

# Appendix 1: Executive Summary: Midlothian Energy

## Conclusion: Reasonable Assurance

Reasonable processes have been established to support the governance arrangements of Midlothian Energy Limited (MEL). Monitoring regimes have been established to ensure the delivery of outcomes for the Council including the financial and operational risks of the joint venture. However, weaknesses were noted with the risk management policy and reporting arrangements, the reporting of financial information, the completeness of the annual Business Plan, the consistency of recharging Midlothian officer time, and the Council's risk assessment processes for the approval for new projects that require no equity funding from the Council.

## Background

MEL is a 50/50 Joint Venture between Midlothian Council and Vattenfall Heat UK (VHUK), established in 2020. MEL's purpose is to design, build, own, operate and maintain a low carbon district heating network and ultimately other energy solutions across the Millerhill development area and beyond. A Business Plan is prepared by MEL each financial year covering a period of five financial years from the date it is prepared and sets out the agreed funding contributions, if required, for each Shareholder.

A Shareholders Agreement is in place which sets out the governance and procedural arrangements between Midlothian Council and VHUK and identifies reserved matters that must be brought back to shareholders for approval. The Chief Executive, with delegated authority from Council, appointed two nominated Council Directors on the Board of representatives. Additionally, there is a Concession Agreement between the Council and VHUK which provides the contractual framework for the Council (as the local authority and not as shareholder in MEL) to further approve those projects which involve Council heat demand or require Council resources. The Concession Agreement grants exclusivity to MEL to deliver any project relying on the Millerhill heat network which is being installed for the Millerhill Low Carbon Heat project, and first right of refusal to deliver other decentralised heating projects in Midlothian and the surrounding area where the Council has control over delivery. 2 Management Services Agreements are in place between MEL and Midlothian Council and between MEL and VHUK which set out in further detail the activities the parties have agreed to perform under the Shareholders Agreement.

## Summary of findings & recommendations

The following key findings and recommendations are highlighted, which have been agreed by Management:

- Whilst the Business Plan is reported annually and includes a lot of relevant information on MEL's activities, many of the financial reporting aspects detailed as requirements in the Shareholders Agreement were not being reported. *Management will include all the requirements detailed in the Shareholders Agreement in future annual Business Plans, reported to the Audit Committee with Annual Accounts by March 2025.*
- Although financial information extracts are being regularly provided to MEL's Finance Committee, full management accounts, as required by the Shareholders Agreement, are not being provided. *Management will develop processes to provide full management accounts to the Finance Committee going forward by 31 March 2025*

- There is no separate risk register for approved projects or an overall MEL risk register within the MEL SharePoint directory. Additionally, there is no separate MEL Risk Management Policy. *Management will enhance MEL's risk management processes by 31 March 2025.*
- An appropriate risk assessment procedure is not in place to determine whether an initial project proposal or business case that requires no capital funding from the Council should be brought to members for approval due to the inherent risks of the project. *Management will develop an appropriate risk assessment procedure by 31 March 2025.*
- Midlothian's approach to recharging officer time is inconsistent with 1 Midlothian Director fully recharging all of their time, and the other not recharging any of their time. *Management will develop a consistent approach for the recharge of officer time to MEL by 31 March 2025.*

### Recommendation Summary

Recommendations Grade	High	Medium	Low	Total
Current Report	-	2	4	6
Prior Report (N/A)	-	-	-	-

### Materiality

Midlothian Council Total Contribution to MEL – £10.2m

Vattenfall Heat UK Total Contribution to MEL – £10.2m

Low Carbon Infrastructure Transition Programme Funding – £7.3m

# Headlines

Objectives	Conclusion	Comments
<p>1. Effective, accountable and appropriate governance structures are in place between the Council, Vattenfall and Midlothian Energy.</p>	<p><b>Reasonable Assurance</b></p>	<p>The Shareholders Agreement and other supporting agreements have provided an appropriate framework for MEL to operate. Additionally, appropriate internal governance structures have been established which include the Board of Directors, Finance Committee, Project Origination Committee and Project Committee with relevant Terms of References in place. A central register was not in place for MEL directors to log declared conflicts of interest; this issue was addressed during the review. Whilst the Business Plan is reported annually, many of the financial reporting aspects detailed as requirements in the Shareholders Agreement were not being reported.</p>
<p>2. Processes are in place to ensure that all parties are complying with the approved agreements and governance arrangements</p>	<p><b>Reasonable Assurance</b></p>	<p>As per the agreement, two Midlothian officers are in place as MEL directors, but it was noted that the recharging of officer time is inconsistent resulting in a small financial loss to the Council. Regular and comprehensive progress updates are provided on MEL's activities and reported via MEL's committees. The meetings are well attended, and the discussion and actions are logged in minutes and an action tracker. VHUK have assigned a company secretary to MEL to help ensure compliance with the approved agreements. Although financial information is being provided, full quarterly management accounts were not being provided as required.</p>
<p>3. Appropriate monitoring and assurance arrangements are in place and key risks, both financial and operational, are being identified, managed and transparently reported</p>	<p><b>Reasonable Assurance</b></p>	<p>Project risks are reported via the management information slide-pack provided by VHUK each month and MEL risks are reported annually in the Business Plan submitted to Council. MEL's liquidity is monitored via the Finance Committee and informed by MEL's financial modelling. Processes are in place for any project requiring equity funding to be approved by Council with a supporting Business Case. However, there are no separate MEL risk registers for approved projects or an overall MEL risk register within the MEL SharePoint directory, and there is no approved MEL risk management policy. Additionally, there is a need to clarify Council risk assessment procedures for the approval of MEL projects requiring no equity funding.</p>
<p>4. Progress on the delivery of outcomes are reported and appropriately reviewed, including information on the timescales for the delivery of Midlothian Energy Projects and the Council's financial commitments</p>	<p><b>Reasonable Assurance</b></p>	<p>Council receives a detailed update on the progress made with MEL towards the company's objectives via an annual members' briefing and the presentation of the annual business plan. MEL directors and relevant officers attend regular meetings via the MEL committees and updates are provided as part of the monthly slide-pack provided by VHUK. The Finance Committee is attended by the Council's Chief Financial Officer (s95 officer) and another accountant within the Financial Services Team and updates are provided on MEL's financial commitments, liquidity, and project costs. MEL are planning on publishing more public facing information to promote the company; no recommendation has been made on this as this work is already underway.</p>

## Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	The various agreements established between the Council, Vattenfall and MEL provide a strong basis for a governance framework and the majority of the requirements are being followed.
2.	Appropriate governance frameworks have been established via various MEL committees. These committees are well attended, receive appropriate information, relevant business is discussed, and decisions and actions are well documented.
3.	MEL is actively working towards expanding their heat network in line with the company's objectives and regular updates are received on progress made each month.
4.	Guidance has been drafted by the Council's legal advisors on the roles and responsibilities of directors, including rules on declaration of conflicts of interest, and provided to both Midlothian directors. VHUK directors have been provided with their own guidance.
5	Members are receiving relevant annual updates via the members' briefing and annual report.

# Executive Summary: Attainment Scotland Funding

## Conclusion: Reasonable Assurance

Reasonable processes have been established to support the governance, monitoring and utilisation of Attainment Scotland Funding (made up of Pupil Equity, Strategic Equity and Care Experienced Children and Young People Funding) in line with Council procedures and National Operational Guidance for each type of funding. However, weaknesses were noted with the procedures and monitoring arrangements for School Funds. In addition, some issues were identified in the application of the Council's procurement processes for PEF and CECYP expenditure.

## Background

Funding is distributed from the Scottish Government to local authorities through Pupil Equity Funding (PEF), Strategic Equity Funding (SEF), and Care Experienced Children and Young People Funding (CECYP). Funding received by Midlothian Council is monitored and evaluated via the Excellence and Equity Board chaired by the Education Chief Operating Officer and attended by relevant management. Information provided by the Quality Improvement Manager shows that the attainment gap has narrowed in Midlothian for S3 level pupils and for attainment of SCQF level 5 and 6 qualifications but appears to have recently widened for primary level pupils. Work is underway to establish the reasoning behind this and further improve the quality of information provided to teachers and the Excellence and Equity Board. Midlothian Council fully allocates PEF to schools without allocating any percentage of the total funding to support the administration of the scheme as some other authorities do.

## Summary of findings and recommendations

The following key findings and recommendations are highlighted, which have all been agreed by Management:

- Since the Covid Pandemic, schools have not been providing an audit report of their school fund each year to appropriate officers. *Management will annually request these reports and check for compliance by March 2025.*
- Transfers from PEF budgets to school funds have significantly increased over the past 3 years from £3,381 in 2021/22 to £74,576 in 2023/24. The majority of the increase is due to the implementation of the 'Cost of the School Day' project, involving some schools establishing Hardship Funds within their school fund or widening the access of school trips to families that would otherwise not be able to pay both funded by PEF. Processes have not yet been established for schools to formally report on their respective Hardship Fund spend funded through PEF. *Management will update the Guidelines and improve the monitoring arrangements over PEF transferred to School Funds by 31 March 2025.*
- Although a Service Level Agreement (SLA) is in place for play therapy for Early Years, no SLA is in place for PEF spend. Play therapy PEF spend was £258,350 between 2021/22 and 2023/24. A Non-Competitive Action Form (NCA) was completed, but it expired in June 2022. In addition, some spend over the procurement threshold of £5,000 was made by schools using PEF without submission of a Procurement form. *Management will authorise an NCA, agree an SLA with the supplier and increase their monitoring of PEF procurement by 31 March 2025.*
- The CECYP fund utilises an art therapy supplier to support its annual programme. At the time of review, an SLA was not in place with the supplier and an NCA form had not been submitted to Procurement; the spend is £42,000 per annum. *Management will arrange for an NCA to be authorised, and an SLA agreed with the supplier by 31 March 2025.*

**Recommendation Summary** (NB – the Prior Report only covered Pupil Equity Funding)

Recommendations Grade	High	Medium	Low	Total
Current Report	-	4	5	9
Prior Report (2019)	1	3	1	5

## Materiality

2023/24 allocations of Attainment Scotland Funding are as follows:

- Pupil Equity Funding - £2,423,905
- Strategic Equity Funding - £346,266
- Care Experienced Children and Young People - £150,675

# Headlines

Objectives	Conclusion	Comments
<p>1. Adequate financial control, business administrative procedures, budgetary and monitoring arrangements are in place.</p>	<p><b>Reasonable Assurance</b></p>	<p>Reasonable processes are in place within Financial Services to provide budgetary monitoring for Attainment Scotland Funding. Schools are provided with regular monitoring information of their PEF spend as are relevant service managers for the CECYP and Strategic Equity Funding. Some limited examples were seen of generic office administrative expenditure going through PEF budgets. There are no written procedures outlining the arrangements for the monitoring of PEF funds and although a monitoring spreadsheet tracking when schools were met with and when monitoring is issued is in place, no formal minute is taken of these meetings.</p>
<p>2. Appropriate governance arrangements and planning processes are in place to ensure effective utilisation of the funding including compliance with relevant Council procedures.</p>	<p><b>Reasonable Assurance</b></p>	<p>The strategic evaluation of all Attainment Scotland Funding is monitored via the Excellence and Equity Board. The board is relatively new (first met in March 2024) and appears to be operating well in line with the board's Terms of Reference. Detailed reporting on attainment and attendance is submitted to the board and the board has representation from all relevant senior managers. Quality Improvement Managers and the Scottish Government's attainment advisor support schools in developing their PEF plans and provide schools with templates to document these. PEF had a significant underspend of £1.763m in March 2022, but including committed expenditure for the 2024 summer term, the carried forward budget is anticipated to be fully utilised by almost all schools. Issues were identified with the monitoring of School Funds which need to be addressed. Some non-compliance with the Council's Procurement Regulations was noted.</p>
<p>3. Adequate management performance reporting and evaluation measures are in place including engagement with stakeholders, communication of plans, and monitoring of outcomes in line with the National Operational Guidance.</p>	<p><b>Reasonable Assurance</b></p>	<p>The Quality Improvement Manager has provided a final drawdown report for the previous team funded by the CECYP funding; the previous team had a Children's Services focus. An Education Support Officer has been in place since January 2024 and a detailed plan for CECYP has been created to support the revised approach including improving data on care experienced young people, establishing 'Promise Leads' at all schools and improving support for leavers. A detailed annual evaluation has been prepared for the Family Wellbeing Service. As it is a new team, there is only 1 report thus far. The report identified the need to improve the quality of data, in particular in relation to attendance, and measures have been put in place to address this. Schools carry out an evaluation of the impact of PEF within their Standards Quality Improvement Plan. Excellence and Equity (E&amp;E) Workbooks have been created to allow schools to effectively document and monitor their plan, but improvements are required to ensure that the evaluations are completed comprehensively by all schools (no schools from sample of 11 fully completed this in 2022/23, however this was the first year of this revised format). The Quality Improvement Managers provide quarterly PEF updates to the E&amp;E Board.</p>

## Areas where expected controls are met/good practice

No.	Areas of Positive Assurance
1.	<p>Appropriate financial monitoring information is provided regularly to schools and managers. Relevant Cost Centres and Expense Heads have been established to ensure budgets are monitored as required. A separate cost centre has been established for each school's PEF budget to allow it to be easily monitored and ensure it is distinct from other devolved budgets. Allocated budgets were agreed to the grant documentation received from the Scottish Government.</p>
2.	<p>The strategic evaluation of all Attainment Scotland Funding is monitored via the Excellence and Equity Board chaired by the Education Chief Operating Officer. Although the board is relatively new, it appears to be operating well, has appropriate representation and is receiving appropriate monitoring information on all aspects of Attainment Scotland Funding.</p> <p>CECYP and Strategic Equity Funding have been appropriately allocated to be utilised by the Council in line with the aims of the funding.</p> <p>Schools have worked with Financial Services, Quality Improvement Managers and the Scottish Government's Attainment Advisor to develop plans for their PEF budgets. The historic issue of an underspend in PEF being brought forward each year has been addressed by Midlothian's schools.</p>
3.	<p>An appropriate framework has been provided to allow Midlothian's schools to evaluate the effectiveness of their PEF interventions. Support is provided by the Quality Improvement Managers and the Scottish Government's Attainment Advisor. Relevant information is provided to schools regarding their current attainment gap compared to prior years and work is underway to further improve the information provided to schools using Google Data Studio and Looker Studio. Schools are carrying out various Stakeholder Consultations on their use of PEF as noted in their SQIPs.</p> <p>Appropriate and recent evaluation reports have been prepared for the Family Wellbeing Service and the CECYP Funding. Plans have been prepared for both of these to further improve processes, evaluation measures and monitoring of outcomes. From the reports received, these areas appear to be complying with the relevant National Operational Guidance.</p>
4	<p>The PEF Workbooks have been updated to Excellence and Equity Workbooks which will allow for more detailed analysis of PEF plans if completed appropriately. There is an expectation that all schools will complete updates for three tracking periods; this is being monitored by the Quality Improvement Team. An annual evaluation of PEF is included in the Education Service plan - Standards and Quality section.</p>

# Recommendation Grading/Overall Opinion Definitions

Recommendation	Definition
<b>High</b>	Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.
Levels of Assurance	Definition
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.