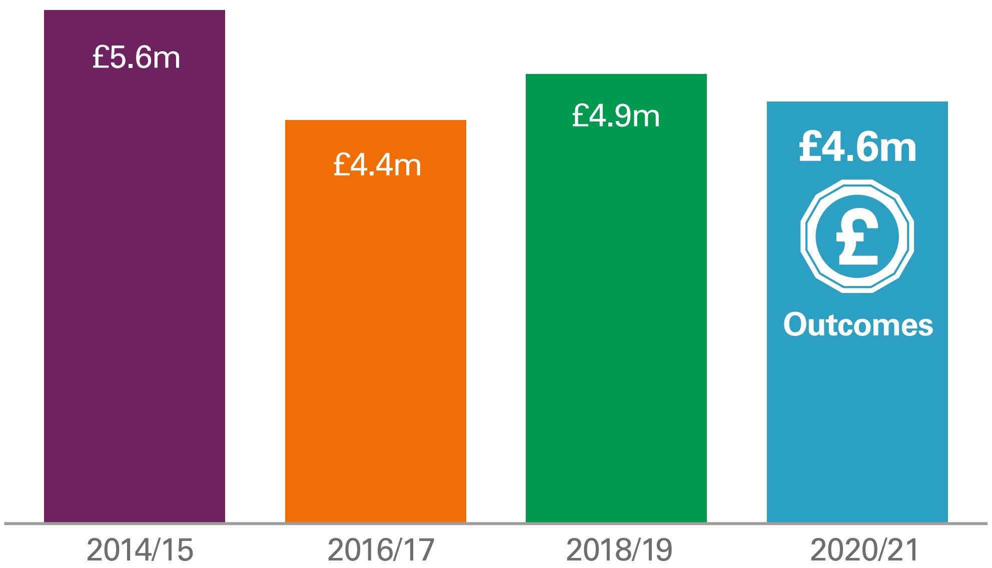
£4.6 million
Total outcomes in 2020/21 exercise

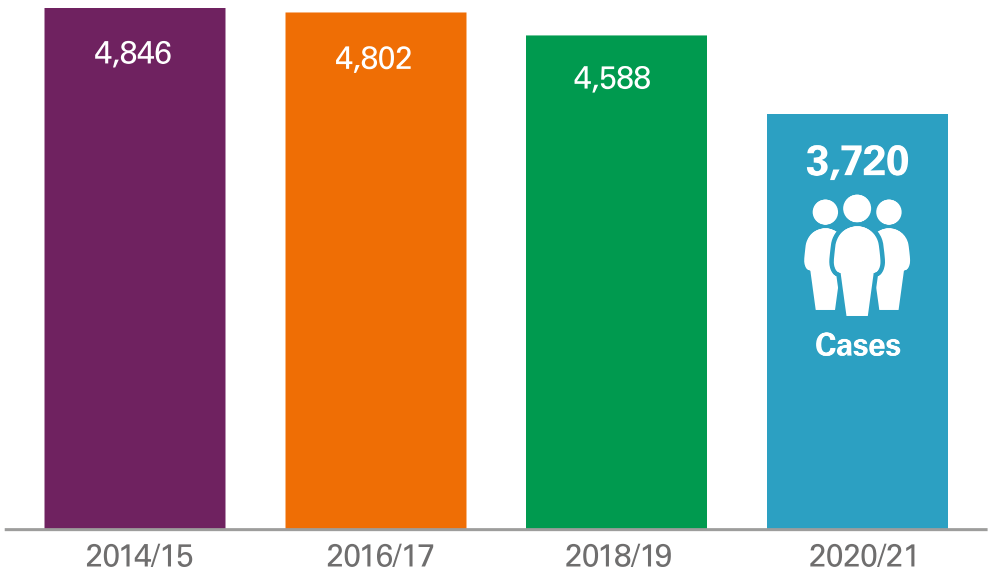
£1,248
Average outcome

3,720
Cases

The 2020/21 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.6 million.

Four councils reported that they did not use the NFI and instead used alternative data matching or verification arrangements to review SPD cases during 2020/21. The graphs below include outcomes from the other 28 councils.





Note. Due to an error with the data deletion schedule in the Cabinet Office, some supporting evidence for 11 councils was inadvertently deleted. Therefore, full supporting documentation is not available for these councils. The Cabinet Office has taken steps to prevent this error from re-occurring.

Council tax data is matched to:

- [x] Electoral register
- [ ]

Blue badges

The blue badge parking scheme allows people with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances.

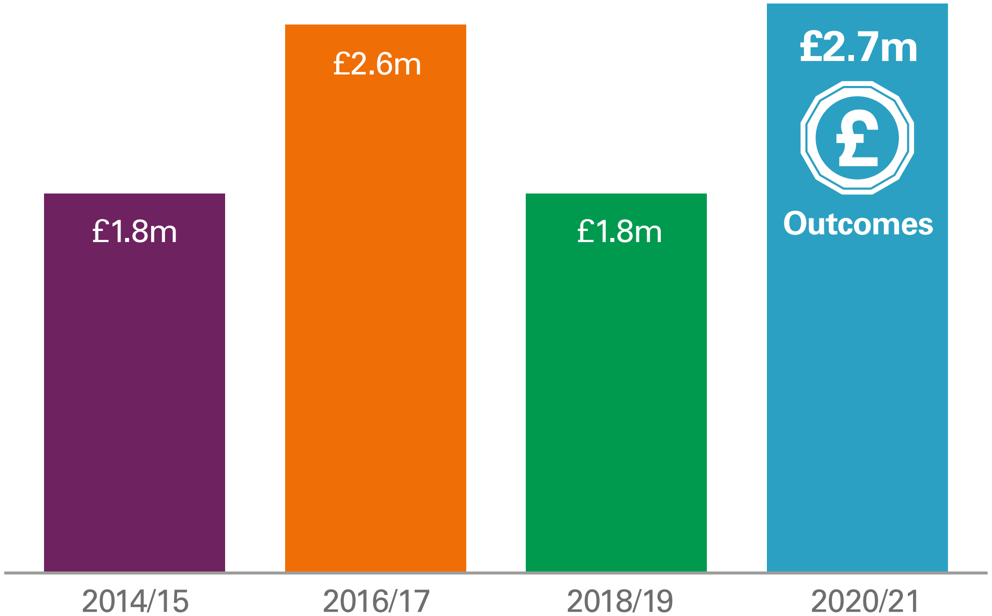
The 2020/21 NFI exercise identified 4,616 blue badge outcomes, an increase of 1,401 (44 per cent) since the last exercise. The estimated value of these outcomes is £2.7 million.

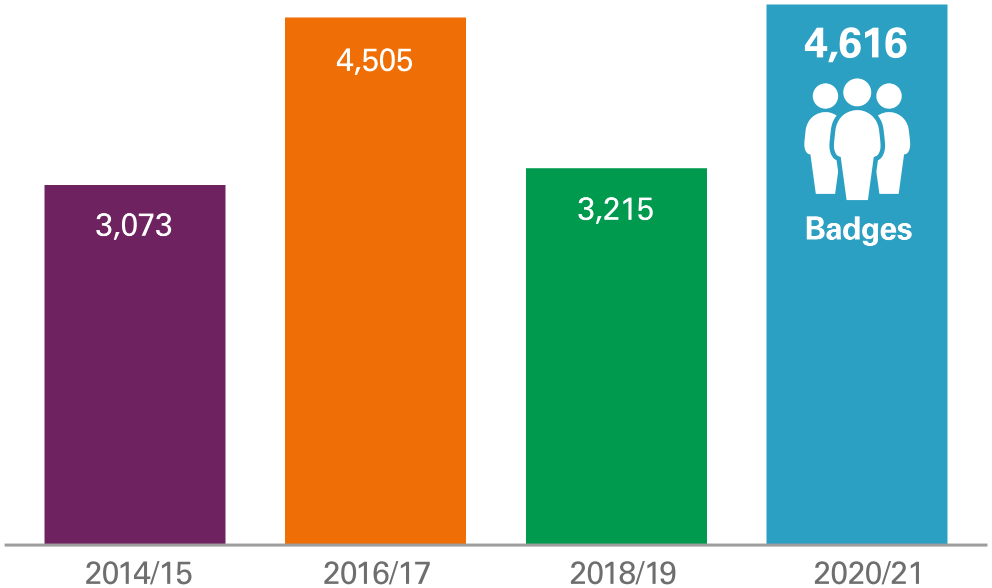
Blue badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge.

£2.7 million
Total outcomes in 2020/21 exercise

4,616
Total number of blue badge outcomes in 2018/19 exercise

1,401
Increase from NFI 2018/19 exercise





Blue badge data is matched to:

- Deceased persons
- Amberhill data[1]

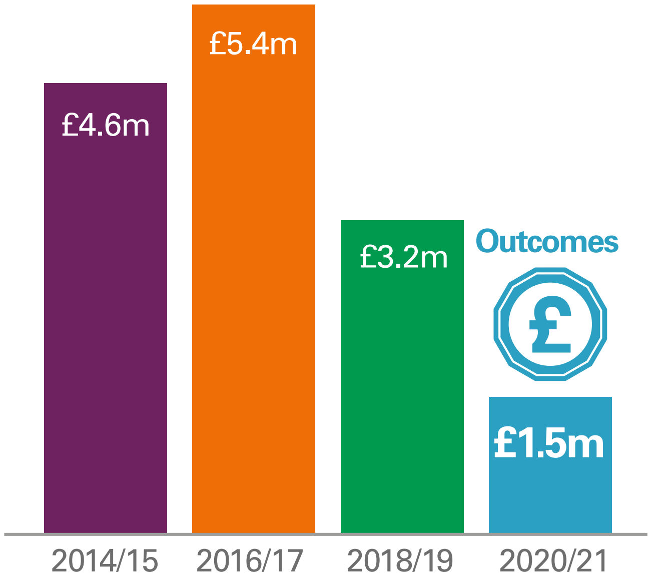
1. Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity

Pensions

The NFI provides both councils that administer pensions and the Scottish Public Pensions Agency (SPPA) with an efficient and effective way of checking that they are only paying people who are alive.

£1.5 million
Total outcomes in 2020/21 exercise

£1.7 million
Reduction on the 2018/19 NFI exercise



In total, pension outcomes for the 2020/21 NFI exercise are £1.5 million, down £1.7 million (53 per cent) from the 2018/19 NFI exercise. This includes two outcomes identified through the pre-application screening (AppCheck)[2] part of the NFI system.

Pension outcomes may have fallen due to the 'tell us once'[3] reporting process and to controls working effectively within pension bodies.

Case study

An NFI match identified one fraud with a gross annual pension amount of £10,560 which was stopped and resulted in an overpayment of £6,601. The fraudster had notified Fife Pension Fund of a change of bank details for receipt of the pension after the pensioner had died. The council reported the fraud to Police Scotland which identified the person who submitted the fraudulent bank mandate. Following a police caution, the full amount was repaid. This case was reported as part of a 2020/21 NFI Progress Update to both the council's Standards and Audit Committee and the Superannuation Fund & Pensions Committee in December 2021 for their consideration.

Pension data is matched to:

- Deceased persons
- Payroll
- Housing benefit
- Injury benefits
- Amberhill data

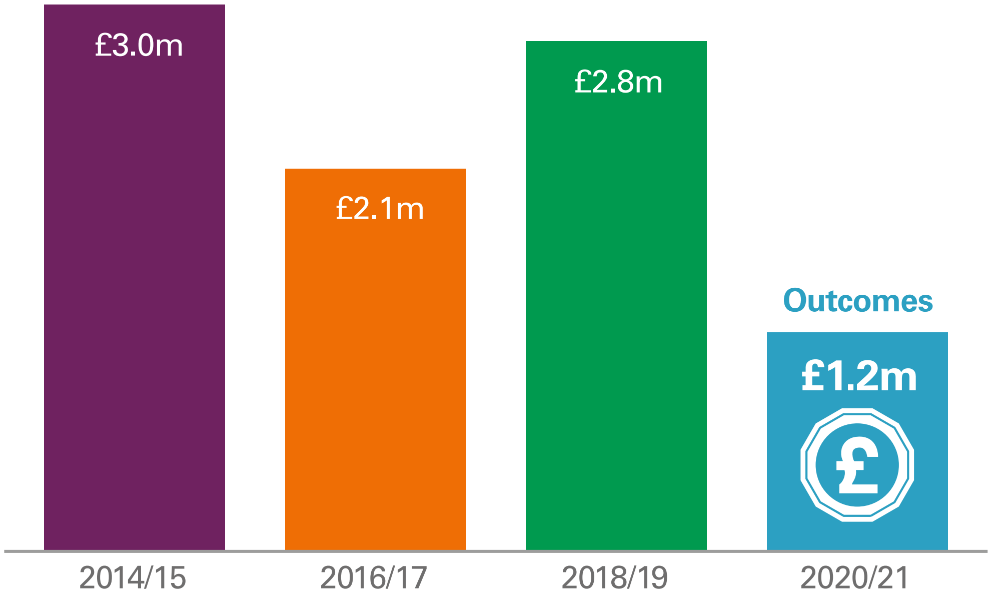
2. AppCheck is an NFI data matching service used at point of applications for a service or benefit.

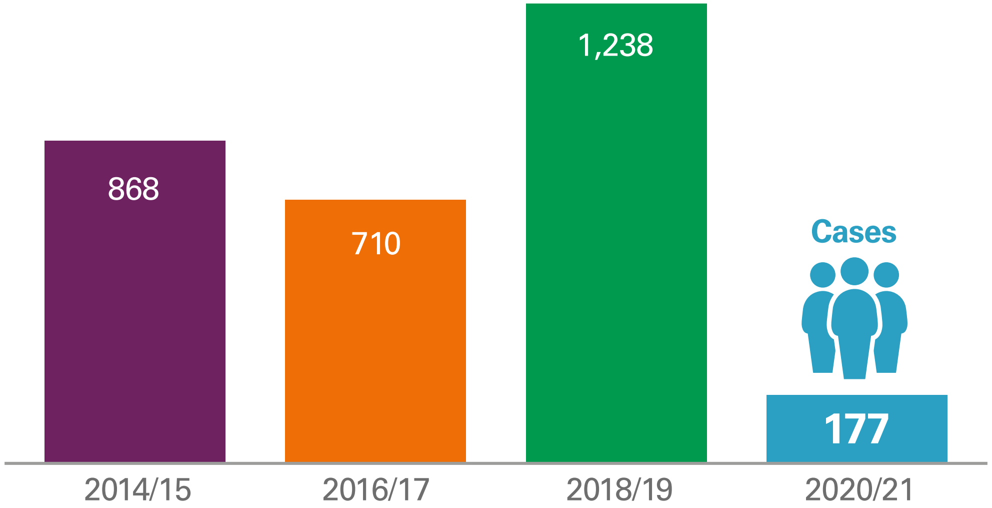
3. 'Tell us once' is a service that lets you report a death to most government organisations when registering the death.

Housing benefit

Housing benefit helps people on low incomes pay their rent. The NFI provides councils and the DWP with the opportunity to identify a wide range of benefit frauds and errors.

£1.2 million	£6,663	177
Total outcomes in 2020/21 exercise	Average individual value of overpayments	Cases





Housing benefit data is matched to:

- Student loans
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Licences
- Deceased persons
- Amberhill data

The value and number of housing benefit cases recorded with overpayments has significantly reduced, from £2.8 million from 1,238 cases in the 2018/19 NFI, to £1.2 million from 177 cases in the 2020/21 NFI. Over the same period, the average individual value of overpayments has risen from £2,292 in 2018/19 to £6,663 in 2020/21.

The fall in outcomes is mainly due to the matches between housing benefit and payroll or pensions not being included in the 2020/21 NFI exercise. These matches historically identified significant outcomes.

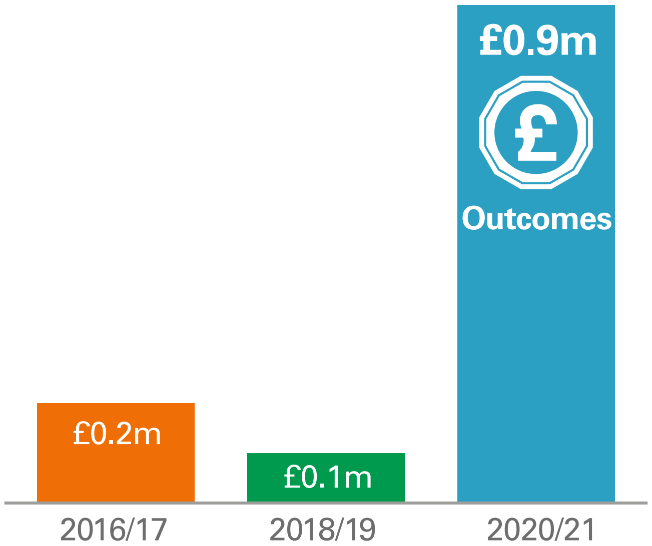
These matches were not included in the 2020/21 NFI exercise as similar data matching is undertaken by the DWP's Verify Earnings and Pensions (VEP) Alerts service which identifies discrepancies between payroll and pension details held by HM Revenues & Customs and council benefits services. Alerts from VEP are sent to councils to investigate discrepancies.

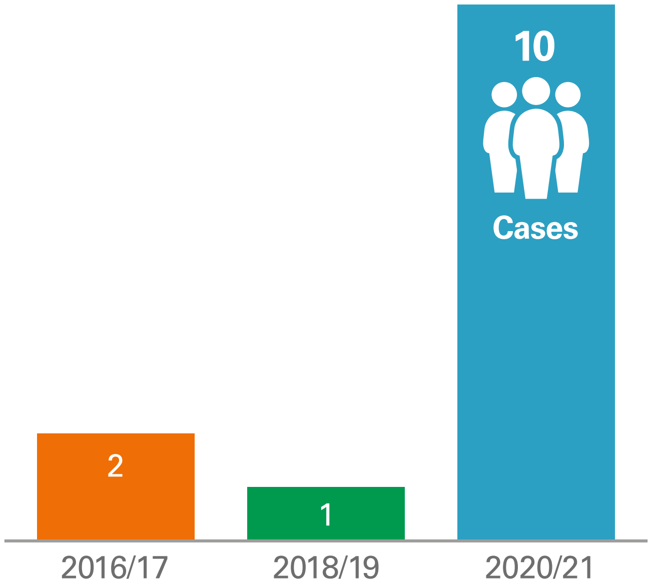
Housing tenancy

The NFI uses housing tenants' data to identify possible cases of tenancy fraud. This may happen when a tenant has sublet their property. It also helps identify cases where the tenant has died, and the property is either empty or has other individuals living in it.

£0.9 million
Total outcomes in 2020/21 exercise

10
Cases





Housing tenancy data is matched to:

- Waiting list
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Deceased persons
- Amberhill data
- Council tax reduction

Case study

An NFI match identified a Midlothian Council tenant who had failed to disclose that they had purchased a property within another council area at the same time they had been allocated a council house. Enquiries established the tenant moved into the owned property ten years ago and sublet their council house to a family member. The council has recovered the property.

NFI matches resulted in councils recovering ten properties as part of the 2020/21 NFI exercise, compared to one property in 2018/19.

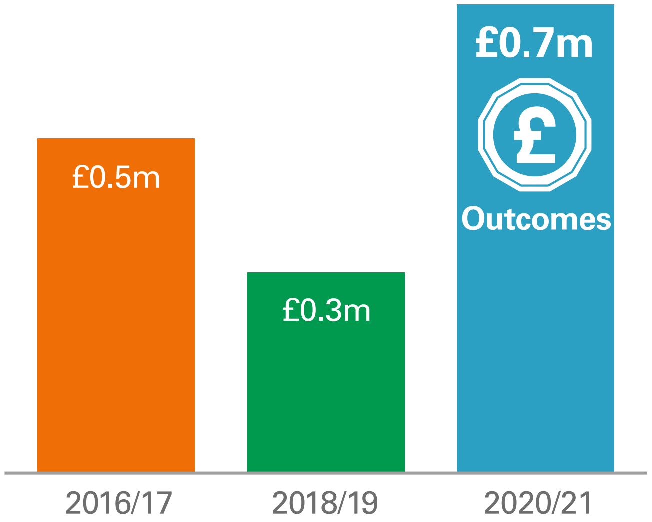
The estimated value of these cases is £0.93 million, based on a calculation of the average four-year fraudulent tenancy.

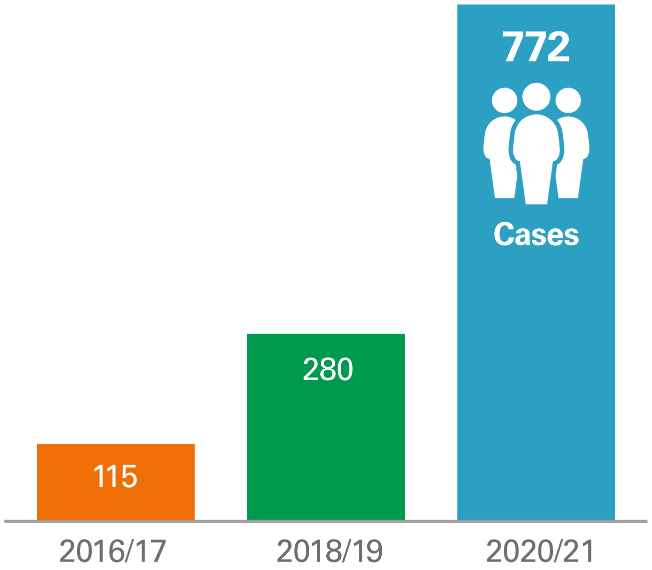
Council tax reduction

Council tax reduction helps people on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a range of council tax reduction frauds and errors.

£0.7 million
Total outcomes in 2020/21 exercise

772
Cases





Council tax reduction data is matched to:

- Council tax reduction
- Payroll
- Pensions payroll
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Licences
- Deceased persons
- Amberhill data

Case study

An NFI match identified that a council tax reduction claimant in Renfrewshire Council had failed to declare their company pension and pension lump sum. This resulted in the claimant fraudulently receiving £14,450 council tax reduction. This amount is being recovered by the council.

This is a relatively new match which has been included in the NFI since 2016/17.

Outcomes of £0.7 million were identified in the 2020/21 NFI, an increase of £0.4 million from the £0.3 million reported in 2018/19.

Councils have identified 772 cases in 2020/21, more than 2.5 times the number of cases in 2018/19 (280).

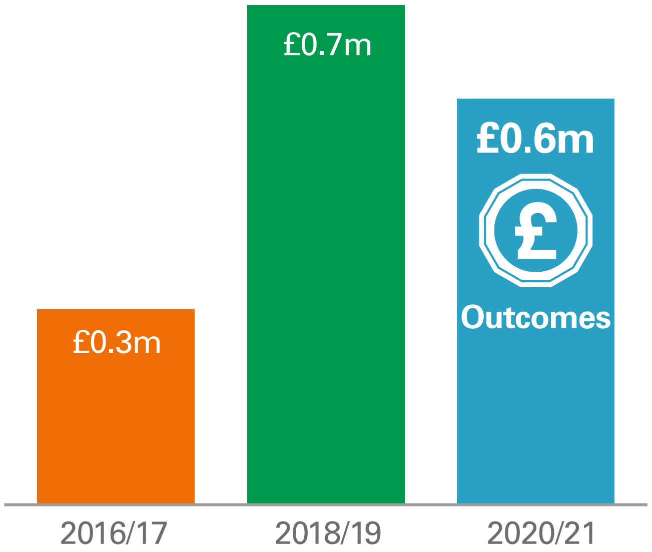
One council advised that the increase in outcomes was directly caused by the Covid-19 pandemic. For example, an increase in mortality rates for those with underlying health conditions disproportionately impacted on people in receipt of disability benefits, council tax reduction and blue parking badges. In addition, there was an increase in the number of un-notified increases in the hours worked by those in lower paid service jobs who are more likely to be in receipt of council tax reduction.

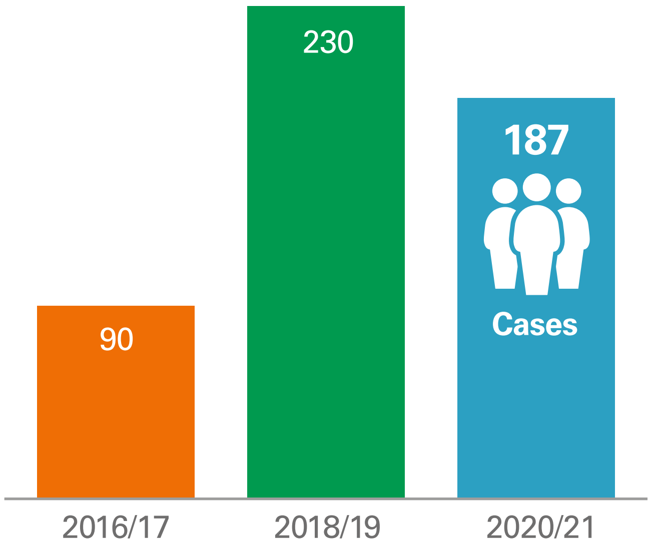
Housing waiting lists

The NFI uses housing waiting list data to identify possible cases of waiting list fraud. This may happen when a person has registered on a council's waiting list but there are possible undisclosed changes in circumstances or false information has been provided. Social housing provides affordable accommodation, allocated according to need. It usually provides a more secure, long-term tenancy when compared to private renting.

£0.6 million
Total outcomes in 2020/21 exercise

187
Cases





Councils identified 187 cases in 2020/21 where applicants were removed from waiting lists (230 in 2018/19).

The estimated value of these cases is £0.6 million. This is based on a calculation of the annual estimated cost of housing a family in temporary accommodation and the likelihood a waiting list applicant would be provided a property (see Appendix 3).

Housing waiting list data is matched to:

- Waiting list
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Deceased persons
- Amberhill data

Creditors

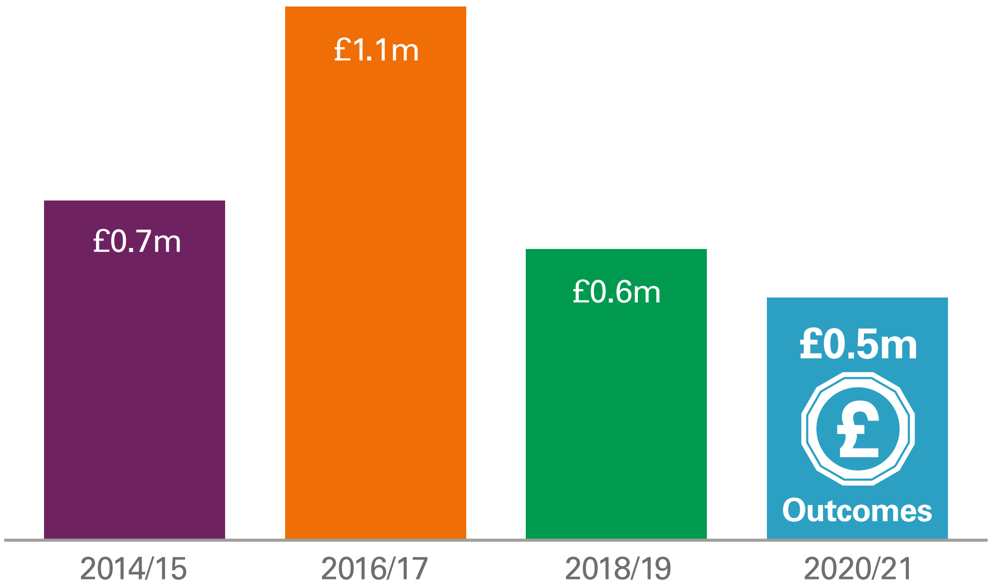
The NFI provides an efficient way to check for duplicate payments and that payments are only made to appropriate creditors. A creditor is a person or an organisation that a public body pays money to for a good or service.

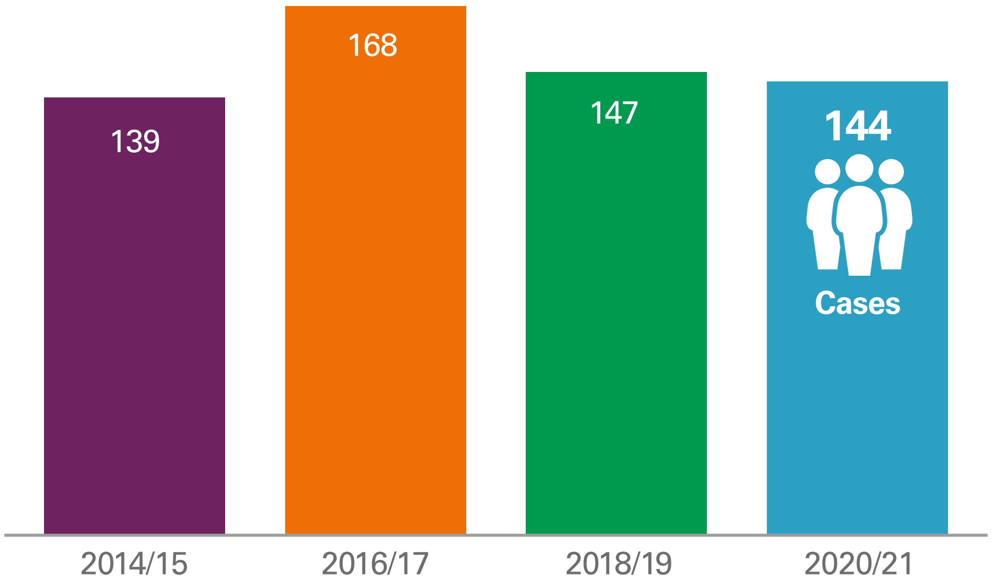
£0.5 million
Total outcomes in 2020/21 exercise

100%
Recovery action is taking place

144
Cases

The 2020/21 NFI exercise identified 144 creditor outcomes of £0.5 million, a fall of three outcomes and £0.1 million from 2018/19. Recovery action is taking place for these overpayments.





Creditor data is matched to:

Creditor data

Payroll

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Other data matches

Payroll

The NFI also matches all participating bodies' employee payroll data as well as those of MSPs and councillors to identify cases of potential payroll fraud. The 2020/21 NFI exercise identified three outcomes valued at £27,000 compared to eight outcomes valued at £20,000 in the 2018/19 exercise.

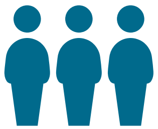
Past NFI exercises have identified larger outcomes for payroll. This fall in outcomes is partly due to immigration data not being included in the 2020/21 exercise due to restrictions placed on it by the Home Office.

2018/19

eight outcomes valued at

£20,000

2020/21



three outcomes valued at

£27,000

Case study

An NFI match identified an employee who left Fife Council in September 2019 and who continued to be paid their salary until February 2021. The council overpaid a total of £20,288 to the ex-employee. Recovery of the overpayment is in progress and internal audit services have investigated the circumstance surrounding the overpayment. Recommendations for improvements have been discussed with management and an audit on the council's leavers process is part of the 2022/23 Internal Audit Plan. This case was reported as part of a 2020/21 NFI Progress Update to the council's Standards and Audit Committee in December 2021 for consideration.

Case study

New NFI matching of non-domestic rates small business bonus scheme (SBBS) in East Dunbartonshire Council identified a case where a ratepayer had failed to declare other business premises in another council area. This resulted in almost £11,000 in SBBS relief being claimed from April 2018. The case is being referred to the Crown Office and Procurator Fiscal Service for prosecution. We understand this is the first business rates case to be reported for prosecution in Scotland.

Matches benefiting other public bodies

A key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

Data provided by Scottish participants for the 2020/21 NFI exercise helped other public bodies, both within and outwith Scotland, to identify outcomes worth £1.2 million (a reduction of £0.5 million from 2018/19).

Most of these outcomes relate to housing benefits, housing waiting list and council tax reductions where, for example, payroll data from an NHS board may allow a council to identify a council tax reduction fraud or error.

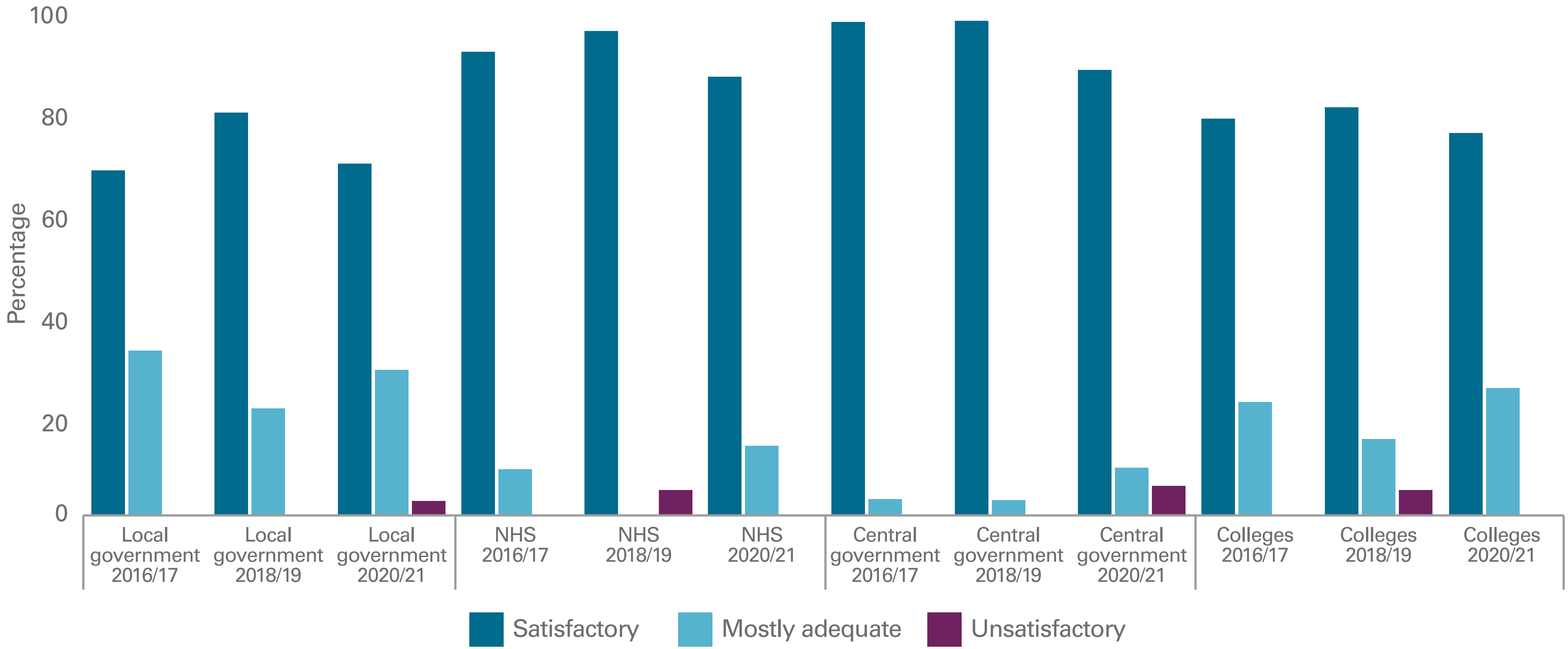
Councils	Central government	NHS	Colleges	Total
£601,591	£483,943	£100,456	£0	£1,185,990
2018/19	**2018/19**	**2018/19**	**2018/19**	**2018/19**
£854,760	£759,879	£120,408	£12,672	£1,747,719

How bodies worked with the NFI in 2020/21

How bodies work with the NFI

Overall rating of NFI arrangements by year

Auditors reviewed each participating body's planning and progress with the NFI and provided recommendations for improvement where appropriate.



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Most participating bodies continue to demonstrate a strong commitment to counter fraud and the NFI. However, across all sectors, a smaller percentage of participating bodies managed their roles in the 2020/21 NFI exercise satisfactorily compared to the 2018/19 NFI exercise.

Auditors identified that some bodies could be more pro-active in their approach to the NFI. One central government body was unable to review matches due to a cyber-attack, one council did not review matches citing resource issues as the reason, and a central government body was unable to action matches due to the impact of reallocating resources to the provision of Covid-19 grant funding to organisations.

Six **key contacts** felt they did not have sufficient time and/or resources to allow them to oversee the NFI exercise. In four bodies, the key contact considered that they lacked sufficient authority to seek action across the relevant departments.

The Covid-19 pandemic created additional pressures for public bodies and impacted upon the resources available to support the NFI exercise. Auditors reported that 15 bodies reduced their participation in the NFI exercise due to resourcing issues including staff vacancies, sickness absences or changing priorities as a result of Covid-19.

We recommend that all bodies use our checklist to self-appraise their involvement in the NFI before and during the 2022/23 NFI exercise. For the 2020/21 NFI exercise, 64 per cent of bodies completed the checklist, although not all presented it to their audit committee; ten per cent reviewed it but did not complete it; and just over a quarter did not review it. This was reported as being because either the key NFI contact had changed and was unaware of the checklist, staff had prior experience of the NFI process, and Covid-19 pressures.

A **key contact** is appointed by the NFI participating body. They are responsible for coordinating and monitoring the overall NFI exercise, ensuring outcomes from investigations are accurately recorded and nominating appropriate users of the NFI system.

Public bodies usage of our NFI checklist

20/21

64% completed the checklist

26% did not review it

10% reviewed it but did not complete it

Pilots help identify the value of extending the NFI exercise

Audit Scotland undertakes new areas of data matching on a pilot basis to test their effectiveness in identifying fraud.

Only pilots which achieve matches that demonstrate a significant level of success are extended nationally and included in the main NFI exercise going forward. A small number of serious incidents of fraud or a larger number of less serious ones may both be considered successful.

The NFI pilots undertaken or under way over the last two years are shown on the following pages.

Exemptions for NHS dental and ophthalmic charges

Data matching was undertaken to help identify NHS patients who have claimed to be exempt from NHS dental and ophthalmic charges, when they are not entitled. Patient exemption claims were matched to payroll data to ensure that dental and ophthalmic exemptions, eg for glasses or dental treatment, are only awarded to those patients qualifying for exemptions.

NHS Scotland Counter Fraud Services (CFS) received the matches in the second half of 2019. It worked to identify the highest-risk matches and then started verifying payroll details before undertaking investigations. As part of this investigative work, CFS asked dentists and opticians to supply the original exemption claim signed by the patient. However, CFS was unable to progress this part of the investigation due to dentists, opticians and the CFS being required to close down due to Covid-19 lockdown restrictions. CFS then decided not to use the matches as originally intended but instead use them as intelligence, for example, as an alert if the same people claim again. CFS considered it not worthwhile re-doing the pilot in 2021 as there were very few exemptions claimed between April to December 2020. This was due to opticians and dentists initially being closed and then only able to do emergency treatment which was free of charge. CFS intends to re-run the exercise after new payroll data goes into NFI in autumn 2022.

Covid-19 grants for businesses

Following a Covid-19 grants data matching pilot exercise in England in the summer of 2020, it was decided to expand the English pilot to cover Covid-19 business grants paid to Scottish businesses.

These grants were paid under the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF). Scottish councils submitted data from early in 2021. Initial matches were released in April 2021, however, match numbers were low. The Scottish schemes were more complex than similar schemes in other parts of the UK, eg in respect to second and subsequent properties held by each ratepayer. As a result, the algorithms were rechecked and additional matching was undertaken.

Additional matches were released in September 2021. Despite the data having been rematched, only one fraudulent grant payment of £25,000 was identified. Due to Covid-19 grant payments having stopped, it is not expected that this matching will be required again. However, the systems are in place should the matching be required for any similar grants or payments in the future.

Only one fraudulent grant payment of £25,000 was identified

Additional counter-fraud measures introduced by NFI participants in respect of Covid-19 grant funding

Auditors identified that around 43 per cent of NFI participating bodies awarded Covid-19 funding during the pandemic.

Almost three-quarters of these bodies introduced additional counter-fraud measures such as new internal controls. This included actively working through national networks, such as the Scottish Local Authority Investigators Group, the Institute of Revenues Rating and Valuation, the National Anti-Fraud Network, and with Police Scotland as well as strengthening internal controls. This resulted in, for example, Dundee City Council preventing 143 attempted fraudulent applications valued at £381,500 from being paid in 2020/21. It also resulted in Aberdeenshire Council identifying eight fraudulent grants totalling £107,000 plus 14 attempted frauds totalling £151,000. The bodies that did not take additional counter-fraud measures reported these were not necessary as for some, payments were made to existing customers using the existing controls whereas others relied on existing controls around the setting up of new suppliers and associated payments.

Aberdeenshire Council identified eight fraudulent grants totalling £107,000

Non-domestic rates – Small Business Bonus Scheme

In 2019/20, a pilot was undertaken with the Scottish Government and seven Scottish councils to help identify businesses inappropriately claiming Small Business Bonus Scheme (SBBS) relief. The SBBS provides rates relief to owners of non-domestic properties with rateable values under certain thresholds.

The seven participating councils provided 81,827 ratepayer records to the NFI system, which were then matched across the councils and with data from Companies House in order to identify SBBS fraud. The pilot identified £412,974 in incorrect awards.

Due to the success of this pilot, a national roll-out of this data matching exercise was carried out in 2021/22.

The 2021/22 pilot identified 17,676 matches which resulted in £2.2 million in incorrect SBBS relief being identified in 208 SBBS awards. Councils will now try to recover SBBS which was incorrectly awarded. Recovery is already in progress for 119 cases with a value of almost £745,000 in incorrectly awarded relief.

Given the success of the 2021/22 pilot, consideration is now being given as to how this data match can be repeated on a regular basis as part of the main NFI exercise. The pilot report is available on our website.

The pilot identified £412,974 in incorrect awards

National entitlement cards for travel

The National Entitlement Card (NEC) is Scotland's National Smartcard. Supported by the Scottish Government to deliver national and local services, the NEC makes it convenient for people to access various public services and facilities with only one card. The NEC can be used for services such as a travel pass, a library card, a leisure membership card and a Young Scot card as well as providing access to other local services.

In 2021/22, a pilot was undertaken with Fife Council, to match travel passes for elderly and disabled customers with deceased customer records. Fife Council provided a total of 112,044 NEC records for matching against deceased person records. This resulted in 1,737 matches being identified for review by Fife Council (a return rate of 1.6 per cent).

Following Fife Council's review, all 1,737 cards (100 per cent) were cancelled on the NEC system as it was established that the customers had died. This means no further cards can be requested for these customers, and the card will be blocked should someone attempt to use it. No matches were identified where the customer was still alive.

Thirteen matches showed cause for concern as the NECs appeared to have been used after the death of the cardholder. Two of these cards were used for journeys to the value of almost £2,300 for one, and £240 for the other. The value of the journeys for the other 11 cards varied from £3.10 to £69.00.

Given the success of this pilot, consideration will be given as to how this data match can be expanded to other councils in Scotland and included in the main NFI exercise in the future. The pilot report is available on our website.

Case study

A new NFI pilot matching National Entitlement cards in Fife Council against deceased person records identified one card that had been fraudulently used for bus travel valued at almost £2,300 after the cardholder had died. Investigations are continuing into the individual(s) who used this card.

Applications for student awards

A pilot was undertaken with Student Awards Agency Scotland (SAAS) to help confirm residency and address details for students applying for awards for tuition fees, grants and bursaries. SAAS funds students from Scotland and as such it is interested in verifying the address of student applicants and flagging where students are potentially fraudulently misrepresenting their address to benefit from the more attractive financial support offered to Scottish students.

Student applications were matched against data held in the NFI system. An initial batch of 50 applications was processed which SAAS found very helpful in verifying and querying address details. One known fraud was put through the NFI pre-application screening service (AppCheck) to test the system. A match was highlighted, demonstrating the benefit AppCheck can bring in preventing fraud.

SAAS is now looking to expand the pilot to allow the upload of a large batch of applications to the NFI system quickly, securely and easily.

Social security benefits

A pilot is under way with Social Security Scotland to identify any instances where claimants received support but were not residing in Scotland, or where claimants appear to have claimed benefits more than once, eg from more than one Scottish address. Claimant data was matched to data already in the NFI system from across the UK. Data was submitted in March 2022, with matches released to Social Security Scotland in May 2022. Social Security Scotland is currently reviewing the matches.

Police Scotland's use of AppCheck

Police Scotland's Serious and Organised Crime Interventions Team deals with vetting applications, eg for landlord registration and pre-contract procurement check requests from public bodies such as councils and the NHS. These checks aim to prevent and detect fraud within public procurement and other public services such as landlord registration and taxi licencing. Police Scotland is undertaking a pilot to identify if data in the NFI data base can be used to help its vetting processes to prevent and detect fraud. Data has yet to be shared.

A match was highlighted, demonstrating the benefit AppCheck can bring in preventing fraud

Future developments

The 2022/23 NFI exercise is due to start in late summer 2022. Datasets have been reviewed and updated as necessary.

Audit Scotland continues to work with the Cabinet Office in developing new ways to prevent and detect fraud. This includes piloting new data matching opportunities.

The Scottish Parliament approved The Digital Government (Scottish Bodies) Regulations 2022 in March 2022. These Regulations name Audit Scotland under Regulation 3 - 'Scottish bodies for the disclosure of information in relation to fraud against the public sector'. This allows Audit Scotland to access HM Revenue & Customs income and savings data for Scottish residents for future NFI exercises. This will help identify outcomes where customers have received benefits and services above what they are entitled to.

Audit Scotland continues to work with the Scottish Government in promoting and enhancing participation in the NFI across Scotland.

The Scottish Parliament's Public Audit Committee (PAC) is considering the expansion of legislative powers around the NFI. This may include expanding the NFI to bodies in receipt of significant amounts of public funding that do not fall under the audit remit of the Auditor General for Scotland or the Accounts Commission.

The Cabinet Office recently consulted on extending its legal powers around the purposes for which data matching can be used. It is looking to potentially extend its legal powers in the following areas:

- to assist in the prevention and detection of crime other than fraud
- to assist in the apprehension and prosecution of offenders
- to assist in prevention and detection of errors and inaccuracies. The NFI data could be used to help public-sector bodies to ensure citizens get access to their full benefit entitlements. For example, a number of passported benefits across the welfare system entitle recipients to help with housing costs, free school meals, etc. A match could identify citizens entitled to additional help they are not claiming
- to assist in the recovery of debt owing to public bodies. Public bodies may need to trace individuals with outstanding overdue debt and with no arrangement to pay in place. In some instances, these individuals may be difficult to trace. The NFI data could be used to help identify where a debtor was living or working, for example.

The Cabinet Office is considering the responses and will publish a formal consultation response in due course.

Section 97 of the Criminal Justice and Licensing Act 2010 already permits Audit Scotland to use data matching for the first two purposes. We will monitor developments.

Appendix 1. Background to the NFI

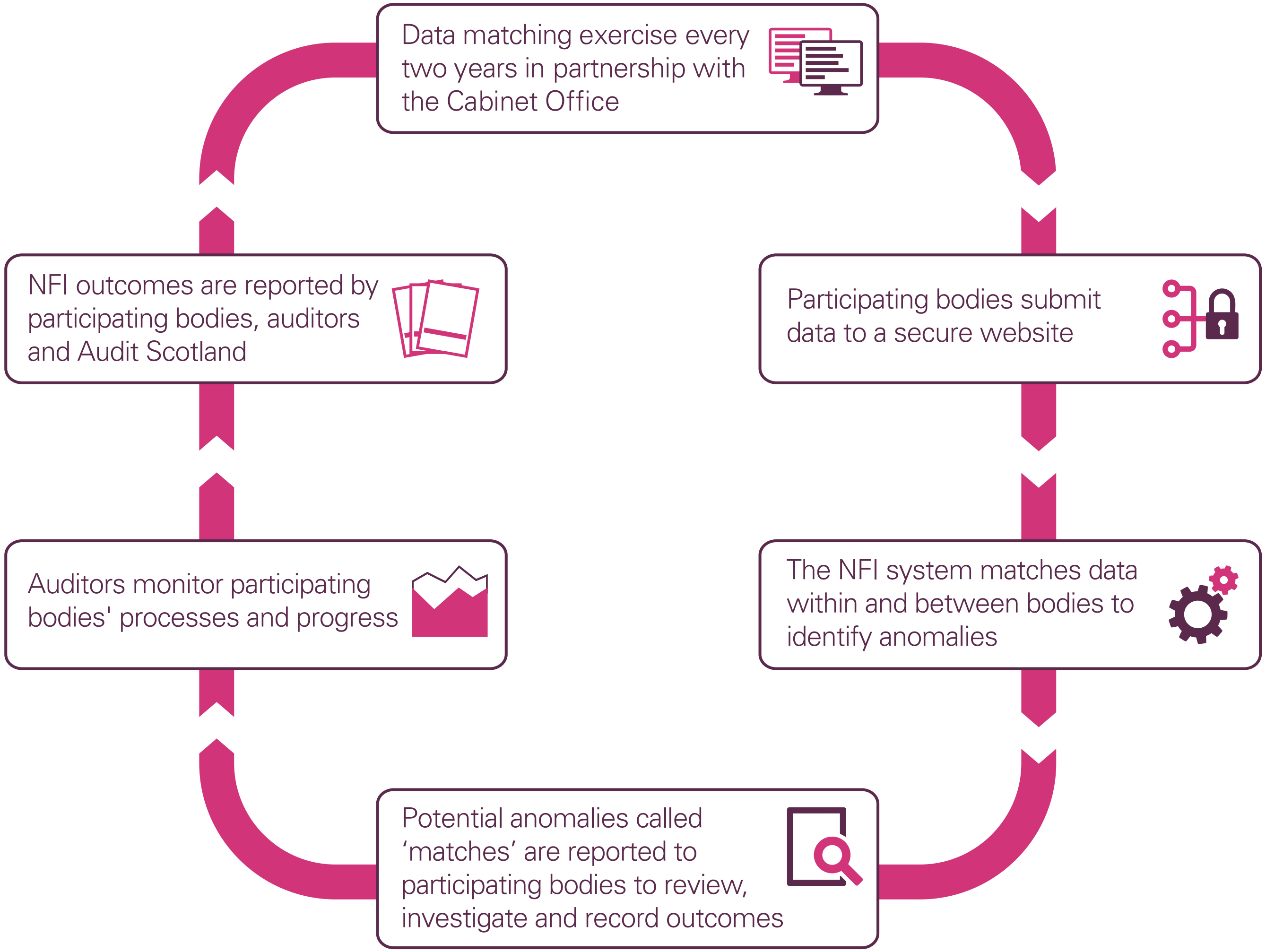
The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it, and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors.

The NFI uses data sharing and matching to help confirm that services are provided to the correct people. The NFI takes place every second year. 132 public-sector bodies in Scotland participated in the 2020/21 exercise including councils, NHS bodies, colleges and larger central government bodies such as the Scottish Government, Revenue Scotland and Transport Scotland. A full list of participants is available here.

The NFI enables public bodies to use computer data matching techniques to detect fraud and error.

We carry out the NFI under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled, and data is handled in accordance with the law. The Audit Scotland Code of Data Matching Practice includes a summary of the key legislation and controls governing the NFI data matching exercise.

Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments, eg housing benefit matches may identify customers entitled to council tax discount or reduction.



Appendix 2. Costs and benefits of participating in the NFI

The Scottish Parliament provides funding to Audit Scotland to cover public-sector participants' NFI fees for the biennial data matching exercise.

Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for pilot work and additional services such as the AppCheck pre-application screening and the ReCheck[4] flexible data matching service.

Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that do have records were able to estimate that their costs ranged from £500 to £71,000. This compares favourably with the average outcome for each public body in Scotland of £113,000 for the 2020/21 NFI exercise.

Overall, the £14.9 million of outcomes from the 2020/21 NFI outweigh the costs.

4. ReCheck is a flexible data matching service that complements the NFI biennial national exercise. It allows NFI participants re-perform the existing NFI data matching at a time that suits them.

£8,416
Average reported cost of NFI (total of 25 bodies)

£204,500
Audit Scotland costs

	No. of bodies reported	Cost range
Councils	0	£0
Other local government bodies	2	£1,397 – £5,000
NHS bodies	7	£1,277 – £71,000
Central government bodies	11	£590 – £20,000
Colleges	5	£500 – £6,000

Appendix 3. Estimation bases

The figures used in this report for fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

Data match	Basis of calculation of estimated outcomes
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Housing	£93,000 per property recovered, based on average four-year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks.
Pensions	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
Payroll	£5,000 for each employee dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK.
Council tax reduction scheme	Weekly change in council tax discount multiplied by 21 weeks.
Housing waiting lists	£3,240 for each case based on the annual estimated cost of housing a family in temporary accommodation, the duration a fraud may continue undetected and the likelihood a waiting list applicant would be provided a property.
Blue badges	Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.

The National Fraud Initiative in Scotland 2022

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

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