

# Notice of Meeting and Agenda



## Audit Committee

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

**Date:** Monday, 26 June 2023

**Time:** 11:00

**Executive Director : Place**

**Contact:**

Clerk Name: Democratic Services  
Clerk Telephone:  
Clerk Email: [democratic.services@midlothian.gov.uk](mailto:democratic.services@midlothian.gov.uk)

**Further Information:**

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## **1 Welcome, Introductions and Apologies**

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## **2 Order of Business**

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

## **3 Declaration of Interest**

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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**

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**4.1** 4.1 Minute 7 March 2023 5 - 10

**4.2** 4.2 Audit Committee Action Log 11 - 12

## **5 Public Reports**

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**5.1** 5.1 Counter Fraud Annual Report 2022/23, Report by Chief Internal Auditor 13 - 22

**5.2** 5.2 Internal Audit Work to May 2023, Report by Chief Internal Auditor 23 - 36

**5.3** 5.3 Internal Audit Annual Assurance Report 2022/23, Report by Chief Internal Auditor 37 - 48

**5.4** 5.4 Draft Annual Governance Statement 2022/23, Report by Chief Executive 49 - 60

**5.5** 5.5 Unaudited Annual Accounts 2022-23, Report by Chief Finance Officer (Acting) to follow 61 - 62

**5.6** 5.6 Annual Treasury Management Report 2022/23, Report by Chief Finance Officer (Acting) 63 - 94

**5.7** 5.7 Treasury Management and Investment Strategy 2023/24 – Credit Risk Update, Report by Chief Finance Officer (Acting) 95 - 102

**5.8** 5.8 Midlothian Council Annual Audit Plan, Report by Executive Director Place 103 - 124

**5.9** 5.9 Risk management Update – Strategic Risk Profile Quarter 4 2022/23, Report by Chief Officer Place 125 - 166

## **6 Private Reports**

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No items for discussion

## **7 Date of Next Meeting**

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The next meeting will be held on Tuesday 26th September 2023.



# Minute of Meeting



## Audit Committee

Date	Time	Venue
Tuesday 7 March 2023	11:00am	Council Chamber Midlothian House, Buccleuch Street, Dalkeith

### Present:

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

### In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children, Young People & Partnerships,
David Gladwin	Acting Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Elaine Greaves	Principal Internal Auditor
Alan Turpie	Legal and Governance Manager / Monitoring Officer
Andrew Henderson	Democratic Services Officer

## 1. Welcome and Apologies for Absence

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The Chair took the opportunity to welcome those in attendance to the meeting.

## 2. Order of Business

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The order of business was as detailed in the agenda.

## 3. Declarations of interest

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

## 4. Minutes of Previous Meetings

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4.1 The minute of the meeting of 06 December 2022 was submitted and approved as correct record, moved by Councillor McEwan and seconded by Councillor Scott.

4.2 The Action log was submitted and noted.

With regard to action point 1, David Gladwin acknowledged that treasury management was an emerging issue for Environmental, social, and corporate governance (ESG) and that the sector was working through the details. With regard to a timescale, David Gladwin outlined that it would be beneficial to link the topic in with the general treasury update noting the implications of putting in a new strategy based on the ESG factors and anticipated that the sector would be able to have a discussion over the summer months. David Gladwin confirmed that with regard to the current procedure the 22/23 strategy outlined what could be done in terms of treasury management and confirmed that link provided advice in relation to all counterparties.

Members then took the opportunity to thank the Chief Executive for circulating the National Records of Scotland data.

## 5. Public Reports

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Report No.	Report Title	Submitted by:
5.1	Internal Audit Work to February 2023	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
A brief summary of the report was provided with reference being made to recent work that had been conducted by internal audit with an overview of Internal Audit recommendations and findings being provided. A further overview of the executive summary in relation to the Audit assurance reports was also provided, in addition to details regarding the Chief Internal Auditors Opinion regarding the adequacy of control environment and governance arrangements within each audit area.		

In responding to questions, Duncan Stainbank clarified that with regard to unsigned Service Agreements, this was solely due to the lack of a formal signature and that service level agreements had been completed.

A discussion ensued in relation to the inclusion of Arms Length and External Organisations (ALEOs) and it was established that whilst Midlothian is a shareholder in external organisations such as Lothian Buses and has a joint account with Midlothian Energy Limited, that Midlothian Council did not have any ALEO's. It was agreed that clarification on this point would be sought after the meeting.

There was further discussion in relation to the procedure for grant application panels with members expressing concern regarding the fact that applicants were only required to leave the discussion when their application was being discussed, which Fiona Robertson outlined that there was a compact agreement regarding panels with third sector organisations that determined the requirements and that she was working with the Communities Team to assess how this could be taken forward and agreed to report back at a future meeting.

#### Decision

- a) Derek Oliver agreed to bring a report following up audit actions in relation to building maintenance services in future.
- b) Clarification to be provided clarifying information on ALEOs;
- c) Fiona Robertson to report back with regard to options in relation grant application scoring/assessment panels.
- d) Audit Committee noted the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2022/23 to the end December 2022; and
- e) Confirmed it's satisfaction with the performance of the Internal Audit service provision.

#### Action

- a) Derek Oliver;
- b) Duncan Stainbank
- c) Fiona Robertson
- d) All to note
- e) All to note

Report No.	Report Title	Submitted by:
5.2	Counter Fraud Annual Plan 2023/24	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>In speaking to the report Duncan Stainbank provided a brief overview of the Counter Fraud Annual Plan 2023/24 making reference to the importance of having robust fraud prevention and investigation arrangements and the need to ensure preventative practices associated with the Counter Fraud Strategy as approved by Council in August 2020.</p> <p>A brief discussion ensued in relation to whistleblowing in which members took the opportunity to express concern in relation to the lack of feedback received by whistleblowers following the conclusion of investigations. Duncan Stainbank clarified that work was being undertaken to review the whistleblowing policy, acknowledging that East Lothian's policy included provision for feedback where</p>		

legally possible and where status of anonymity allowed. Duncan Stainbank confirmed that a draft would be ready by May.

In response to comments regarding major corporate fraud, Kevin Anderson confirmed that lessons had been learnt from the SEPA exercise and that resource had been added to address the regular occurrence of cyber-attacks. It was agreed that outcomes would be reported at a later date and that a session would be held as part of the future audit committee.

#### Decision

- a) Audit Committee agreed that a session on outcomes of the SEPA exercise would be brought to the next meeting of Audit Committee.
- b) Audit Committee approved the Counter Fraud Annual Plan as appended to the report.

Report No.	Report Title	Submitted by:
5.3	Internal Audit Charter Report by Chief Internal Auditor	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>Duncan Stainbank provided a brief overview of the internal audit charter as appended to the report and confirmed that the Midlothian Council's internal audit charter has been updated to conform to the public sector internal audit standards. Officers then took the opportunity to respond to points of clarity.</p> <p>A discussion ensued in relation to the audit mechanisms for the MIJB. Morag Barrow clarified that the MIJB follows both Council and NHS and that audits conducted by the IJB are contained within the functions of the IJB. Duncan Stainbank outlined that the remits for each are set out in the strategic directions and councils approved guidelines.</p>		
<b>Decision</b>		
<ul style="list-style-type: none"> <li>a) Audit Committee noted the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with Public Sector Internal Audit Standards;</li> <li>b) Approved the revised Internal Audit Charter shown at Appendix 1; and</li> <li>c) Noted that the Internal Audit Charter will be reviewed annually.</li> </ul>		

Report No.	Report Title	Submitted by:
5.4	Internal Audit Strategy and Annual Plan 2022/23 Report by Chief Internal Auditor	Chief Internal Auditor
<b>Outline of report and summary of discussion</b>		
<p>Duncan Stainbank provided an overview of the Counter Fraud Annual Plan 2023/24 as appended to the report and outlined that approval would allow for the</p>		



writing of the annual opinions due for submission later in the year. Duncan Stainbank then took the opportunity to respond to members questions.

With regard to the Internal Audit Teams' capacity to respond to requests, Duncan Stainbank confirmed 20 days for contingency and help desk tasks, and that if further resources are required a request can be submitted to the Chief Executive. Duncan Stainbank highlighted that, if required, this timescale could be reduced but that a report might be required outlining the possible removal of an item from the audit plan.

#### Decision

Audit Committee agreed;

- a) Noted the changes to the Internal Audit Strategy outlined in section 4 of this report;
- b) Noted the outline of the Internal Audit planning process outlined in section 5 of this report;
- c) Approved the Internal Audit Strategy (Appendix 1); and
- d) Approved the Internal Audit Annual Plan 2023/24 (Appendix 2).

## 6. Private Reports

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None

## 7. Date of Next Meeting

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Date of Next Meeting: Tuesday 25 April 2023 at 11am.

The meeting terminated at 11:46am



# Action Log

Audit Committee  
26 June 2023  
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	<b>Responsible treasury management</b>	06/12/2022	Session with members to be organised with regard to Responsible treasury management/ethical issues.	Acting Chief Financial Officer	Ongoing	Carry forward, paper coming forward regarding CSG and ethical depositing coming later in the year.
2	<b>Internal Audit Mid-Term Performance Report 2022/23</b>	07/02/2023	Derek Oliver to submit a report to Audit Committee following up on audit actions for Building Maintenance Services.	Chief Officer Place	Ongoing	Report will be presented to a future Audit Committee.
3	<b>Internal Audit Work to February 2023</b>	07/03/2023	Clarification to be provided on ALEOs.	Chief Internal Auditor	25/04/2023	
4	<b>Internal Audit Work to February 2023</b>	07/03/2023	Fiona Robertson to report back with regard to options in relation grant application assessment/scoring panels.	Executive Director Children, Young People & Partnerships	Ongoing	



**Counter Fraud Annual Report 2022/23****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2023 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2022/23.

**2 Purpose of Report/Executive Summary**

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

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

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

**Date 18 May 2023**

**Report Contact:**

Duncan Stainbank

[duncan.stainbank@midlothian.gov.uk](mailto:duncan.stainbank@midlothian.gov.uk)

### 3 Background

- 3.1** The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft, corruption and crime. Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.2** The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy in 2020. Specific changes associated with the refreshed Counter Fraud Strategy include: 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.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with management. The Integrity Group is an officer forum which has representatives from across the Council's Services to support management to fulfil their responsibilities in tackling fraud, and it is chaired by the Executive Director Place. The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). It oversees the policy framework, agrees and monitors the implementation of improvement actions, raises awareness as a method of prevention, and performs self-assessments against best practice.
- 3.4** Internal Audit is required to give independent assurance on the efficacy of processes put in place by management to manage the risk of fraud. The 2022/23 Internal Audit Annual plan included an audit of the Council's Counter Fraud Controls and Whistleblowing Arrangements. The findings from the audit were: *the level of assurance over the Council's Counter Fraud controls, policies and whistleblowing arrangements is substantial. The Anti-Bribery Policy requires to be reviewed and updated (if required) and the update of the Whistleblowing Policy should be concluded. In addition, the Council's website should be updated to include all relevant counter fraud policies and ensure the most recent versions have been uploaded.*
- 3.5** Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.
- 3.6** Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.

## **4 Counter Fraud Activity during 2022/23**

- 4.1** The Counter Fraud Annual Plan 2022/23, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 14 March 2022. All elements of the Counter Fraud planned work were carried out, relating to activity at a high level as follows:
- a) Contract Management
  - b) Corporate Fraud Enquiries
  - c) National Fraud Initiative
  - d) Social Housing
  - e) Council Tax
  - f) Corporate Fraud Policy Framework
  - g) Fraud Risk Assessments
  - h) Fraud Awareness Training
  - i) Integrity Group
- 4.2** As specialist investigators, the Corporate Fraud Officers have conducted significant and comprehensive work in respect of Contract Management, liaised with Police Scotland as required, and recommended improvements to reduce risks. Regular meetings have been held with the Chief Internal Auditor, Principal Internal Auditor and Chief Procurement Officer (when in post) to foster collaborative working on fraud risks and counter fraud controls over the Council's end-to-end procurement and contract management processes and procedures.
- 4.3** The Corporate Fraud Team has dealt with 66 enquiries including 13 from the Midlothian Council website page "Report a possible crime, fraud or similar concern" which is available to employees or the public for whistleblowing purposes. Fraud Response Group meetings have been held to share concerns and progress actions with relevant Management.
- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2022/2023 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Principal Internal Auditor acts as the Council's Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date with input from relevant Services across the Council. Outcomes from the previous exercise (2020/22) that haven't previously been reported (they were concluded after the last reported figures) are detailed in Appendix 2.
- 4.5** The Corporate Fraud Team has received referrals from Housing Officers during the year to investigate potential subletting or abandonment of Council owned properties; 26 allegations of potential tenancy fraud were investigated.
- 4.6** The Corporate Fraud Team responded to 12 notifications of alleged fraud associated with Council Tax Discounts and Exemptions during the year to determine whether these discounts and exemptions are

claimed legitimately, including Council Tax Reduction Scheme (CTRS) and Single Person Discount (SPD).

- 4.7** It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection.
- 4.8** The Corporate Fraud Officers are members of the Scottish Local Authority Investigators Group (SLAIG) to represent Midlothian Council. They join SLAIG's quarterly virtual meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring their knowledge of emerging fraud risks and issues is up to date. Any insights on fraud risk assessments are shared on a regular basis with the Integrity Group. The Corporate Fraud Officers liaise throughout the year with the Internal Audit Team to provide their view on the potential fraud risk aspects of areas under review.
- 4.11** The Integrity Group held 3 meetings during the year 2022/23 to undertake its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and has representatives from HR, Finance, Legal, IT, Procurement, Internal Audit and Corporate Fraud.

## **5 Outcomes of Counter Fraud Activity 2022/23**

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of counter fraud activity a total savings value of £360,070 has been identified during 2022/23. The types of referrals and the outcomes are summarised in the table in Appendix 1, with details provided below.
- 5.2** As a result of the collaboration between Housing Officers and the Corporate Fraud Team, 3 of the 26 allegations of potential tenancy fraud that were investigated resulted in the return of a property to the Council's housing stock, which were subsequently made available to those in genuine need of social housing. For each of the properties identified the calculation, according to Audit Scotland guidance, is £93k over 4 years, thus resulting in a saving of £279k.
- 5.3** 1 referral associated with Council Tax Discounts and Exemptions relating to undeclared persons residing in the property, were investigated and subsequently resulted in the removal of Council Tax Single Person Discount, CTRS and Universal Credit being stopped (£7,596).
- 5.4** Outcomes of the Council's continuing participation in the National Fraud Initiative for 2020/21 that were not reported previously (due to timing of the report) were £38,367. This resulted in a total outcome of £718,557 for the 2020/21 exercise. These outcomes are detailed in Appendix 2. Analysis of the matches for the 2022/23 NFI exercise has commenced and outcomes will be reported later in the year.



- 5.5** In conclusion, the Corporate Fraud Team in collaboration with other Services have been successful in delivering the range of activity set out in the Counter Fraud Annual Plan 2022/23 to support the Council's objectives. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes.

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

### **6.1 Resource**

The Integrity Group will support Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention.

The staff resource set out in the Counter Fraud Annual Plan 2022/23 relates to 2 Corporate Fraud Officers, plus some management and supervision provided by the Principal Internal Auditor and the Chief Internal Auditor. The Corporate Fraud Officers collaborate with other managers and employees across the Council to carry out the activity, and support the Integrity Group.

### **6.2 Digital**

None.

### **6.3 Risk**

The size and nature of the Council's services puts the Council at risk of loss due to fraud, theft, corruption and crime.

The Counter Fraud Policy 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 during 2022/23 in collaboration with other services is aligned to the Policy and Strategy.

### **6.4 Ensuring Equalities**

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

### **6.5 Additional Report Implications (See Appendix A)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

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

### A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

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

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

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

### **A.4 Delivering Best Value**

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

### **A.5 Involving Communities and Other Stakeholders**

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has is being utilised by employees, 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 work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

### **A.7 Adopting a Preventative Approach**

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

### **A.8 Supporting Sustainable Development**

None.

## Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2022/23

Type of Referral	No. of Referrals	Web	Phone	Email / letter	No. with Potential Fraud Detected	£ Fraud Detected	Comments
Corporate Fraud (Internal)	15	1	6	8	2	£73,474	Investigations undertaken in response to referrals from various sources. 2 Investigation reports submitted to Senior Management recommending disciplinary action and/or other action to be taken as appropriate. Currently 1 criminal case from a previous year is with Police Scotland Economic Crime Unit and has been reported to the Procurator Fiscal.  This figure relates to monies recovered to date from the Insurers as a result of the Roads Investigation.
Housing Tenancy Fraud	26	7		19	3	£279,000	26 referrals resulting in investigations which recovered 3 Council houses, which were returned to the available housing stock. Value for each property calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance (£93,000 over 4 years each).
Council Tax Discounts & Exemptions, CTRS / SPD / DWP Benefits	12			12	1	£7,596	Investigation relating to undeclared persons residing in the property, subsequently resulting in removal of Council Tax single person's discount, CTRS & Universal Credit being stopped (overpayment calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance).
DPA/SOCG enquiries	7	1		6			1 Referral submitted to DWP SFIS to investigate further and 6 enquiries received from Police Scotland.
Other	6	4	1	1			Investigations resulting in referrals being submitted to external partners and internal services including City of Edinburgh Council, Trading Standards and Economic Development.
<b>Total</b>	<b>66</b>	<b>13</b>	<b>7</b>	<b>46</b>	<b>6</b>	<b>£360,070</b>	

**Appendix 2 – Total outcomes from Midlothian Council's participation in the National Fraud Initiative 2020/2021 exercise**

Type	No of Matches 2020/2021	No of matches reviewed	Fraud or Errors Detected	Outcome (overpayment)	Estimated Savings	Total Savings	Comments
Council Tax (SPD)	20		20	£26,267	£8,193	£34,460	Included 3 cases where CTRS was also reduced and 1 case where Housing Benefit was reduced, see below for overpayment and savings figures.
Housing Benefit	1		1	£3,056		£3,056	
Council Tax Reduction (CTRS)	3		3	£817	£34	£851	
<b>Savings</b>				<b>£30,140</b>	<b>£8,227</b>	<b>£38,367</b>	
<b>Savings reported in 2022</b>				<b>£173,752</b>	<b>£506,438</b>	<b>£680,190</b>	
<b>Total savings for 2020/21 NFI exercise</b>				<b>£203,892</b>	<b>£514,665</b>	<b>£718,557</b>	



**Internal Audit Work to May 2023****Report by Chief 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 associated with the delivery of the approved Internal Audit Annual Plan 2022/23;
- b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; 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 Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The Internal Audit function conforms to 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 8 June 2023****Report Contact:**

Duncan Stainbank

[duncan.stainbank@midlothian.gov.uk](mailto:duncan.stainbank@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 March to 31 May 2023 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 Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017), including the production of this report to communicate the results.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Care at Home
  - Construction Projects
  - Mental Health Services
- 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 Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

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.

#### Internal Audit Consultancy and Other Work

- 3.5** 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 Management Group, Chief Officers Risk & Resilience Group, Integrity 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 (Computer Audit Sub-group) and meetings; and
  - c) Monitored publication of Audit Scotland reports.



## Recommendations

- 3.6** 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:

<b>High:</b> 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.
<b>Medium:</b> 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.
<b>Low:</b> 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.

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

Recs Rating	2022/23 Number of Recs
High	0
Medium	10
Low	12
<b>Sub-total reported this period</b>	<b>22</b>
Previously reported	40
<b>Total</b>	<b>62</b>
Recommendations agreed with action plan	62
Not agreed; risk accepted	0
<b>Total</b>	<b>62</b>

## 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 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
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's 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.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Care at Home</p> <p>Category: Assurance – Risk Based</p> <p>Date issued: 16 February 2023 Draft 10 March 2023 Final</p> <p>Level of Assurance: Substantial for the governance arrangements, procurement, external provider monitoring, and some of the business continuity planning undertaken by the service.</p> <p>Limited for the ability to meet service demand, performance monitoring of the in-house service, training uptake and written procedures.</p>	<p>The purpose of the audit was to review the controls over the Care at Home service to ensure the Council is receiving value for money and adequate care is delivered. Midlothian Council is required under statute to provide care at home services to those who are assessed as being in need. This is provided by the Council's in-house Care at Home service and by contracted external providers. Referrals are assessed by the Resource Panel, given a priority rating, added to the care at home waiting list, and provided a package of care when possible. Demand for the service continues to be high and there is insufficient capacity to meet this level of demand. As at December 2022, the median wait time for the community waiting list was around 13 weeks and there were 480 clients on the waiting list.</p> <p>The in-house service provides around 1,500 hours of care each week and is delivered by 128 carers. The external Care at Home provision was retendered in 2021 and contracts were awarded to 3 providers. The contracts commenced in September 2021 and expire in August 2025 with the option to extend annually for a further 4 years. The contracts are split by geographical area with the 3 providers contracted to deliver 740, 1,680 and 1,565 hours of care per week. Additionally, clients can elect to use an alternative provider under the Self-Directed Support provisions (known as Option 2 agreements). There are currently 4 providers delivering Care at Home Personal Care under Option 2 Agreements totalling around 300 hours of care per week (excluding Physical and Learning Disabilities providers).</p> <p>Recruitment has continued to be challenging for both the in-house service and for external providers. 2 of the external providers struggled to deliver the full contracted hours in 2022 resulting in 1 provider reducing their weekly contracted hours. The Council is in discussion with the other provider and it has been reported that they are putting significant resource into recruiting more care staff; their contracted hours have not been changed at the time of reporting. The Council continues to advertise for Care Support Workers each month for the in-house service. Management are exploring the use of Care at Home agency providers via a Scotland Excel Framework to provide more capacity. Rotas for the in-house service are recorded within the CM2000 care management software. There is a Quality Assurance Officer post for the in-house provision to assist with monitoring, analysing and reporting on performance and service quality, however the post has been vacant for most of 2022 and there has been no cover for this role. A Quality Assurance Officer is in place to monitor the external Care at Home providers. The Procurement Team provide contract compliance support and monitor suppliers using Experian to check their financial health.</p>	0	2	6	Management have agreed the factual accuracy and findings of the report, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Care at Home (Cont'd)	<p>Internal Audit considers that the level of assurance is substantial for the governance arrangements, procurement, and external provider monitoring, and for some of the business continuity planning undertaken by the service. Assurance is limited for ability to meet service demand, performance monitoring of the in-house service, training uptake and written procedures. Management have advised that they are improving performance monitoring arrangements through development of a performance matrix reported to Senior Management. Overpayments were made to 2 providers (£176,289 to the 1,565 hours per week provider and £64,532 to the 740 hours per week provider) due to them not providing the full contracted hours yet continuing to invoice for the full contract amount. The overpayment has been recovered from the 740 hours per week provider and £94,734 is still outstanding from the 1,565 hours per week provider (as at 12/02/23). The overpayments occurred due to inadequate monitoring of the number of hours delivered against the number of hours invoiced. Management, supported by Financial Services, are now regularly monitoring the hours delivered by providers and are liaising with the provider to recover the outstanding overpayment. There are concerns over the financial status of the 1,565 hours per week provider which is being monitored by management.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Care at Home risks within the strategic risk register and the service risk register within the Pentana system should be regularly updated and consideration given to escalating the risk.(Low)</li> <li>• The review of the in-house Care at Home service should consider how the quality assurance and performance monitoring tasks could be made more resilient. (Low)</li> <li>• Written procedures should be implemented including how performance is measured. (Low)</li> <li>• Option 2 providers' rates should reflect the rate approved at the Finance and Performance Committee in June 2022. Relevant providers should be informed of the revised rate and the uplift backdated as required. (Low)</li> <li>• Data quality issues with provider monitoring information should be addressed. Quality assurance monitoring should be in place for all providers including SDS Option 2 providers. Audits undertaken by the service should include an assurance risk rating and priority of the action identified. (Low)</li> </ul>				

	<ul style="list-style-type: none"> <li>• A review of route efficiency and travel time should be undertaken and these should be regularly monitored in the CM2000 System. A process of review should be undertaken every time the ratio actual time to planned time drops below 70% to establish if further hours care could be provided or if care provision is not being adequately provided. Average travel time of greater than 20% should also be reviewed as required to maintain this at or below 20%. The ratio of actual time to planned time for some carers being below 70% should be reviewed and aim towards achieving an average travel time of 20% each week. (Medium)</li> <li>• Mileage claim forms should be authorised by management prior to submission to Employment and Reward. The policy for Care at Home employees living outwith the Midlothian boundary claiming mileage for journeys outwith the boundary should be clarified by management and enforced as required. Working papers should be amended to include walkers in a separate tab so the total mileage for the period can be easily reconciled to the CM2000 report extract. (Low)</li> </ul>				
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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Construction Projects</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 3 April 2023 Draft 9 May 2023 Final</p> <p>Level of Assurance: Substantial Assurance</p>	<p>Midlothian Council has a significant Capital Programme and as reported to the February 2023 Council has agreed a prioritisation methodology and a prioritisation review is underway using this approved methodology. The capital plan prioritisation process has not been reviewed as part of this audit; this audit focussed on the internal procedures in place within the Development Team to manage recent and current Midlothian Council tendered construction projects. The management of Construction Capital Projects is undertaken by the Development Team within the Place Directorate. The service has recently been restructured in response to the expansion of Midlothian's capital programme as additional capacity was needed to deliver the scale and complexity of the emerging projects.</p> <p>In June 2021, a refreshed governance framework was agreed with five programme Boards (Asset Management; Children &amp; Young People Estate; Housing, Regeneration and Development; and Transport, Energy and Infrastructure) and a Capital Plan Monitoring Group reporting to the CP&amp;AMB. The project governance outlines the roles and responsibilities for project management, the project stages and the key documents that need to be completed as part of the project's gateway process. Project updates, issues and risks are reported to the programme boards along with budget information, current project spend and projected project spend.</p> <p>Individual construction projects are managed by Senior Project Managers and Project Managers. Senior Project Managers act as the principal lead for complex multi-million pound projects and are responsible for the day to day management and effective implementation of projects. They manage reporting on projects to the relevant Programme Managers and communicate progress of project delivery. They monitor on site works and manage performance and deliverables of multi-professional in house / external project teams and specialist consultancies. The Development Team has an in-house Clerk of Works team of 5 FTE. Previously many of the Clerk of Works' tasks were contracted out for construction projects and there were only 2 FTE Clerk of Works officers. Management have advised that having an in-house team has provided more control over the Clerk of Works activities and greater assurance over the quality and safety of the work on construction sites.</p> <p>Internal Audit considers that the level of assurance is substantial over the Council's control framework to allow successful delivery of construction projects. There is a robust framework in place for capital projects to be planned, procured, managed, monitored and reported on. This was evidenced through a review of 9 capital projects at different stages of development along with review of relevant documentation and discussion with Project Managers.</p>	0	5	4	Management have agreed the factual accuracy and findings of the report, and agreed to implement the recommendations.



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Construction Projects (Cont'd)	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>The overarching project management procedures need to be updated and finalised. Appropriate thresholds should be developed and followed as to when an overarching project governance control document (such as a PDD and Project Brief) are required. Similarly appropriate requirements should be developed which state when customer satisfaction reports, post project reviews, and project issues logs and risk registers are required. (Low)</li> <li>Appropriate service risk registers should be established in the Pentana Performance System for the Development Team. (Low)</li> <li>Management should ensure that project documentation is complete and an appropriate audit trail is in place for all projects. Consideration should be given to implementing an email management solution as this would allow the service to have more assurance on the completeness of project files and correspondence with contractors. The planned, extended use of BIM360 may also help in this regard. (Low)</li> <li>A final cost report should be completed for all financially significant projects, the project issues section of the cost report completed, and all relevant projects above appropriate determined criteria receive a dashboard update up to completion of the final account. (Medium)</li> <li>Management should review the procurement findings from the audit sample and revise internal procurement procedures within the Development Team to address the identified risks. (Medium)</li> <li>Going forward, management should ensure Community Benefits are appropriately monitored using the Cenefits system wherever possible. Management should consider inclusion of Community Benefits for all relevant projects, including VEAT projects. (Medium)</li> <li>Management should ensure that all projects use the appropriate change management methodology and retain a copy of the digital authorisation of the change form either by email or a PDF screen print. (Low)</li> <li>Variations above a certain financial level, to be determined by the CP&amp;AMB, should require board or second officer approval.(Medium)</li> <li>A handover schedule should be completed for all significant construction projects to ensure all relevant steps have been completed. Additionally, confirmation should be saved in the directory of the snagging list and that all Clerks of Works issues have been addressed. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Mental Health Services</p> <p>Category: Assurance – Risk</p> <p>Date issued: 01 May 2023 Draft 07 June 2023 Final</p> <p>Level of Assurance: Substantial for budget monitoring and partnership working Limited for contract monitoring; and compliance with procurement regulations and the Council's FTPP policy</p>	<p>Mental health services are provided by the Midlothian Health and Social Care Partnership (HSCP) and third party suppliers including the third sector. Midlothian's HSCP works with partners through the Midlothian Health and Social Care Strategic Planning Group which oversees mental health and wellbeing in Midlothian including hospital services, community health, social care and third sector services. The internal provision provided includes supporting adults who have a diagnosed mental health problem and who are in need of social support or referral to other services. The demand on mental health services is high - 886 referrals were received from April 2022 to February 2023. In August 2022, the Mental Health and Resilience Service (MHARS) was launched. This a collaborative approach between the Midlothian HSCP and a third party supplier to improve access to care and support for residents of Midlothian who are experiencing crisis and/or distress with their mental health and/or mental wellbeing. Since launching in August 2022, MHARS has successfully supported 510 residents of Midlothian (as of February 2023).</p> <p>Within the Children, Young People and Partnerships Directorate, most mental health services are delivered through a four-tiered model of care, from early intervention and prevention through to a more specialist support. A range of support and interventions are provided including pastoral care in schools, learning assistants, support and youth workers, teachers and specialist resources such as social workers. Children and young people (0-18 years) are referred to Child and Adolescent Mental Health Services (CAMHS) if there are significant concerns about their mental health or wellbeing and when difficulties are impacting upon their day to day functioning.</p> <p>Currently there are workforce and recruitment challenges which includes Mental Health Officers and Social Workers.</p> <p>Internal Audit considers that the level of assurance is substantial for budget monitoring and partnership working. Assurance is limited for contract monitoring; and compliance with procurement regulations and the Council's FTPP policy. A small number of providers were not meeting their targets and payments had been made for services not provided (one payment recovered and one payment outstanding).</p>	0	3	2	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Mental Health Services (Cont'd)	<p>The Commissioning and Contracts Group (C&amp;CG) has an oversight of all Health and Social Care procurement in Midlothian however there is no C&amp;CG within the Children, Young People and Partnership Directorate. Due to a lack of resource within Procurement, the current C&amp;CG will include reviewing procurement within Children and Young People Partnership Directorate. Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Management should ensure that they are compliant with Following the Public Pound (FTPP) guidance: Service Level agreements (SLAs) should be in place and updated if there is a variation in the agreement; SLAs should be signed by an authorised signatory; risk assessments should be completed for large grants, and financial checks for large grants should be undertaken. Grant application forms should be updated to ensure compliance with relevant legislation (eg the Data Protection Act 2018, Freedom of Information Act 2002 and Subsidy Control Act 2022.) (Medium).</li> <li>• The Strategic Improvement Plan for Children and Young People (CYP) Mental Health and Wellbeing needs to be formally agreed and implemented. Improvements are required over performance information relating to providing wellbeing support service to children and young people and obtaining more data from partners. (Medium)</li> <li>• Service Level Agreements (SLAs) and contracts should be signed by an authorised signatory (Low)</li> <li>• Risk Registers should be reviewed and updated. (Low)</li> <li>• Monitoring of performance should be undertaken for all providers ensuring that all relevant performance templates are completed. The frequency of monitoring should be increased for higher value contracts. Contracts where providers are not meeting targets should be investigated and payments recovered for services not provided. The IPS service letter of agreement should be in place and this should be signed by an authorised signatory. (Medium)</li> </ul>				



## **Internal Audit Annual Assurance Report 2022/23**

### **Report by Chief Internal Auditor**

### **Report for Decision**

## **1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Internal Audit Annual Assurance Report 2022/23 (Appendix 1), and assurances contained therein; and
- b) Provide any commentary thereon, including any further actions required by Management.

## **2 Purpose of Report/Executive Summary**

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2023 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive, the Council's Chief Internal Auditor, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.

To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2022/23 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

**Date 9 June 2023**

### **Report Contact:**

Duncan Stainbank

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### **3 Background**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the organisation.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) 2017 require that:  
“The chief audit executive [MLC’s Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.  
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.  
The annual report must incorporate:
- the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 3.3 The Terms of Reference of the Midlothian Council Audit Committee states:
- The Audit Committee is a key component of Midlothian Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
  - The purpose of the Audit Committee is to provide independent assurance to Elected Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council’s governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees Internal and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

### **4. Internal Audit Annual Assurance Report 2022/23**

- 4.1 The Internal Audit Annual Assurance Report 2022/23 (Appendix 1) includes the Chief Internal Auditor’s independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provides details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).
- 4.2 The Internal Audit Annual Assurance Report 2022/23 provides assurances in relation to the Council’s corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and will be used to inform the Annual Governance Statement 2022/23.

## **5 Report Implications (Resource, Digital, Risk and Equalities)**

### **5.1 Resource**

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). The staff resource originally during 2022/23 was 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). In June 2022 the arrangement for a shared Chief Internal Auditor was terminated. For the majority of the 2022/23 year the resource was a Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). In January 2023 a shared service with East Lothian Council for a Chief Internal Auditor (0.5FTE) commenced, supplementary audit resources from Henderson Loggie LLP has been arranged to assist with completion of the 2022/23 Internal Audit Plan. Henderson Loggie have provided 3 draft reports form work completed between March 2023 and June 2023 which are with Council management for comment. Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan.

There is a commitment by Midlothian Council to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. Separate Plans and Reports are presented to the MIJB Audit and Risk Committee. The audit opinion based on work undertaken during the year to meet that commitment will be presented in a separate Annual Assurance Report to the MIJB Audit and Risk Committee and MIJB to fulfil that role.

Budget monitoring of the Service is discussed by the Chief Internal Auditor and the Principal Internal Auditor with the Financial Services Manager on a quarterly basis to address any budgetary pressures.

### **5.2 Digital**

There are no digital implications arising from this report.

### **5.3 Risk**

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The Chief Internal Auditor's opinion on the systems of internal control, risk management and governance is set out within section 2 of the Internal Audit Annual Assurance Report 2022/23 (Appendix 1).

Internal Audit provides assurance to the Corporate Management Team and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the Annual Plan.

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 during the year or outstanding from previous years.

Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

#### **5.4 Ensuring Equalities**

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or employees), 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. This includes compliance by those within the Internal Audit function with the Code of Ethics, set out in the PSIAS, and the Seven Principles of Public Life (the Nolan Principles), set out in the Employees' Code of Conduct. This is appropriate for the profession of Internal Audit, founded as it is on the trust placed in its independent and objective assurance about risk management, internal control and governance.

#### **5.5 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 learning outcomes; Reducing the gap in health outcomes; Reducing the gap in economic circumstances; and Reducing the impact of climate change), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve 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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's 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**

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's 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 have been advised to take into account the findings from Internal Audit work during the year when completing their internal control and governance assurance statements as part of the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2022/23.

#### **A.6 Impact on Performance and Outcomes**

The Findings and Recommendations from Internal Audit work during the year, which are designed to maintain and / or enhance internal controls, governance arrangements and risk management, assists the Council in improving its performance and outcomes.

#### **A.7 Adopting a Preventative Approach**

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

#### **A.8 Supporting Sustainable Development**

This report does not relate directly to supporting sustainable development. Good governance, including the provision of an Internal Audit service, is important to enable Midlothian Council to achieve its objectives.

## **Chief Internal Auditor's Annual Assurance Report and Opinion 2022/23 for Midlothian Council**

### **1 Introduction**

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line, 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.
- 1.3 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; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter:
- “Internal Audit's responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit Committee (the 'board' for the purposes of Internal Audit activity).
- Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.
- As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives”
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
- “The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
- the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 1.6 This Annual Assurance Report provides the annual internal audit opinion to fulfil the statutory role of Internal Audit and summarises the work carried out by Internal Audit during the year to 31 March 2023 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2022/23. The report also states the outcomes of assessments of the Internal Audit service against the PSIAS.

## **2 Opinion on the systems of Internal Control, Risk Management and Governance**

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, and risk management. Internal Audit Reviews throughout the year have provided substantial assurance against the majority of the areas reviewed, and whilst no High rated recommendations have been raised six of the reviews reported limited assurance in at least one area, being: PPP Schools Contract Management, Freedom of Information, Utilities: Energy and Water Consumption, Employability funded programmes, Care at Home, and Performance Management. Recommendations made are being implemented to improve the control environment in these areas.
- 2.2 The Council's Local Code of Corporate Governance, updated and approved by Council in March 2021, complies with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). This ensures that this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.3 The Financial Regulations (approved June 2022), and associated policies, procedures and guidelines have been reviewed, updated and developed, as appropriate, to reflect changes arising from organisation structures and systems, and address recommendations arising from Internal Audit findings.
- 2.4 The Internal Audit review of Risk Management November 2021 concluded: Substantial assurance in relation to Risk Management policy. A revised Risk Management Policy and Strategy was subsequently approved by Council in August 2022 and application of principles at Strategic level with the Corporate Management Team and Audit Committee receiving quarterly update reports from the Chief Officer Place on the most significant and emerging risks; Limited assurance in relation to provision of Risk training for Managers, inconsistent application of systematic risk management at Service operational level, and 2<sup>nd</sup> line monitoring for assurance purposes; and made recommendations which are designed to improve the application of the Risk Management framework consistently across the Council. Progress has been made and through recruitment of a new officer with responsibility for risk management further work is being completed to enhance the risk management process across the Council and ensure a training process is in place.
- 2.5 Whilst activity had commenced to strengthen the procurement function, with the appointment of a Chief Procurement Officer, this post became vacant during the year and remains vacant. Further improvements over the Council's procurement and contract management are required as there were examples of contracts not being retendered when the existing contract had expired, inappropriate use of Non Competitive Action forms, procurement resource constraints, and the contracts register being incomplete. On appointment of a new Chief Procurement Officer there will be a need to enhance internal controls within procurement processes and procedures to enable compliance with expected standards, and improve the integrity of the contracts register. Further work is required to fully implement recommendations made in previous years' audits to ensure there is a system in place to manage contracts, and resource to undertake contract monitoring to ensure that the controls are operating effectively, are sustainable and demonstrate delivery of value for money.

- 2.6 Further improvements in internal control, risk management and governance have been agreed by Management, as highlighted in Internal Audit reports and through recommendations made during the year or outstanding from previous years. It is important that Management continue to monitor and oversee the implementation of Internal Audit recommendations on a regular basis to demonstrate continuous improvement and to address identified risks.

### **3 Internal Audit Annual Plan 2022/23 Delivery**

- 3.1 The Internal Audit team continue to work from home, facilitated by the use of MS Teams and access to network drives and business applications. The team attend Council premises as necessary to obtain information or assurances as required. There has been no impairment to the independence or objectivity of the Internal Audit function arising from deployment to non-audit work or from consulting work during the year.
- 3.2 The revisions to the Internal Audit Annual Plan 2022/23 were approved by the Audit Committee. The following Audits have been removed from the 2022/23 Audit Plan in February 2023:
- Workforce Planning (Assurance-Risk) Delayed awaiting service staff appointments. (7 February 2023 - Internal Audit Mid-Term Performance Report 2022/23).
  - Health & Safety (Assurance - Risk) Delayed as external assessment of Health and Safety is being completed. (7 February 2023 - Internal Audit Mid-Term Performance Report 2022/23).
  - School Budgets Devolved School Management (Assurance - Risk) delayed until the 2023/24 audit plan as a result of the resource constraints within the year. (7 February 2023 - Internal Audit Mid-Term Performance Report 2022/23).
- 3.3 It is further noted that a review of Complaints (Assurance – Cyclical) has been removed from the Audit plan for 2022/23 awaiting the implementation of the new Granicus system. The Review of Justice Services that had been agreed in February 2023 to not be completed was included in place of this audit. Due to resourcing constraints audits of Children’s Residential and Day Services and Schools.
- 3.4 The range and breadth of Internal Audit work, which amounts to 89% completion of the revised Internal Audit Plan, performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance opinion.

#### **Cyclical Audits**

- 3.5 To provide assurance on the internal controls in place and perform testing of transactional data relating to service areas and systems selected from the Audit Universe on a cyclical basis within a 5-year period, reviews included (date reported to Audit Committee):
- Annual Assessment of Internal Controls and Governance (Continuous audit approach to follow-up on implementation of actions for Areas of Improvement set out in the Annual Governance Statement 2022/23. Annual evaluation against the Local Code of Corporate Governance to determine whether the arrangements are operating as described. Prepare this Annual Assurance Report forming the statutory opinion on the adequacy of the Council’s arrangements for risk management, governance and internal control.) – 26 June 2023.
  - PPP Schools Contract Management and payment mechanism (Review of 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 mechanism.) – 6 December 2022.

- Accounts Receivable - Sundry Debt (Review of controls in place to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable including review of VAT treatment.) – 7 February 2023.
- Construction projects / social housing programme (Review of the adequacy of the control framework established by management to allow successful delivery of Midlothian Council tendered construction projects including the Social Housing Programme.) – 26 June 2023.
- Counter Fraud and Whistleblowing arrangements (Review of the Council's Counter Fraud controls, including policies and whistleblowing arrangements.) – 29 June 2022.
- Freedom of Information (Review of the controls in place to ensure Freedom of Information and Environmental Information Regulation 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 .) – 6 December 2022.
- Street Lighting (Review of the controls over the installation of new lighting and the maintenance of existing lighting.) – 6 December 2022.
- Purchasing Cards (Review of the controls over the use of purchasing cards ensuring expenditure incurred is valid, appropriate and represents value for money.) Audit complete - draft report with management for review and will be reported September 2023.
- Utilities: Energy and Water Consumption (Review of the controls over the consumption of utilities ensuring utilisation is adequately controlled and represents value for money.) – 7 February 2023.

### **Risk Based Audits**

3.6 To provide assurance on the internal controls, risk management and governance arrangements associated with strategic and operational frameworks in place for the efficient and effective delivery of objectives, reviews included (date reported to Audit Committee):

- Employability funded programmes – (CLL review of employability funded programmes under the terms of the associated agreements to assess compliance with the requirements and delivery of outcomes.)– 7 February 2023.
- Criminal Justice (Review of the Social Work Justice Services arrangements, with a specific focus around financial controls and reporting (both internally within the Council and to external parties.) – Audit complete - draft report with management for review and will be reported September 2023.
- Systems Development, maintenance and support (Continual audit approach for the governance of the developing process for improvement in Systems Development, including the development of a programme management office including regular review with the Chief Digital Officer.) – 26 June 2023.
- Information Governance (to review the adequacy and effectiveness of controls and processes for information governance with a view to providing an opinion on the extent to which risks in this area are managed.) – Audit complete - draft report with management for review and will be reported September 2023.
- Financial Sustainability in Future Years (Continual audit approach covering the governance and financial management processes for budget setting and agree the Council's Blueprint/Strategic Plan, aligned to the Medium Term Financial Strategy, leading to a multi-year financial plan) – 26 June 2023.



- Care at Home (Review of the contract management arrangements over the care at home contract to ensure that the Council is receiving value for money.) – 26 June 2023.
- Performance Management & Performance Indicators (Testing of a sample of performance indicators to ensure that they are complete, accurate, based on current data and conform to the stipulated criteria.) – 7 February 2023.

### **Consultancy**

- 3.7 In its 'critical friend' role, Internal Audit provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, Capital Plan Management Group, Learning Estate Board, Information Management Group, and Cyber Defence Group.

### **Other Audit Work**

- 3.8 During the year, resources were deployed in undertaking the following other audit work in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter:

- PSIAS Self-Assessment (Undertook an annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS) and report its findings to Management and the Audit Committee).
- MLC Audit Committee Self-Assessment (Provided assistance to the Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance leading to a report to Council in June 2022, the current assessment will be completed later in 2023 to allow for a full year of operation of the new Committee and consideration against the revised 2022 CIPFA guidance).
- MLC Recommendation Follow-Up Reviews (Undertook two reviews. The first included a sample check of Audit Recommendations which are flagged as closed, to check that they have been effectively implemented and to ensure that the new controls had the desired effect on improving internal controls, risk management and governance; and the second assessed performance against closing Audit Recommendations by the agreed due date).
- Help Desk Enquiry System (Provided guidance and advice on request to Management and Staff on internal controls and governance).
- MLC Administration of Audit Scotland Reports (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).
- Risk Management and Integrity Groups (Attended the virtual forums and provided support in the form of relevant Internal Audit updates and advice to the Groups to fulfil their roles).
- MLC Boards / Committees (Prepared for and attended virtual Audit Committee meetings and other Boards/Committees as relevant).
- MLC Audit Planning for 2023/24 (Reviewed and updated the Internal Audit Charter and Internal Audit Strategy. Reviewed and extensively updated the Audit Universe to develop and consult on the proposed coverage within the Internal Audit Annual Plan for 2023/24).

### **Non MLC Work**

- 3.9 The MLC Internal Audit team has carried out assurance work during the year for the Midlothian Integration Joint Board (MIJB) based on a plan approved by the MIJB Audit and Risk Committee in March 2022. An annual assurance report, including audit opinion on the adequacy of the MIJB's arrangements for risk management, governance

and control of the delegated resources, will be presented to the MIJB Audit and Risk Committee and then to the MIJB in due course.

#### **4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan**

4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) include:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
- Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; Communicating the Acceptance of Risks).

4.2 The annual self-assessment 2022/23 of Internal Audit practices against the Standards, as required by the PSIAS, was carried out in March/April 2023 taking into account the progress with implementation of improvement actions arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Plan (QAIP).

4.3 The 2022/23 self-assessment has indicated Internal Audit 'Fully Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The following improvements arising from the 2021/22 self-assessment have been implemented during 2022/23:

(a) Develop a new Audit Consultancy Report template.
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(b) Develop a new template to ensure consistency in Audit Exit meetings.
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(c) Destroy paper audit files in line with retention policy.
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The following improvement actions arising from the 2022/23 self-assessment are being implemented within the audit team to apply the quality management system in 2023/24:

(1) Develop appropriate methodology to formally document service feedback.
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(2) Ensure usage of available training budget against key annual audit priorities.
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(3) Clearly link completed audit reviews to the Single Midlothian Plan.
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4.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To achieve this, an "EQA Peer Review Framework" was developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), with Midlothian Council's first EQA in March 2018 carried out by Highland Council. SLACIAG has refined its "EQA Peer Review Framework" based on lessons learned and a programme for the second phase has been finalised. Midlothian Council's EQA is expected to be carried out by East Renfrewshire Council during 2023, to meet the requirements.

**Duncan Stainbank Bsc (Hons) CPFA**  
**Chief Internal Auditor**  
**9 June 2023**



## **Draft Annual Governance Statement 2022/23**

### **Report by Chief Executive**

### **Report for Decision**

## **1 Recommendations**

The Audit Committee is asked to:

- a) Consider the details of the draft Annual Governance Statement 2022/23 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; and
- b) Approve that it be published in the Council's Statement of Accounts 2022/23, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process.

## **2 Purpose of Report/Executive Summary**

The purpose of this report is to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2022/23.

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

The Council's Local Code of Corporate Governance that was approved by Council on 23 March 2021 was used to assist with the annual assurance process 2022/23.

The draft Annual Governance Statement 2022/23, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.

**Date 9 June 2023**

### **Report Contact:**

Duncan Stainbank

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### **3 Background**

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

### **4 Annual Assurance Process 2022/23**

- 4.1** The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 4.2** The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. Its Terms of Reference includes 'To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances'.
- 4.3** The Internal Audit function undertook an assessment of the Local Code of Corporate Governance and identified areas of further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code.
- 4.4** Progress with implementation of actions regarding previously identified improvement areas of governance has also been evaluated.
- 4.5** The draft Annual Governance Statement 2022/23 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and Overall Opinion.
- 4.6** It is the Chief Executive's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.
- 4.7** The draft Annual Governance Statement 2022/23 is informed by the assessment of compliance against the Local Code, written assurance statements from the Executive Directors, Internal Audit annual opinion

and findings and recommendations, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

## **5 Report Implications (Resource, Digital, Risk and Equalities)**

### **5.1 Resource**

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

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

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

### **5.2 Digital**

There are no digital implications arising from this report.

### **5.3 Risk**

The review and update of the Local Code of Corporate Governance during 2022/23 ensures that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis. The draft Annual Governance Statement 2022/23 details areas where additional work would further enhance the internal control environment, or improve risk management and corporate governance arrangements.

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

### **5.4 Ensuring Equalities**

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

The application of equalities legislation within practices is set out in Midlothian Council's Local Code of Corporate Governance to demonstrate compliance of core principle of good governance "A.

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

## **5.5 Additional Report Implications (See Appendix A)**

### **APPENDIX A – Additional Report Implications**

#### **A.1 Key Priorities within the Single Midlothian Plan**

Good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council’s objectives as set out in the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change).

#### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is embedded in the Council’s Local Code of Corporate Governance to assist the Council in achieving its objectives.

#### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

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

#### **A.4 Delivering Best Value**

The overall aim of the CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’ (2016), on which Midlothian Council’s Local Code of Corporate Governance is framed, is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making;

and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

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

#### **A.5 Involving Communities and Other Stakeholders**

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

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

#### **A.6 Impact on Performance and Outcomes**

The annual self-assessment and the identification of improvement actions as evidenced through the draft Annual Governance Statement 2022/23 are designed to enhance the internal control environment, and risk management and corporate governance arrangements.

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

#### **A.7 Adopting a Preventative Approach**

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

#### **A.8 Supporting Sustainable Development**

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



## **Draft Annual Governance Statement 2022/23**

### **Introduction**

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2023, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

### **Scope of Responsibility**

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

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

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

### **Framework for Good Governance**

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

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

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), and was approved by Council in March 2021.



## **The Council's Governance Framework**

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

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

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

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

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

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

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

### **B. Ensuring openness and comprehensive stakeholder engagement**

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. When Council and Committee meetings are held using a virtual platform they are live-streamed to ensure public access, and recordings can be accessed from the Council's website.

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

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

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

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

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

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

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

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

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

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective



relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community including the achievement of 'social value' (community benefits) through service planning and commissioning.

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

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

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

The Elected Members Induction Programme took place following elections in May 2022 and is periodically supplemented by training events, seminars and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit.

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

The Council has overall responsibility for directing and controlling the organisation. The Cabinet is the principal decision-making committee of the Council. The Performance Review and Scrutiny Committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact.

The Council is refreshing its risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Acting Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations (updated in June 2022), regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

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

A Medium Term Financial Strategy was approved by Council in June 2019. The 2022/23 budget was approved by Council in February 2022. Given the significant fiscal challenges which lie ahead, work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £30 million for the Council over the next 5 years coupled with the current rate of inflation will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets.

The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. The Chief Officer Corporate Solutions identified six areas requiring improvement from his review of the CIPFA FM code. Actions identified included improving the resourcing of the Procurement team (Ongoing), updating the Council's Financial Regulations and Directives (Complete – approved at June 2022 Council), putting in place a multi-year financial plan (Ongoing – action relevant to two sections of the FM Code), improving the Council's approach to lessons learned from completed projects (Ongoing), and improving the Council's risk management arrangements (Ongoing). No further Committee update has been provided within the 2022/23 financial year.

Revenue and Capital Budget Monitoring reports are presented to the Council on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2022/23. This is based on work carried out by an in-house team, with supplementary support from an outsourced partner, including shared services resources (from January to June 2023), in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

The Annual Accounts and Report sets out the financial position in accordance with relevant accounting regulations.

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

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out, taking into account the ongoing recovery from the Covid-19 pandemic impact in 2022/23 on business as usual in the delivery of services and in person and virtual committee meetings to enable decision-making. The output is this Annual Governance Statement which is presented to the Audit Committee.

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

In respect of the implementation of the remaining Best Value Audit Actions (nos. 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value. These actions are now all materially completed. The Council however recognises improvements are required in the areas presented below.

### **Improvement Areas of Governance**

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

- 1) The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. One of the actions identified was putting in place a multi-year financial plan. Work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £30 million for the Council over the next 5 years coupled with the current rate of inflation requires putting in place an approved multi-year financial plan key to developing the Council on a sustainable basis. Dedicated Financial Management CMT meetings have been implemented on a quarterly basis to challenge and scrutinise budgets in order to improve financial discipline.
- 2) The Procurement Service is undergoing a service review and the Procurement Manager post is currently vacant and being recruited to. The Legal and Governance Manager is overseeing this service providing a level of assurance and compliance in the absence of the Procurement Manager. Issues arising from the reduced team capacity are the off contract spend and non-contracted spend within the organisation. Expired contracts and off contract spend is being managed through regular review at Budget Boards who work to ensure that the risk is managed and the appropriate remedial action is being taken; with oversight from the Executive Director and Chief Officers. In addition as part of the Council's Blueprint under theme1 follow the money a sprint looking at contract management and a review of transport is being progressed.

- 3) Capital Plan Affordability review continues as the paper that was approved by Council on 21 February 2023, detailed that the Loan Charges arising from capital expenditure within the General Services Capital Plan, including planned Learning Estate Programme projects that are under development is expected to significantly exceed the Loan Charges levels as per the Council's approved Medium Term Financial Strategy over the period 2023/24 to 2027/28. The paper considered by Council approved the deferral, pause or deletion of £10.604 million of capital expenditure, against a target of £71.901 million (the level required to bring Loan Charges within the Medium Term Financial Strategy targets). Therefore, a further £61.297 million of capital expenditure from fully approved projects and 'in principle' projects still needs to be deleted from, paused or deferred within the General Services Capital Plan. Work Continues to establish an approved affordable and financially sustainable Capital Plan for the Council moving forward.
- 4) Workforce planning to address recruitment, retention and resilience is taking place. The approach to Organisational Development is under review with the addition of a new OD post. A revised OD programme will be delivered in 2023 and the Wellbeing Strategy is being reviewed and refreshed in response to managing absence, following the impacts of the pandemic.

### **Conclusion and Opinion on Assurance**

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

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Dr Grace Vickers  
Chief Executive  
\*\* September 2023

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Kelly Parry  
Leader of the Council  
\*\* September 2023



## 5.5 – Unaudited Annual Accounts 2022/23, Report by Chief Finance Officer (Acting) – to follow



## **Annual Treasury Management Report 2022/23**

**Report by David Gladwin, Acting Chief Financial Officer**

### **Report for Decision**

#### **1 Recommendations**

The Audit Committee is invited to consider this report before the final report is presented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2022/23.

#### **2 Purpose of Report/Executive Summary**

The purpose of the report is to inform members of the Audit Committee of the Treasury Management activity undertaken in 2022/23 and the year-end position.

**Date: 13 June 2023**

**Report Contact:**

**Gary Thomson, Senior Finance Business Partner**

**[gary.thomson@midlothian.gov.uk](mailto:gary.thomson@midlothian.gov.uk)**

### 3 Background

The main points arising from treasury activity in 2022/23 were:

- The pooled internal loans fund rate for General Fund and HRA was 2.41% in 2022/23, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
- Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.38%, this would have generated loan charges in 2022/23 of £15.7 million. The Council's actual 2022/23 loan charges for General Services and HRA were £12.5 million, representing a cash saving (compared to the Scotland average) of £3.2 million in 2022/23;
- Total long term borrowing maturing in the year amounted to £1.518 million, comprising the following:-
  - One £0.648 million Maturity Loan with PWLB matured on 3 February 2023 (original tenor 28 years at an interest rate of 8.63%);
  - £0.048 million of PWLB Annuities of various tenors and interest rates;
  - £0.657 million of Annuity and EIP, and £0.165 million of interest free loans.
- No new long term borrowing was taken in the year, with the Council able to defer new long-term borrowing, at higher than expected PWLB rates, as a result of £50.000 million of long-term borrowing secured in December 2021 which pre-funded part of the 2022/23 borrowing requirement. The remainder of the 2022/23 borrowing requirement was funded through the utilisation of the Council's surplus cash / working capital balances;
- The Council were under-borrowed by £25.908 million (7.5% of the borrowing Capital Financing Requirement) at 31 March 2023. This means that the Council has funded the majority (92.5%) of its underlying borrowing requirement as at 31 March 2023. This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications;
- The average rate of interest paid on external debt was 3.01% in 2022/23, down from 3.22% in 2021/22 and reflecting the historically low interest rates secured on longer-term PWLB borrowing in recent years;



- Cash balances in instant access accounts throughout the year were significantly higher than normal, and reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, (b) developer contribution receipts, (c) PWLB borrowing taken in advance, and (d) the impact on the Council's cashflow due to rephasing of capital expenditure plans. The majority of the level of higher cash balances that are being held are committed to fund revenue and capital expenditure in the 2023/24 and forthcoming financial years.
- Fixed Term Deposits were placed during the year in line with the Council's approved creditworthiness process as outlined in the "*Treasury Management and Investment Strategy 2022/23 & Prudential indicators*" (TMSS 22/23) report approved by Council on 15 February 2022. These fixed term deposits were placed with high credit worthy banks and the UK Government's Debt Management Account Deposit Facility. The Council's deposit portfolio at 31 March 2023 is outlined in Table 2 below and in detail in Table 11 in Appendix 1;
- The average rate of return on deposits was 2.03% in 2022/23 (exceeding the benchmark<sup>1</sup> of 1.42% for the nineteenth year in succession) with total interest earned on deposits totalling £3.260 million and reflecting the significantly higher than normal levels of surplus cash;
- The Council useable reserves of £90.583 million at 31 March 2023 are fully cash backed, in line with the approved TMSS 22/23.
- No debt rescheduling was undertaken during 2022/23.

A detailed report "*Annual Treasury Management Review 2022/23*" on the activity during 2022/23 is attached as Appendix 1.

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

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<sup>1</sup> 6 month uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

Table 1: Loan Portfolio at 1 April 2022 and 31 March 2023

<b>Loan Type</b>	<b>Principal Outstanding 1 Apr 2022 £000's</b>	<b>Principal Outstanding 31 Mar 2023 £000's</b>	<b>Movement  £000's</b>
PWLB Annuity	553	505	-48
PWLB Maturity	284,776	284,128	-648
LOBO	20,000	20,000	0
Other Market Loans	17,542	16,885	-657
Salix Loans	400	235	-165
<b>Total Loans</b>	<b>323,271</b>	<b>321,753</b>	<b>-1,518</b>
<b>CFR</b>	<b>307,247</b>	<b>347,661</b>	<b>+40,414</b>
<b>Over/(Under) Borrowed</b>	<b>+16,024</b>	<b>-25,908</b>	<b>-41,932</b>

Table 2: Deposits at 1 April 2022 and 31 March 2023

<b>Deposit Type</b>	<b>Principal Outstanding 1 Apr 2022 £000's</b>	<b>Principal Outstanding 31 Mar 2023 £000's</b>	<b>Movement  £000's</b>
Bank Call Accounts	31,058	2	-31,056
Money Market Funds	30,324	15,980	-14,344
Bank Notice Accounts	14,985	0	-14,985
Bank Fixed Term Deposit Accounts	35,000	96,000	+61,000
Other Local Authorities	45,000	2,000	-43,000
<b>Total Deposits</b>	<b>156,367</b>	<b>113,982</b>	<b>-42,385</b>
<b>Useable Reserves</b>	<b>86,412</b>	<b>90,583</b>	<b>+4,171</b>

Throughout 2022/23, all counterparties that the Council placed deposits with met their obligations in respect of the return of the deposited funds and interest receivable in full and on the required dates.

## **5 Report Implications (Resource, Digital and Risk)**

### **5.1 Resource**

Treasury Management activity during the year, in accordance with the approved strategy, has once again been effective in minimising loan charges through minimising the cost of borrowing and maximising the return on deposits within the parameters set by the strategy for the year.

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

The loan charges associated with Capital Expenditure and Treasury Management activity during 2022/23 are reported in the Financial Monitoring 2022/23 – General Fund Revenue report and HRA 2022/23 Outturn report elsewhere on the Council agenda for 27 June 2023.

## **5.2 Digital**

None.

## **5.3 Risk**

As the Council follows the requirements of the new CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include full written Treasury Management Practices, which define the responsibilities of all staff involved, and which were updated during the 2022/23 financial year to reflect the provisions of the new Prudential and Treasury Management Codes and approved by Audit Committee.

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

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

## **5.5 Additional Report Implications**

**See Appendix A**

## **Appendices:-**

### **Appendix B: Annual Treasury Management Review 2022/23**

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

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

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☐ None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

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

### **A.6 Impact on Performance and Outcomes**

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

**A.7 Adopting a Preventative Approach**

Not applicable.

**A.8 Supporting Sustainable Development**

Not applicable



## **Appendix B**

# **Annual Treasury Management Review 2022/23**

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Midlothian Council  
June 2023

## Contents

- 1 The Council's Capital Expenditure and Financing 2022/23
- 2 The Council's overall borrowing need
- 3 Treasury Position as at 31 March 2023
- 4 The Strategy for 2022/23
- 5 The Economy and Interest Rates
- 6 Borrowing Rates in 2022/23
- 7 Borrowing Outturn for 2022/23
- 8 Deposit Rates in 2022/23
- 9 Deposit Outturn for 2022/23
- 10 Performance Measurement
- 11 Conclusion



This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the updated CIPFA Code of Practice on Treasury Management, (the Code), and the updated CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 15/02/2022);
- a mid-year, (minimum), treasury update report (Council 13/12/2022);
- an annual review following the end of the year describing the activity compared to the strategy, (this report);

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

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

# 1. The Council's Capital Expenditure and Financing 2022/23

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

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

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

<b>Table 1: Capital Expenditure + Financing</b>			
	<b>2021/22</b>	<b>2022/23</b>	<b>2022/23</b>
	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>			
Capital Expenditure	22,969	68,240	23,322
Available Funding	17,115	32,796	18,627
<b>Borrowing Required</b>	<b>5,854</b>	<b>35,444</b>	<b>4,695</b>
<b>HRA</b>			
Capital Expenditure	39,477	124,894	51,710
Available Funding	33,058	7,240	9,932
<b>Borrowing Required</b>	<b>6,419</b>	<b>117,654</b>	<b>41,778</b>
<b>General Fund and HRA</b>			
Capital Expenditure	62,446	193,134	75,032
Available Funding	50,173	40,036	28,559
<b>Borrowing Required</b>	<b>12,273</b>	<b>153,098</b>	<b>46,473</b>

## 2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

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

The total CFR can also be reduced by:

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

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

Table 2: Council's Underlying Borrowing Requirement			
	31-Mar-22	2022/23	31-Mar-23
CFR:	Actual	Budget	Actual
	£000	£000	£000
<b>Opening balance</b>	£ 302,758	£ 312,806	£ 307,247
Add Borrowing Required	£ 12,273	£ 153,098	£ 46,473
Less scheduled debt amortisation	£ (7,784)	£ (5,843)	£ (6,059)
<b>Closing balance</b>	£ 307,247	£ 460,061	£ 347,661

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

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next three financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR (excluding PFI schemes). The Council has complied with this prudential indicator.

<b>Table 3: Council's Gross Borrowing Position</b>			
	<b>31-Mar-21</b>	<b>2021/22</b>	<b>31-Mar-22</b>
	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Gross Borrowing</b>	£ 323,271	£ 363,996	£ 321,753
<b>CFR</b>	£ 307,247	£ 460,061	£ 347,661

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

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

<b>Table 4: Gross Borrowing against Authorised Limit / Operational Boundary</b>	
	<b>2022/23</b>
Authorised limit - borrowing	£ 472,662
Operational boundary - borrowing	£ 472,662
Maximum gross borrowing position	£ 323,271
Average gross borrowing position	£ 322,650

### 3. Treasury Position as at 31 March 2023

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2022/23 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position						
	31 March 2022 Principal	Rate/ Return	Average Life (Yrs)	31 March 2023 Principal	Rate/ Return	Average Life (Yrs)
<b>Debt</b>						
<b>Fixed Rate Debt</b>						
PWLB	£ 285,328	2.94%	33.18	£ 284,633	2.92%	32.25
Market	£ 22,943	2.95%	29.49	£ 22,120	2.98%	28.89
<b>Total Fixed Rate Debt</b>	<b>£ 308,271</b>	<b>2.94%</b>	<b>32.91</b>	<b>£ 306,753</b>	<b>2.92%</b>	<b>32.01</b>
<b>Variable Rate Debt</b>						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	28.71	£ 15,000	4.63%	27.71
<b>Total Variable Rate Debt</b>	<b>£ 15,000</b>	<b>4.63%</b>	<b>28.71</b>	<b>£ 15,000</b>	<b>4.63%</b>	<b>27.71</b>
<b>Total debt/gross borrowing</b>	<b>£ 323,271</b>	<b>3.02%</b>	<b>32.71</b>	<b>£ 321,753</b>	<b>3.00%</b>	<b>31.81</b>
<b>CFR</b>	<b>£ 307,247</b>			<b>£ 347,661</b>		
<b>Over/ (under) borrowing</b>	<b>£ 16,024</b>			<b>£ (25,908)</b>		
<b>Deposits</b>						
<b>Fixed Rate Deposits</b>						
In House	£ 80,000	1.06%	0.41	£ 98,000	3.77%	0.31
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
<b>Total Fixed Rate Deposits</b>	<b>£ 80,000</b>	<b>1.06%</b>	<b>0.41</b>	<b>£ 98,000</b>	<b>3.77%</b>	<b>0.31</b>
<b>Variable Rate Deposits</b>						
In House	£ 76,367	0.61%	0.10	£ 15,982	3.96%	0.01
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
<b>Total Variable Rate Deposits</b>	<b>£ 76,367</b>	<b>0.61%</b>	<b>0.10</b>	<b>£ 15,982</b>	<b>3.96%</b>	<b>0.01</b>
<b>Total Deposits</b>	<b>£ 156,367</b>	<b>0.84%</b>	<b>0.26</b>	<b>£ 113,982</b>	<b>3.80%</b>	<b>0.27</b>

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio						
	31-Mar-22		2022/23	31-Mar-23		
	Actual		Original Limits	Actual		
	£000	%	%	£000	%	
Under 12 months	£ 1,465	0%	0% to 50%	£ 812	0%	
12 months to 2 years	£ 830	0%	0% to 50%	£ 1,496	0%	
2 years to 5 years	£ 3,553	1%	0% to 50%	£ 2,795	1%	
5 years to 10 years	£ 33,857	10%	0% to 50%	£ 45,136	14%	
10 years to 20 years	£ 43,421	13%	0% to 50%	£ 32,239	10%	
20 years to 30 years	£ 12,563	4%	0% to 50%	£ 39,691	12%	
30 years to 40 years	£ 95,534	30%	0% to 50%	£ 84,584	26%	
40 years to 50 years	£ 127,048	39%	0% to 50%	£ 110,000	34%	
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	2%	
<b>Total</b>	<b>£ 323,271</b>	<b>100%</b>		<b>£ 321,753</b>	<b>100%</b>	

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

Table 7: Maturity Structure of Deposit Portfolio		
	31-Mar-22	31-Mar-23
	£000	£000
<b>Deposit</b>		
Under 1 Year	£ 154,367	£ 113,982
Over 1 Year	£ 2,000	£ -
<b>Total</b>	<b>£ 156,367</b>	<b>£ 113,982</b>

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

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-22		2022/23	31-Mar-23	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
<b>Fixed Interest Rate Exposure</b>	£ 308,271	95%	0% to 100%	£ 306,753	95%
<b>Variable Interest Rate Exposure</b>	£ 15,000	5%	0% to 30%	£ 15,000	5%
<b>Total</b>	<b>£ 323,271</b>	<b>100%</b>		<b>£ 321,753</b>	<b>100%</b>

## 4. The Strategy for 2022/23

At the outset of the financial year, the Council were over borrowed by £16.024 million – this being a result of prudent long-term borrowing of £50.000 million of PWLB long-term maturity loans at rates of between 1.26% and 1.36% in December 2021 when PWLB rates were at an all-time historically low level.

Also at the outset of the financial year, the Council were holding £156.367 million in instant access accounts and fixed term deposits; this level of deposits being higher than normal and reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, in particular schemes to support local businesses, (b) developer contribution receipts, (c) PWLB borrowing taken in advance, and (d) the impact on the Council's cashflow due to re-phasing of capital expenditure plans. The majority of the level of higher cash balances that are being held are fully committed to fund revenue and capital expenditure in the 2023/24 and forthcoming financial years.

Interest rate forecasts within the 2022/23 Treasury Management & Investment Strategy initially suggested only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 (see first table below) but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK. Nonetheless, there remain significant risks to that central forecast. Interest rate forecasts at the end of the financial year are also shown in the second table below.

Link Group Interest Rate View 7.2.22												
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Link Group Interest Rate View 27.03.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

With interest rates on new borrowing higher than forecast during financial year 2022/23, and the Council holding both an over-borrowed position and significant levels of surplus cash, the opportunity existed throughout the financial year to defer any new long term borrowing and run down surplus cash

balances, given that a cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary further increase in cash balances; and this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

As a result, all new borrowing in 2022/23 was deferred.

At 31 March 2023, the Council was under-borrowed by £25.908 million. This means that the capital borrowing need, (the Capital Financing Requirement), is not fully funded with loan debt, with the Council's surplus cash and liquidity / working capital supporting this position.

Useable Reserves of £90.583 million at 31 March 2023 are fully cash backed.



## 5. The Economy and Interest Rates

### UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
<b>Bank Rate</b>	4.25%	3%	4.75%-5%
<b>GDP</b>	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
<b>Inflation</b>	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
<b>Unemployment Rate</b>	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the

MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only

1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

**USA.** The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

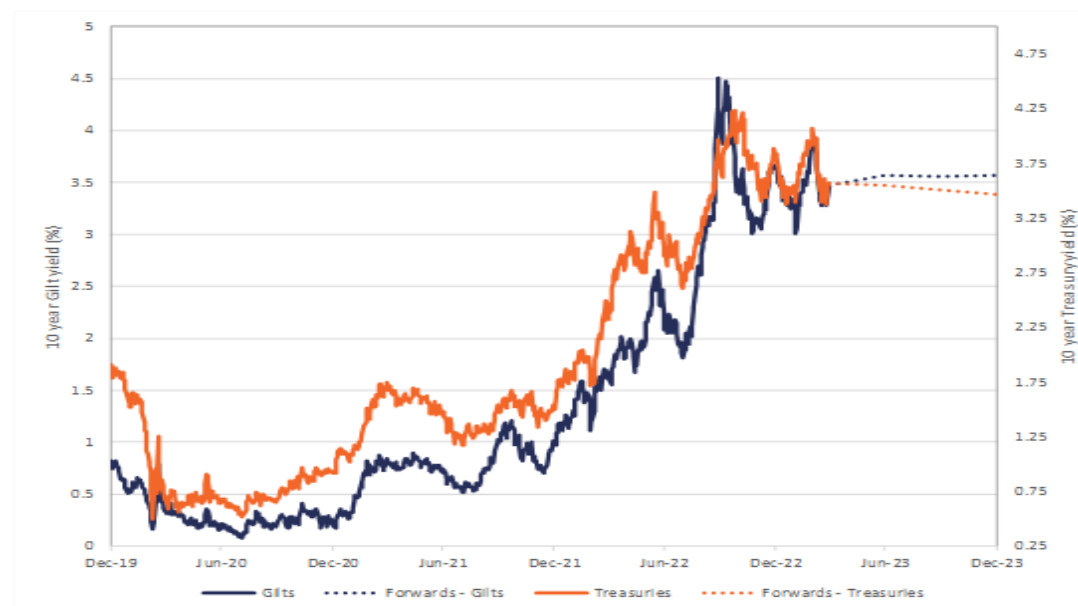
**EU.** Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

## 6. Borrowing Rates in 2022/23

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

**Graph of UK gilt yields v. US treasury yields**



Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. At the close of the day on 31 March 2023, all gilt yields from

1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

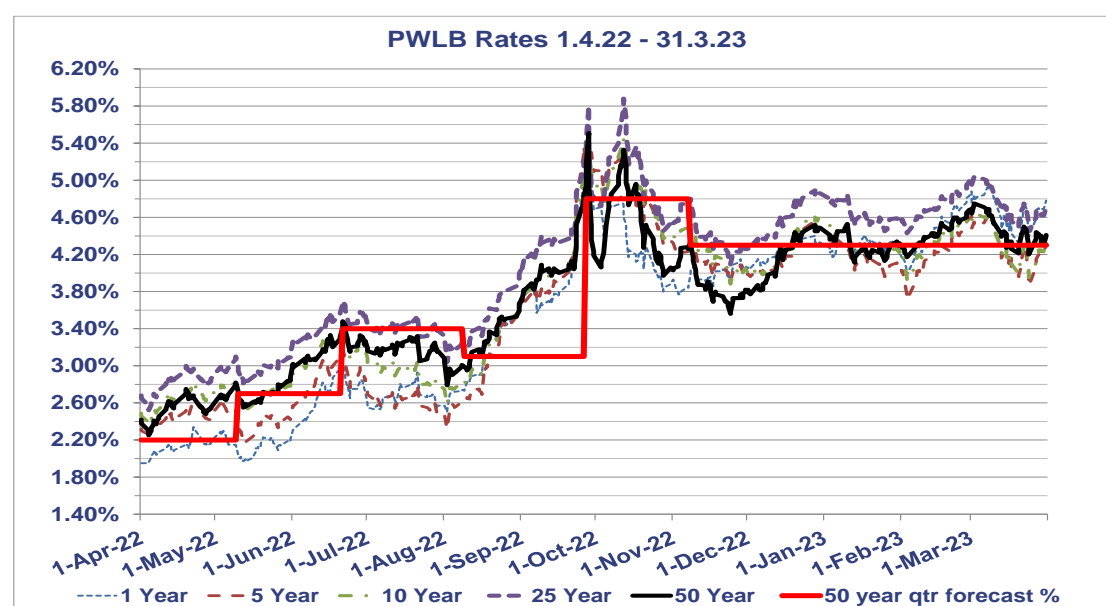
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng government in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

#### HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%

<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	3.16%	3.26%	3.09%	3.36%	3.26%

## 7. Borrowing Outturn for 2022/23

### New Treasury Borrowing:-

No new loans were drawn in 2022/23.

### Maturing Debt:-

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

Table 10: Maturing Debt in Financial Year 2022/23						
Lender	Date Repaid	Principal £000's	Interest Rate	Fixed/ Variable	Date Originally Taken	Original Term (Yrs)
PWLB	03 Feb 2023	£ 648	8.63%	Fixed	16 Feb 1995	28.00
PWLB Annuities	Various	£ 48	7.75%-9.50%	Fixed	02 Aug 1968 to 15 May 1972	56-60 years
Salix	Various	£ 165	0.00%	Fixed	Various	7-8 years
Deutsche Pfandbriefbank	Various	£ 357	2.63%	Fixed	29 Jun 2017	28.00
Deutsche Pfandbriefbank	Various	£ 300	2.73%	Fixed	15 Nov 2018	25.50
<b>Total</b>		<b>£ 1,518</b>				

### Rescheduling:-

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

### Summary of debt transactions:-

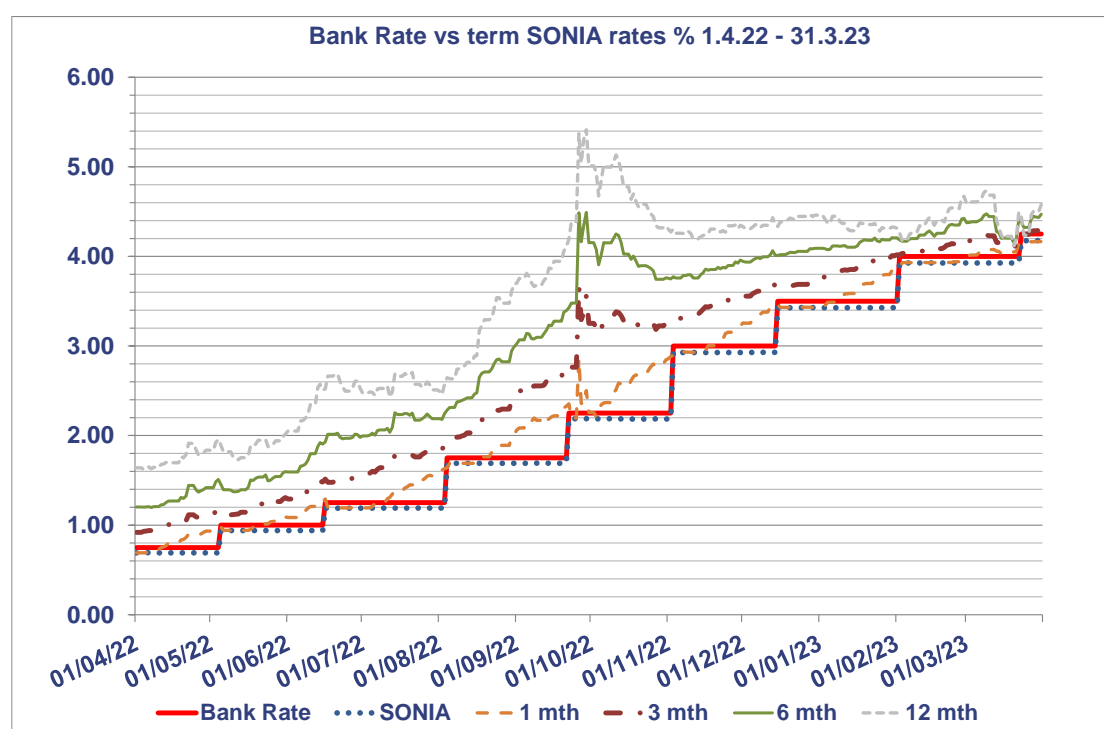
The average interest rate payable on external debt remained steady throughout the year, from an opening rate of 3.02% falling marginally to an end of year rate of 3.00%. The average life of debt within the loan portfolio dropped from 32.71 years to 31.81 years.

## 8. Deposit Rates in 2022/23

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting in April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year.

Money market fund rates started the year at 0.51-0.53%, increasing throughout the year in line with movements in Bank of England Base Rates, ending the year at 3.92-3.96%, with money market funds and instant access call accounts being utilised to manage the Council's day to day liquidity needs.



The sea-change in fixed term investment rates meant local authorities were faced with the challenge of balancing the maintenance of cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, which became an on-going feature of the investment landscape.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a difficult Q4 2022, the more traditional deposit options, such as vanilla fixed term deposits (simple to understand, and less than a year in duration) became more actively used by local authorities across the UK.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure



specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

## 9. Funds on Deposit Outturn for 2022/23

### Deposit Policy:-

The Council's policy for placing deposits is governed by Scottish Government Investment Regulations, and the requirements of the CIPFA Prudential and Treasury Management Codes, which have been implemented in the annual investment strategy approved by the Council on 15 February 2022. This policy sets out the approach to the considerations when placing deposits, specifically security, liquidity and then yield (in that order) and sets out the approach for choosing counterparties based on their credit strength, and for financial institutions is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The position at 31 March 2023 was as follows:-

Table 11: Breakdown of Deposits by Counterparty at 31 March 2023						
Counterparty	Principal Outstanding 31 Mar 2023 £000's	Security Long/Short Term Rating (Colour)	Liquidity		Yield	UK Local Authority Investment*** £000's
MMF - Aberdeen Liquidity Fund	2,342	AAAmf (Yellow)	Instant Access Money Market Fund		3.93%	943,280
MMF - Federated	14	AAAmf (Yellow)	Instant Access Money Market Fund		3.92%	540,049
MMF - LGIM	13,624	AAAmf (Yellow)	Instant Access Money Market Fund		3.96%	327,840
Handelsbanken	2	AA/F1+ (Orange)	Instant Access Call Account		3.80%	258,821
Stoke on Trent City Council	2,000	Quasi-UK Government (AA- / Yellow)	06-Apr-20	06-Apr-23	1.60%	3,354,054
Lloyds Bank Corporate Markets plc	30,000	A+/F1 (Red)	30-Nov-22	30-May-23	4.25%	216,902
Standard Chartered Bank	10,000	A+/F1 (Red)	30-Nov-22	30-May-23	4.06%	702,000
National Westminster Bank plc	15,000	A+/F1 (Blue)	31-May-22	31-May-23	2.00%	830,477
SMBC Bank International plc	11,000	A-/F1 (Red)	02-Feb-23	02-Jun-23	4.13%	125,000
Toronto Dominion Bank	10,000	AA-/F1+ (Orange)	16-Jun-22	15-Jun-23	2.85%	433,405
Landesbank Hessen-Thüringen Girozentrale	5,000	A+/F1+ (Orange)	30-Nov-22	29-Nov-23	4.47%	220,000
National Westminster Bank plc	15,000	A+/F1 (Blue)	08-Mar-23	08-Mar-24	4.80%	830,477
<b>Total Deposits</b>	<b>113,982</b>				<b>3.80%</b>	<b>8,782,305</b>

### Deposits placed by the Council:-

The Council maintained an average balance of £159.870 million of instant access and fixed term deposits, earning an average rate of return of 2.03%. The comparable performance indicator<sup>1</sup> is 1.42%.

<sup>1</sup> 6 month uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

## 10. Performance Measurement

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

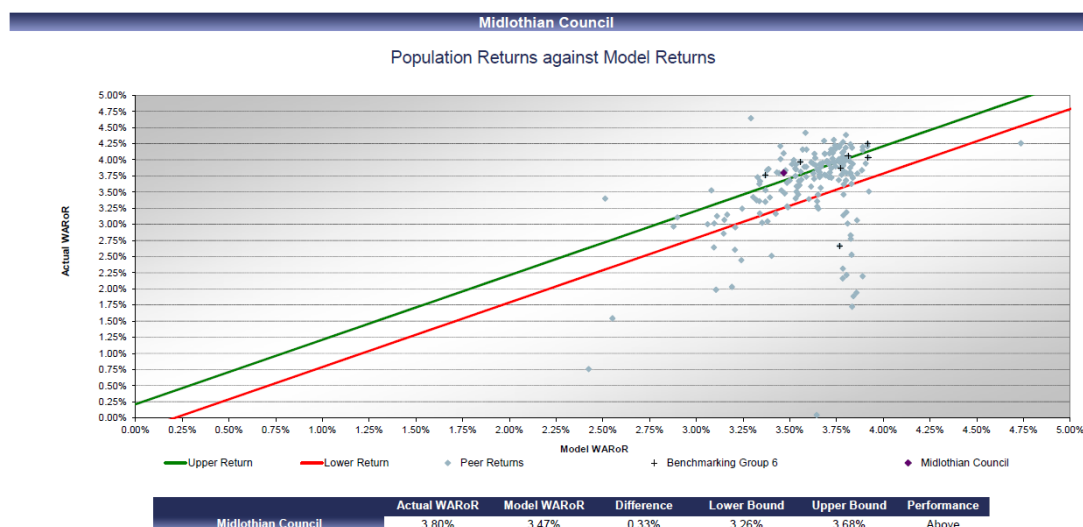
### Loans Fund Rate

Combining the interest paid (earned) on external debt (deposits) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 2.98% for 2021/22 was the fifth lowest Loans Fund Rate amongst all mainland authorities in Scotland, as reported previously to Council.

The comparative Loans Fund Rate for 2022/23, of 2.41%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

### Deposit Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Link. This service provided by Link provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's funds on deposit as at 31 March 2023, the Weighted Average Rate of Return (WARoR) on deposits of 3.60% against other authorities is shown in the graph below:-



As can be seen from the above graph, Midlothian is performing above the Link model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

### **Debt Performance**

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

## 11. Conclusion

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

The cost of long term borrowing has been maintained throughout the year, with the benefit of long term borrowing in December 2021 allowing the Council to defer borrowing at higher than forecast rates during the 2022/23 financial year.

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

Overall Midlothian's Loans Fund Rate of 2.41% for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.



**Treasury Management and Investment Strategy 2023/24 – Credit Risk Update**

**Report by David Gladwin, Acting Chief Financial Officer**

**Report for Noting**

**1 Recommendations**

The Audit Committee is invited to note the content of this report.

**2 Purpose of Report/Executive Summary**

This paper has been prepared to provide an update to Audit Committee members on the current market position regarding credit risk on deposits, the Council's exposure to credit risk, and how this risk is mitigated through the Council's assessment of counterparty creditworthiness in the approved TMIS.

**Date: 10 April 2023**

**Report Contact:**

**Gary Thomson, Senior Finance Business Partner**

**[gary.thomson@midlothian.gov.uk](mailto:gary.thomson@midlothian.gov.uk)**

**0131 271 3230**

### 3. Background

At the Council meeting on 21 March 2023, elected members requested that a paper be brought to the next meeting of Audit Committee to update members on the current market position regarding credit risk.

### 4. Silicon Valley Bank / Credit Suisse / UBS

On 10 March 2023, Silicon Valley Bank, a bank domiciled in the US, collapsed. The bank was the 16<sup>th</sup> largest bank in the United States and heavily involved in lending to the venture capital-funded technology and life sciences sector in the United States. The bank was vulnerable as a result of having a high proportion of uninsured deposits and a large proportion of deposits invested in hold-to-maturity securities. This was followed by the failure of Signature Bank, a New-York based bank that was heavily involved within the crypto-currency industry.

Subsequent to this, on 19 March 2023, Credit Suisse, a bank domiciled in Switzerland which had been under-performing relative to its peers for some time, also collapsed. Credit Suisse was the 2<sup>nd</sup> largest bank in Switzerland and was acquired by UBS AG in an acquisition supported by the Swiss authorities and regulators. UBS plans to sell off and downsize parts of Credit Suisse, although details remain scarce.

Following the acquisition, credit rating agencies have downgraded UBS AG as follows:-

UBS AG:-

- Standard & Poor's - affirmed the bank's ratings as A-1 short term and A+ long term.
- Moody's - affirmed the bank's ratings as P-1 short term and Aa2 long term but lowered the Outlook to Negative.
- Fitch - placed the bank's Long and Short Term ratings on Negative Watch, and noted that due to the complexity and size of the proposed merger, these may stay in place for upwards of six months (outside of mergers, Watches typically get resolved within weeks).

The long-term implications for UBS continue to be tricky to determine, as the merger will be a complex process (as noted by Fitch) that could weigh on the overall strength of the combined organisation. However, these "unknowns", will most likely be supported by Swiss authorities, including loan loss provisions and a substantial liquidity facility that has already been put in place, if required.

Outside of affected entities (Swiss and regional US banks), there have been no credit rating changes within the banking sector resultant from this market disruption to date.



## 5. **Approved TMIS 2023/24 – Credit Risk to Midlothian Council**

The Council's approved TMIS requires that the Council follow the security, liquidity, yield principle, in line with the Prudential and Treasury Management Codes, when making all deposit considerations.

This is assessed as follows:-

1. The Council's approved TMIS states that, when assessing a counterparty credit strength (security), it will only use approved counterparties from the UK, or approved counterparties from other countries, where the counterparty is domiciled in a country that has a minimum sovereign credit rating of AA- from Fitch. The list of countries that currently qualify and are rated AA- or above is outlined in Appendix 1. This list is added to, or deducted from, by officers, should rating change.
2. The second layer is to consider the credit strength of the individual counterparty, and to do so the Council uses the creditworthiness service from its Treasury advisers, Link.

This second layer employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's – to assess the creditworthiness of an individual counterparty. The credit ratings of counterparties are supplemented with the following overlays:-

- sovereign ratings to select counterparties from only the most creditworthy countries (see 1 above).
- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;

The output of this analysis is to provide a colour banding for each counterparty which determines **the maximum duration for deposit**. This is outlined in Appendix 2 and ranges from No Colour (counterparty is Not to be Used) to Yellow (6 years maximum duration).

The Council then considers, from the list of qualifying counterparties using the above criteria, the optimum blend of liquidity and yield.

## **6. Assessment of banks domiciled in Switzerland**

It is important therefore to note that whilst Switzerland's sovereign (country) rating is triple AAA from all 3 credit rating agencies, the individual counterparty ratings for banks domiciled within Switzerland are rated on their own merit, in line with the methodology outlined above in Section 5.

Under this methodology, Credit Suisse have not met the credit criteria to be a counterparty for investment consideration since 20<sup>th</sup> June 2022 (they are rated as "No Colour" by Link). This is a result of Credit Suisse's CDS market status having been "out of range" since this date. This indicates that the creditworthiness service employed by Link, as outlined above, is acting effectively.

UBS AG have been rated as Orange (12 months) by Link since the upgrade of its S&P Long-Term rating in June 2016, prior to the events of last month. Following the acquisition of Credit Suisse, the CDS price for UBS AG rose to a peak of 150bps (to sit in the Link monitoring range), which has adjusted the Link suggested colour banding down from Orange (12 months) to Red (6 months). The CDS price at the time of writing has now dropped back to sit at 115bps, just above the Link 'in-range' zone.

## **7. Midlothian Council – current deposits**

All deposits placed by the Council have, and will continue to be, placed with high creditworthy counterparties in accordance with the approved creditworthiness policy as outlined in Appendix 2.

The deposits reflect a mix of those placed to manage day to day liquidity needs (i.e. deposits with Money Market Funds and Bank Call Accounts) and those placed for a longer duration, which either cash back the Council's useable reserves (and with a tenor reflective of the expected drawdown of useable reserve forecasts, and at a yield commensurate with this duration), and those that are surplus cashflow generated as a result of grant receipts paid in advance.

The Council's current list of deposits at 31 March 2023 totals £113.982 million and is as follows:-

Counterparty	Amount £000's	Security Long/Short Term Rating* (Colour)**	Liquidity	Yield	UK Local Authority Investment £000's
MMF Aberdeen	2,342	AAAmf (Yellow)	Instant Access	3.93%	1,931,129
MMF Federated	14	AAAmf (Yellow)	Instant Access	3.92%	1,008,282
MMF LGIM	13,624	AAAmf (Yellow)	Instant Access	3.96%	306,784
Handelsbanken AB Call Account	2	AA/F1+ (Orange)	Instant Access	3.80%	721,491
Lloyds Bank Corporate Markets plc	30,000	A+/F1 (Red)	Start: 30 Nov 2022 End: 30 May 2023	4.25%	272,800
National Westminster Bank plc	15,000	A+/F1 (Blue)	Start: 31 May 2022 End: 31 May 2023	2.00%	1,052,317
National Westminster Bank plc	15,000	A+/F1 (Blue)	Start: 08 Mar 2023 End: 08 Mar 2024	4.80%	1,052,317
Toronto Dominion Bank	10,000	AA-F1+ (Orange)	Start: 16 Jun 2022 End: 15 Jun 2023	2.85%	436,311
Landesbank Hessen- Thuringen Girozentrale	5,000	A+/F1+ (Orange)	Start: 30 Nov 2022 End: 29 Nov 2023	4.47%	306,000
Standard Chartered Bank	10,000	A+/F1 (Red)	Start: 30 Nov 2022 End: 30 May 2023	4.06%	944,807
SMBC Bank International	11,000	A-/F1 (Red)	Start: 02 Feb 2023 End: 02 Jun 2023	4.13%	200,500
Stoke on Trent City Council	2,000	Quasi-UK Government (AA- / Yellow)	Start: 06 Apr 2020 End: 06 Apr 2023	1.60%	3,029,079
<b>Total</b>	<b>113,982</b>				<b>11,261,817</b>

As can be noted from the table above, the Council has no direct exposure to any counterparty domiciled in Switzerland.

The Council have a diversified portfolio which is spread across the UK, Canada and Germany. Canada has the highest possible sovereign rating ("AAA") from both Moody's and Standard & Poor's and a "AA+" rating from Fitch, one notch below the highest possible. Its major banks, including Toronto Dominion are all designated "Orange – 12 months" under the Link methodology. Likewise, Germany has the highest possible sovereign rating from all three rating agencies, while Landesbank Hessen-Thuringen Girozentrale is also designated "Orange – 12 months" under the Link methodology.

**APPENDIX 1: Approved countries for investments**

*Based on the lowest available rating as at 07.04.2023*

**AAA**

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

**AA+**

- Canada
- Finland
- U.S.A.

**AA**

- Abu Dhabi (UAE)
- France

**AA-**

- Belgium
- U.K.

## Appendix 2: Permitted Investments

The Council uses the Link creditworthiness service for specific categories of permitted investments. 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 specific categories 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:-

<b>Link Asset Services Colour Code</b>	<b>Maximum Suggested Duration for Investment</b>
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, Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt*
- \*\* *Dark Pink for Ultra Short Dated Bond Funds with a credit score of 1.25; Light Pink for Ultra Short Dated Bond Funds with a credit score of 1.5*
- \*\*\* *Only applies to nationalised or semi-nationalised UK banks*

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 categories (and so to 6 years); the Purple category by 6 months to 2.5 years; the Blue and Orange categories by 3 months to 1.25 years; the Red category by a month to 7 months, and the Green category by 20 days to 120 days. This is 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. 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.



# Midlothian Council

## Annual Audit Plan 2022/23



Prepared for Midlothian Council  
March 2023

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2022/23 external audit of Midlothian Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor's Report
- audit opinions on the financial statements and other statutory information published within the Annual Accounts including the Management Commentary, Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- reviewing the council's arrangements for preparing and publishing statutory performance information.

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of Midlothian Council for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

**3.** In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

**4.** The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

**5.** We aim to add value to Midlothian Council through our external audit work by being constructive and forward looking, by attending meetings of the Audit Committee and by recommending and encouraging good practice. In so doing, we will help Midlothian Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

**6.** The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Midlothian Council. Key responsibilities are summarised below.

### Auditor responsibilities

**7.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

**8.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Midlothian Council. In doing this, we aim to support improvement and accountability.

### Midlothian Council responsibilities

**9.** Midlothian Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**10.** Midlothian Council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

### Communication of fraud or suspected fraud

**11.** In line with auditing standards, in presenting this plan to the Audit Committee, we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Audit Committee have any such knowledge or concerns relating to the risk of fraud within Midlothian Council, we invite them to communicate this to the appointed auditor for consideration.

# Financial statements audit planning

## Introduction

**12.** The annual accounts are an essential part of demonstrating Midlothian Council's stewardship of resources and its performance in the use of those resources.

**13.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**14.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2022/23 audit

**15.** We assess materiality at different levels and the materiality values for Midlothian Council and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Midlothian Council and its group

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Midlothian Council's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited annual accounts for 2021/22.	£5.7 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.	£3.4 million

Materiality	Amount
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**16.** Our risk assessment draws on our cumulative knowledge of Midlothian Council, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

**18.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Carry out substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Conduct focussed testing of accounting accruals and prepayments.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> </ul>
<p><b>2. Estimation in the valuation of other land and buildings</b></p> <p>Midlothian Council hold land and buildings (non-housing) with a NBV of £526 million as at 31 March 2022.</p> <p>There is a significant degree of subjectivity and complexity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. Material errors were also identified in the prior year valuation process by the prior year auditor.</p> <p>The 2022/23 revaluation exercise is planned to</p>	<p>Council procedures and controls around valuation and accounting.</p>	<ul style="list-style-type: none"> <li>• Review the information provided to the valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</li> <li>• Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Examine management's assessment of any assets not revalued in 2022/23 against evidence of changes in other revalued assets.</li> <li>• Test the reconciliation between the financial ledger and the property asset register.</li> <li>• Perform sample testing of individual asset valuations and lives.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
cover a significant proportion of the estate.  Due to the inherent complexity and subjectivity risks regarding land and buildings' valuations and material errors found in the prior year, a significant risk of material misstatement in the 2022/23 valuations has been identified.		

Source: Audit Scotland

**19.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk that revenue may be misstated resulting in a material misstatement in the financial statements. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10: *Audit of Financial Statements and Regularity of Public Sector Bodies in the UK*).

**20.** We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that:

- A significant portion of the council's income comes from government grants and contributions that can readily be agreed to funding letters
- Income derived from fees and charges for the provision of services is in low-risk areas of expected income streams
- Most expenditure is in areas considered low-risk due to the nature of the expenditure streams or where individual transactions are relatively small in scale and considered unlikely to result in material misstatements
- Evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risk
- Experience in the sector, including a review of past misstatements, does not indicate material risk.

**21.** Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**22.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**23.** The areas of specific audit focus are:

- **Valuation of pension liability:** The council is an admitted body of Lothian Pension Fund and recognised a net pension liability of £54 million as at 31 March 2022. The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. The subjectivity around these assumptions gives rise to a risk of material misstatements in the financial statements. We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Midlothian Council.
- **Teachers' payroll:** two pay awards have been granted in 2022/23. The Council is progressing implementing the awards but work in this area is incomplete and calculations for supply teachers can be complex. We will monitor progress in implementing teachers pay awards and test controls in the payroll system to ensure staff costs are complete, valid, and accurate.
- **Financial controls cash and bank:** Material errors in the unaudited cash and bank figures were identified by the previous external auditors. These were identified as relating to the failure of bank reconciliation controls. We will follow up agreed actions and perform a full system review in this area in 2023.

## Group Consideration

**24.** As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**25.** Midlothian Council has a group which comprises component entities, including subsidiaries, associates and joint ventures. Our planned audit approach for the components is informed by our assessment of risk at Midlothian Council and our consideration of the size and nature of assets, liabilities and transaction streams.

**26.** We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.



# Wider Scope and Best Value

## Introduction

**27.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**28.** In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** - audited bodies must have a clear vision and strategy and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by Midlothian Council. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how Midlothian Council demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risks

**29.** We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

**Exhibit 3****2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p><b>Financial Sustainability</b></p> <p>The council's five-year financial strategy, which will be considered initially in detail by the Council in June, and regularly thereafter, highlights risks, uncertainties and potential cost pressures that could impact on the ability of the council to balance the five-year revenue strategy and three-year detailed revenue budgets.</p> <p>To meet these challenges and deliver its strategic objectives it is important that the council has strong longer-term financial plans.</p>	<ul style="list-style-type: none"> <li>Regular update of medium and longer-term financial plans that take account of the significant financial challenges facing the council</li> <li>Well established procedures for the monitoring and reporting of the council's financial performance.</li> <li>The application of Financial Management and Control Code of Practice</li> </ul>	<ul style="list-style-type: none"> <li>Review of the council's annual budget setting arrangements.</li> <li>Assess the adequacy of the council's medium and longer-term financial plans.</li> <li>Review and assessment of budget monitoring arrangements.</li> <li>Assess the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee.</li> </ul>
<p><b>Workforce Capacity</b></p> <p>There have been changes in key appointments in the last year which have led to the section 95 officer being appointed on a temporary basis until 30 September 2023 and reduced capacity in Finance and Internal Audit services.</p> <p>The council needs to ensure it has sufficient skills and capacity within Finance and Internal Audit on an ongoing basis so that there is sufficient oversight of, and resource available for, the operation of budgetary and other key financial processes. The council must also ensure that sound arrangements are in place for the handover of section 95 responsibilities at the end of September.</p>	<ul style="list-style-type: none"> <li>The only change in Finance capacity from the 2021/22 financial year is the S95 acting up role for the Financial Services Manager with the Finance team being very experienced both in detailed accounts preparation work and completing this within planned timescales.</li> <li>The Executive Director Place and the Acting Chief Financial Officer work closely on prioritisation of work thus maintaining undiluted focus on key financial activities as required.</li> <li>Internal Audit have budgetary capacity to engage some external audit support for specific work.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor arrangements for the handover of section 95 responsibilities at the end of September 2023.</li> <li>Liaise with staff in Finance on a regular basis</li> <li>Liaise with the Head of Internal audit on a regular basis to enable identification of any slippage in planned work as early as possible.</li> </ul>

Source: Audit Scotland

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**30.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

### Climate Change

**31.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**32.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Midlothian Council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### Cyber Security

**33.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Midlothian Council's arrangements for managing and mitigating cyber security risks.

### Best Value

**34.** Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

**35.** Best Value at Midlothian Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of Midlothian Council's approach to demonstrating improvement in its strategic priorities and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

**36.** In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

**37.** At least once every five years, the Controller of Audit will report to the Accounts Commission Midlothian Council's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 4](#).

**Exhibit 4**

Controller of Audit reports

Falkirk	South Ayrshire
Moray	Dumfries and Galloway
Clackmannanshire	West Dunbartonshire
Orkney Islands	City of Dundee

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**38.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**39.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**40.** We will provide an independent auditor's report to Midlothian Council and the Accounts Commission setting out our opinions on the Annual Accounts. We will provide Midlothian Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**41.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023

## Exhibit 5

### 2022/23 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2023	25 April 2023
Best Value Management Report	30 September 2023	28 September 2023
Independent Auditor's Report	30 September 2023	28 September 2023
Annual Audit Report	30 September 2023	28 September 2023

Source: Audit Scotland

## Timetable



**42.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

**43.** Covid-19 has had a considerable impact on the conduct and timeliness of audits. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**44.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 6

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	26 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Director of Finance	05 September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 September 2023
Agreement of audited and unsigned annual report and accounts	12 September 2023
Issue of Annual Audit Report to those charged with governance.	12 September 2023
Signed Independent Auditor's Report	28 September 2023
Certified Non-Domestic Rates Return	To be confirmed
Certified Housing Benefit subsidy claim	To be confirmed
Latest date for WGA assurance (if required)	To be confirmed

Source: Audit Scotland

## Audit fee

**45.** In determining the audit fee, we have taken account of the risk exposure of the Midlothian Council and the planned management assurances in place. The proposed audit fee for 2022/23 is £273,550 (2021/22: £265,570).

**46.** Our baseline fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**47.** In setting the fee for 2022/23 we have assumed that Midlothian Council has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**48.** It is the responsibility of the Midlothian Council to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**49.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**50.** Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**51.** The appointed auditor for Midlothian Council is Claire Gardiner, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Midlothian Council.

## Audit Quality

**52.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**53.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**54.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.



**55.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**56.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Appendix 1: Your audit team

**57.** The audit team involved in the audit of Midlothian Council have significant experience in public sector audit.

Claire Gardiner Audit Director <a href="mailto:cgardiner@audit-scotland.gov.uk">cgardiner@audit-scotland.gov.uk</a>	Claire has over 18 years of public sector auditing experience. Claire has worked across the breadth of the public sector on financial audits.
Patricia Fraser Senior Audit Manager <a href="mailto:pfraser@audit-scotland.gov.uk">pfraser@audit-scotland.gov.uk</a>	Patricia has 25 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.
Robert Dick Senior Auditor <a href="mailto:rdick@audit-scotland.gov.uk">rdick@audit-scotland.gov.uk</a>	Robert has 4 years of public sector audit experience covering local authorities and central government.

**58.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Midlothian Council

## Annual Audit Plan 2022/23

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**Risk Management Update – Strategic Risk Profile Quarter 4 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 4 (Q4) 2022/23 (1 January to 31 March 2023).

**2 Purpose of Report/Executive Summary**

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

- i. An update on the risk responses Midlothian Council has implemented during Q4 2022/23 to respond to the current risk climate
- ii. Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- iii. The risk evaluation of current strategic risks and opportunities for the Council

**Date:** 15 June 2023**Report Contact:**

Derek Oliver, Chief Officer Place

[Derek.Oliver@midlothian.gov.uk](mailto:Derek.Oliver@midlothian.gov.uk)




### 3 Q4 risk management overview

- 3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 4 2022/23 (1 January to 31 March 2023) whilst operating within seasonal challenges including initiation of the Council's winter weather response.
- 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** Audit Committee should note that there was a change this quarter to the evaluation of Covid-19. No new risks were included. Updates on actions taken are included in the full strategic risk profile (Appendix B).

#### Strategic Risk Profile Summary

- 3.4** The SRP is split into three sections:
- Strategic issues
  - Strategic risks
  - Opportunities

#### STRATEGIC ISSUES - SUMMARY

Strategic issues	Likelihood	Impact	Score	Evaluation Q4	Q3 22/23
COVID 19	1	4	4	Low 	High
The Change Programme	5	5	25	Critical 	Critical
Financial Stability	5	5	25	Critical 	Critical

#### COVID-19

- 3.5** The risk evaluation was reduced from Critical to High in Q1 22/23 and remained as high through Q2 22/23 and Q3 22/23. With the recovery from the pandemic, the likelihood has been re-evaluated and considered low. However, the Council continues to monitor and risk assess as appropriate.

#### The Change Programme

- 3.6** The Change Programme remains at Critical throughout 22/23. 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 associated Strategic Plan which will inform the future direction of the programme.

#### Financial Sustainability

- 3.7** 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.

- 3.8** The Scottish Budget was announced on 15 December 2022. The first version of the Local Government Finance circular was published on 20 December 2022 with subsequent revisions received late December 2022 and further revisions published in Q4 January 2023. Work is ongoing to determine the impact of the Scottish Budget and convert the cash figures contained within to real term figures and align to Midlothian's position.
- 3.9** Local Government Funding is reducing significantly in real terms.
- 3.10** The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council. 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.

## STRATEGIC RISKS – SUMMARY

Strategic Risks	Likelihood	Impact	Score	Evaluation Q4		Q3 22/23
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		High
Cost of Living Crisis	3	5	15	Medium		Medium
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

## STRATEGIC RISKS – RATED CRITICAL/HIGH

### Climate Change

- 3.11** 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.
- 3.12** 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.



**3.13** 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.

**3.14** A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council in Q2 2023/24. The risk evaluation continues to remain Critical in Q3.

#### **Early Years Expansion (1140 hours)**

**3.15** 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.

**3.16** This risk evaluation continues to remain High whilst the Council awaits an update on the funding provision.

#### **Scottish Child Abuse Inquiry (SCAI)**

**3.17** The SCAI risk remains High. The Inquiry has heard all the evidence for the Section 21 submissions around foster care.

#### **UK decision to leave the EU**

**3.18** 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) 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 alongside the Medium Term Financial Strategy. This risk evaluation remains High.

#### **Growing Council**

**3.19** In Q2 22/23 the risk evaluation increased from Medium to High and remains High in Q4. 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.

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

## **STRATEGIC OPPORTUNITIES**

### **Shawfair**

- 3.21** 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**

- 3.22** 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. A funding application was submitted to the UK Government's Levelling Up fund to close the funding gap.

### **City Deal**

- 3.23** 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 2022, Midlothian Council took over the chairing of the City Deal programme. In Q3 2022/23 this annual chairing arrangement came to an end and the Council carried out the handover to Scottish Borders Council.

### **Creating a world class education system**

- 3.24** 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 4 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.

### **4.5 Additional Report Implications (See Appendix A)**

See Appendix A

## **Appendices**

**Appendix A – Additional Report Implications**

**Appendix B – Strategic Risk Profile (Quarter 4 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
- ☒ Preventative
- ☐ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☐ None of the above

### **A.4 Delivering Best Value**

The 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.





## Strategic Risk Profile

### Strategic issues


#### SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p><b>Risk event</b> Delayed progress or non-achievement of outcomes and benefits.</p> <p><b>Risk effect</b> 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.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<p>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 &amp; Spoke Place Based Solutions; Remote Working.</p> <p>2. Regular reporting to Council setting out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income.</p> <p>3. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a Strategic Plan to support decisions about what services, beyond those which are statutory can be provided.</p> <p>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.</p>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.08	Strategic Plan 2023 to 2028	<p><b>Q4 22/23:</b> The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p><b>Q3 22/23:</b> 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.</p>	Chief Finance Officer	27-June-2023	



SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q4 22/23:</b> An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.</p> <p><b>Q3 22/23:</b> An ongoing assessment of the projected gap for 2023/24 proposals 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.</p>	Chief Finance Officer	27-June-2023	
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## SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p><b>Risk cause</b> 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.</p> <p><b>Risk event</b> Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p><b>Risk effect</b> 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.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> <li>1. There is an approved Capital Strategy and Reserves Strategy in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures</li> <li>2. There is an approved budget for 2022/23. Services were delivered within the totality of that budget and the 2023/24 budget has been approved albeit with some reliance on one off funding.</li> <li>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.</li> <li>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.</li> <li>5. Strategic Boards in place and BTB focus and attention on driving transformation to support future year's financial sustainability.</li> <li>6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</li> <li>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.</li> <li>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 across the Council.</li> <li>9. Scottish Governments May 2022 Resource Spending Review 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.</li> <li>10. Report to Council 21 February 2023 sets out scale of financial challenge ahead with recurring expenditure for current service delivery</li> </ol>	5	5	




			<p>projected to exceed recurring income.</p> <p>11. "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.</p> <p>12. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a Strategic Plan to support decisions about what services, beyond those which are statutory can be provided.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.09	Strategic Plan 2023 to 2028	<p><b>Q4 22/23:</b> The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p><b>Q3 22/23:</b> The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p>	Chief Finance Officer	27-June-2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q4 22/23:</b> An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.</p> <p><b>Q3 22/23:</b> An ongoing assessment of the projected gap for 2023/24 proposals 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</p>	Chief Finance Officer	27-June-2023	


## SRP.IR.10 COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p><b>Risk cause:</b> COVID 19 Virus</p> <p><b>Risk event:</b> Virus evident in all communities with rates of positive infection increasing. In a Sottish setting the focus on increase is within the central belt.</p> <p><b>Risk effect:</b> Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance</p>	<p>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.</p> <p>2. Hybrid working has been adopted by the Council as well as a dedicated Hybrid Working Board as part of the Transformation Programme</p> <p>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.</p> <p>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.</p>	1	4	


	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.	Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, HR Strategic Lead	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)			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.1	Hybrid Working	<b>Q4 22/23:</b> Project continuing <b>Q3 22/23:</b> 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.	Executive Director Place, Chief Digital Officer	31-Mar-2023	

### SRP.IR.11 National Care Service


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.11	<p><b>Risk cause</b> 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.</p> <p><b>Risk event</b> 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.</p>	Chief Executive, Executive Director Health & Social Care, Head of Adult and Social Care; Executive Director Children, Young People and Partnerships, Executive Director Place; Chief Officer Children, Young People and Partnerships	<p>1. The Bill is under consultation and it is anticipated that additional information will be released by April 2023.</p> <p>2. 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</p> <p>3. Ongoing briefings with elected members</p> <p>4. Continued dialogue and engagement with Scottish Government and IJB/H&amp;SCP/Children's Services</p>	3	5	

	<p><b>Risk effect</b> 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.</p> <p>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.</p> <p>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.</p>					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.1	Officer Working Group	<p><b>Q4 22/23:</b> Work on the NCS has been paused but is likely to be restarted In Q1 of 23/24.</p> <p><b>Q3 22/23:</b> COSLA and Social Work Scotland have formally requested a pause on the NCS Bill.</p> <p><b>Q1 22/23:</b> Officer Working Group agreed to be established by CMT</p>	Chief Executive	31 March 2023	



## Strategic Risks

### SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p><b>Risk cause:</b> 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</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive	<p>1. The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023.</p> <p>2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.</p> <p>3. Capital and Reserves Strategies in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure</p>	5	5	

	<p>Increasing population of 0-15 age group and at a time when there are rising customer expectations</p> <p>Policy decisions by UK &amp; Scottish Governments which are not fully funded.</p> <p>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.</p> <p>Future year pay award settlements.</p> <p><b>Risk event:</b></p> <p>Real terms reduction in core grant settlements.</p> <p>Policies decisions at Government level not fully funded to Council's.</p> <p>Implementation of a National Care Service and impact on grant settlements</p> <p>Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge.</p> <p>Cost pressures exceeding budget estimates.</p> <p>Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p><b>Risk effect:</b></p> <p>Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit.</p> <p>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.</p>	<p>Director Place, Director Health and Social Care, Head of Adult and Social Care;</p> <p>Chief Officer Corporate Solutions;</p> <p>Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships</p>	<p>pressures.</p> <p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in.</p> <p>6. Best Value Audit report actions.</p> <p>7. Strategic Boards in place to drive transformation in line with the Transformation Blueprint.</p> <p>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)</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q4 22/23:</b> An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.</p> <p>Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals 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</p>	Chief Finance Officer	27-June-2023	
SRP.RA.02.04	Strategic Plan 2023 to 2028	<p><b>Q4 22/23:</b> The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p>Q3 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to</p>	Chief Executive, Chief Finance Officer	27-June-2023	

		effect change and to move the Council to a position of financial sustainability.			
SRP.RA.02.05	Understanding impact of NCS Bill	<b>Q4 22/23:</b> Work paused <b>Q2 22/23:</b> COSLA and Social Work Scotland have formally requested a pause on the NCS Bill. <b>Q1 22/23:</b> Officer Working Group agreed to be established by CMT. Note details on the NCS Bill are currently limited – see new risk within Strategic Risk profile for further information and actions	Chief Executive	Paused	
NEW	Capital Plan prioritisation	<b>Q4 22/23:</b> Work progressing on Capital Plan prioritisation <b>Q3 22/23:</b> Work is ongoing to review the overall Capital Plan and committed expenditure, with a reprioritisation of the programme reflective of the escalating inflationary pressures. Reprioritisation plan to be presented to Council in Q4 for approval, aligned to the Medium Term Financial Strategy.	Executive Director Place, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	31 March 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	<b>Risk cause</b> 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 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  <b>Risk event</b> 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  <b>Risk effect</b>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating	1. Development of Strategic Plan, Transformation Blueprint and MTFS projections which come together to provide a framework to effect change and to move the Council to a position of financial sustainability. 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 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)	5	5	SRP.RR.02



	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	Officer Education, Chief Officer Young People and Partnerships				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	
SPR.IA.02.06	Strategic Plan 2023 - 2028	<b>Q4 22/23:</b> The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.  <b>Q3 22/23:</b> Q3 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.	Chief Finance Officer	27-June-2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<b>Q4 22/23:</b> An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.  <b>Q3 22/23:</b> Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals 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	Chief Finance Officer	27-June-2023	

### SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<b>Risk cause</b> Current or new legislation applying to Midlothian Council  <b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service	Chief Executive, Executive Director Children, Young People and Partnerships, Executive	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.	3	3	

	requirements.  <b>Risk effect</b> 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.	Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Legal and Governance Manager	4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan 7. BTSG oversight of new legislation 8. Central repository of applicable legislation.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 2	Rights of the Child Bill	<b>Q4 22/23:</b> No further progress from previous quarter. <b>Q3 22/23:</b> 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. Midlothian Council is beginning to roll out training with regards to the implication this new piece of legislation shall have on all services. <b>Q2 22/23:</b> 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.	Executive Director Children, Young People and Partnerships, Chief Social Work Officer	31-Mar-2023	
SRP.RA.03.0 3	National Care Service	<b>Q3 22/23:</b> COSLA and Social Work Scotland have formally requested a pause on the NCS Bill. <b>Q1 22/23:</b> Officer Working Group agreed to be established by CMT. Note details on the NCS Bill are currently limited – see new risk within Strategic Risk profile for further information and actions.	Chief Executive	31-Mar-2023	



SRP.RA.03.05	Standing Orders	<p><b>Q4 22/23:</b> The Standing Orders Working Group (SOWG) met in April 2023. The interim hybrid working protocol was reviewed and referred to Council. It was agreed in May 2023 by Council. SOWG will monitor the implementation of the interim protocol and will review in Q3/Q4 2023/24. The SOWG will meet in Q3 to review the revised changes to Standing Orders following its first meeting. It is anticipated that revised Standing Orders will be presented to Council late Q3/early Q4 for approval and implementation</p> <p><b>Q3 22/23:</b> The Standing Orders Working Group was approved and appointed at the Council meeting on 13.12.2022 and will meet in Q3 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.</p> <p><b>Q2 22/23:</b> 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.</p>	Executive Director Place; Chief Officer Corporate Solutions, Legal and Governance Manager	31- Mar 2024	
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#### SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p><b>Risk cause</b>  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</p> <p><b>Risk event</b></p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating	<p>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.</p> <p><b>Attendance / Wellbeing</b>  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.</p> <p><b>Performance</b>  1. Service-level workforce plans.</p>	3	4	




	<p>Employees not engaged/consulted as part of organisational transformation.</p> <p>Experienced employees leaving the organisation</p> <p>Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce</p> <p>Unacceptable behaviours demonstrated by employees</p> <p>Stated organisational culture not consistently reinforced by managers</p> <p>Poor employee performance will stifle transformational change</p> <p><b>Risk effect</b></p> <p>Difficulties recruiting the right staff</p> <p>Challenges retaining quality staff</p> <p>Low skill levels</p> <p>Low morale, especially during change</p> <p>High absence rates, loss of experience in service areas.</p> <p>'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge</p>	<p>Officer Education, Chief Officer</p> <p>Young People and Partnerships, HR Strategic Lead</p>	<p>2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced.</p> <p>3. Continued re-enforcement of all People Policies involving various communication methods.</p> <p>4. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p><b>Organisational Change</b></p> <p>1. Policy for Organisational Change includes strong emphasis on early engagement of employees.</p> <p>2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p><b>Conduct</b></p> <p>1. Resolution Policy encourages early intervention of workplace issues.</p> <p>2. Professional standards and values build into the induction process and management development programme.</p> <p><b>Communication</b></p> <p>1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans - including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting.	<b>Q3 22/23:</b> 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. <b>Q4 22/23:</b> Service Plans 2023-27 being presented to June Council for agreement. Workforce plans will then be developed aligned to agreed revised service plans agreed in June 2023; supporting workforce plans in place by June 2024.	HR Strategic Lead	31-Mar-2023	
SRP.RA.02.06	Workforce wellbeing	<b>Q3 22/23:</b> Continuing to embed the new Employee Health and Wellbeing Strategy.	HR Strategic Lead	31-Mar-2023	

### SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b></p> <p>Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p>	<p>Director Health and Social Care,</p> <p>Head of Adult Health and Social Care</p>	<p>1. Care at Home winter assurance plan and business continuity plan complete</p> <p>2. Development of Care at Home Service Improvement action plan near completion</p> <p>3. External commissioning complete and ongoing contract monitoring</p>	3	4	




	<b>Risk event</b> Capacity of Community Support outstripped by demand  <b>Risk effect</b> 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.		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 home support in place			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	<b>Q4 22/23:</b> Pause remains in place.  <b>Q3 22/23:</b> COSLA and Social Work Scotland have formally requested a pause on the NCS Bill.  <b>Q1 22/23:</b> NCS Bill published June 2022. Consultation at Stage 1, concludes in Sept. See separate risk on NCS for further information.	Head of Adult and Social Care; Chief Executive	30-Jun-2022	


### 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	<b>Risk cause</b> 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.  <b>Risk event</b> 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.	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care;	1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Condition Survey 4. Understanding of future asset needs 5. Asset Strategy: . Roads . Land . Fleet . Digital Service Network . Digital Service hardware	3	5	



	<b>Risk effect</b> 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 Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development	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 10 Building Accessibility Strategy			
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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.	<b>Q2 22/23:</b> 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.  Check w/Gareth	Chief Officer Place	31-Mar-2023	
SRP.RA.08.05	Learning Estate Strategy	<b>Q4 22/23</b> Due to a number of factors a number of key Learning Estate project remain at risk. Rising costs, labour shortage and availability of materials. Some of the LES priority projects are not funded in the existing Capital Plan. <b>Q2 22/23:</b> 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 Children, Young People and Partnerships, Head of Development	31-Mar-2023	
SRP.RA.08.06	Asset Management systems	<b>Q2 22/23:</b> Work is ongoing through Place services to identify appropriate asset management systems	Chief Officer Place	31-Mar-2023	


### 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	<b>Risk cause</b> The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents  <b>Risk event</b> There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident,	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health	<u>Potential</u> 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	3	4	

	<p>Pandemic, Utility disruption etc.</p> <p><b>Risk effect</b> 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</p>	<p>and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development, Senior Manager Protective Services, Health, Safety &amp; Resilience Manager</p>	<p>maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>04 – As part of the Council's Emergency response the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p> <p>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.</p> <p>06 – Care for People Group: Afghan, Ukrainian and UASC support programmes</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	<p><b>Q4 22/23:</b> Following recent participation in a number of emergency exercises a draft report has been prepared for CMT on Enhancing Organisational Resilience and Preparedness. This report also addresses progress with business continuity.</p> <p><b>Q3 22/23:</b> New Health, Safety and Resilience Team Manager in post</p> <p><b>Q2 22/23:</b> New Contingency Planning Officer in post and work progressing on improvement plan</p>	Chief Officer Place; Senior Manager Protective Services, Health, Safety & Resilience Manager	<p>30 June 2023</p> <p>30 Sept 2023</p>	
SRP.RA.09.03	Business Continuity System	<p><b>Q4 22/23:</b> Refer to point above.</p> <p><b>Q3 22/23:</b> Pilot areas identified and champions across Directorates for the roll out</p> <p><b>Q2 22/23:</b> 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</p>	Chief Officer Place; Senior Manager Protective Services, Health, Safety & Resilience Manager	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	<p><b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.</p> <p><b>Risk event</b> Failure in openness, accountability, clarity.</p> <p><b>Risk effect</b> Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life</p>	Chief Officer Corporate Solutions; Chief Executive; Chief Officer Place; Executive Director Place; Alan Turpie	<p>Potential sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non-compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p> <p>05 Standing Orders</p> <p>06 Scheme of Administration</p> <p>07 Scheme of Delegation</p>	2	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.10.0 1	Corporate Governance	<p><b>Q4 22/23:</b> Annual Assurance Statements to be presented to Audit Committee in June 2023 for 2022/23 year. See above for review of Standing Orders update.</p> <p><b>Q3 22/23:</b> Annual Assurance Statement submitted annually, People Policies and Standing Orders subject to review process (see separate risks contained within the strategic risk profile for further information)</p>	Executive Director Place; Chief Officer Corporate Solutions; Legal and Governance Manager	31-Mar-2024	

## SRP.RR.11 Corporate Policies and Strategies


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


	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.	Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	9. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 2	Accessibility Strategy	Q4 22/23: Education staff will work with Place colleagues to update the Accessibility Strategy for session 23/24 <b>Q3 22/23:</b> Work progresses through the building audit programme <b>Q2 22/23:</b> 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 Officer Place; Chief Operating Officer Education; Senior Manager Property and Facilities Management	31 Oct 2023 31-Mar-2023	
SRP.RA.11.0 5	Antisocial Behaviour Policy	<b>Q3 22/23:</b> Work continues	Chief Officer Place	31-Mar-2023	
SRP.RA.11.0 6	Strategic Plan 2023 - 2027	<b>Q3 22/23:</b> 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	Chief Executive; Chief Finance Officer	31-Mar-2023	
SRP.RR.11.0 1	Parental Engagement Strategy	Q4 22/23 – Positive engagement continues with Parents and learners. <b>Q3 22/23:</b> A Parental Engagement strategy and a Parent Council Toolkit have been developed and implemented in October 2022. The Parental Learner Liaison Officer continues to engage with parents and learners through Parent Council Chairs, Parent/ learner Conferences as well as hearing their voice through National Discussions and consultations. <b>Q2 22/23:</b> 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	Chief Operating Officer Education	31-Oct-2022	


		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.			
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## SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors Changing risk landscape associated with remote working solutions.</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> <li>Services have been prompted to consider fraud and waste within Service Risk Registers.</li> <li>Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls.</li> <li>Internal Audit examine internal control arrangements based largely on the risk registers.</li> <li>Whistleblowing Policy (subject to review)</li> <li>Internal and external assurance.</li> <li>E-learning for staff to complete mandatory training for fraud awareness.</li> <li>Implemented changes to business processes and procedures to maintain and enhance internal control.</li> <li>Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement.</li> <li>Continue remind staff of secondary employment/outside interests and gifts &amp; hospitality</li> <li>Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation.</li> <li>Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations.</li> <li>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.</li> </ol>	2	3	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.0 4	Review of Serious Organised Crime (SOC) group	<b>Q4</b> <b>Q3 22/23:</b> Review continues <b>Q2 22/23:</b> Review of SOC has begun with stakeholder engagement underway	Chief Officer Place	31-Mar-2023	

### SRP.RR.13 Climate Change


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p><b>Risk cause</b> Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act.</p> <p><b>Risk event</b> Council Services not responding to the Climate Change Act with sufficient pace.</p> <p><b>Risk effect</b> Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships; Senior Manager Planning, Sustainable Growth and Investment	<ol style="list-style-type: none"> <li>1. Statutory requirement to report on compliance with climate change duties.</li> <li>2. Council Carbon Management Plan</li> <li>3. Approval of a Corporate Climate Change Strategy and action plan</li> <li>4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress.</li> <li>5. Resilience Seminars</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 3	Recruitment of Climate Change Officer	<b>Q3 22/23:</b> Service Review continues.	Chief Officer Place; Senior Manager	31 March 2023	




			Planning, Sustainable Growth and Investment		
SRP.RA.13.0 4	Delivery of the BTB Board Carbon Neutral by 2030	<p><b>Q3 22/23:</b> Work underway to develop a fully costed Climate Change action plan to be presented to members in Q4 2022/23</p> <p><b>Q2 22/23:</b> 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.</p>	Chief Officer Place; Senior Manager Planning, Sustainable Growth and Investment	31-Mar-2030	
SRP.RA.13.0 5	Development of the Strategic Plan 2023-27	<p><b>Q3 22/23:</b> Carbon Neutral by 2030 is a strategic priority within the draft strategic plan</p>	Chief Officer Place; Senior Manager Planning, Sustainable Growth and Investment	31-Mar-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	<p><b>Risk Cause:</b> Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p><b>Risk Event:</b> The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p><b>Risk Effect:</b> If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Chief Social Worker	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</li> </ol> <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</li> </ol>	4	4	



	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.		<p>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</p> <p>6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council.</p> <p>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.</p> <p>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.</p> <p>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.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.03	Foster Care and Residential Care File Review	<b>Q4 22/23:</b> Inquiry has heard all the evidence for the Sect 21 submissions around foster care. Many CSWO's were called to give evidence around abuse within their local authority. Midlothian CSWO was not called to give evidence. This part of the inquiry is now concluded with learning from this due to be written up by around March 2023. This information is still not available, once it is the learning will result in an action plan being developed which we shall consider and ensure that our policies and practice are updated accordingly.	Children's Services Management Team; Chief Social Worker	31 March 2024	


### SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p><b>Risk cause</b> 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.</p> <p><b>Risk event</b> Failure to resource and plan for these rises will significantly</p>	Head of Adult and Social Care; Director of Education; Chief Executive; Executive Director Place; Joan Tranent	<p>1. Local development plan and supplementary guidance on developer contributions.</p> <p>2. Services planning future service provision on the basis of anticipated service demands</p> <p>3. The change programme</p> <p>4. Learning Estate Strategy</p> <p>5. Capital Plan Prioritisation</p> <p>6. Strategic Housing Investment Strategy</p> <p>7. Rent Review Strategy</p>	4	4	


	<p>impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>		<p>8. Joint needs assessment used to develop - IJB Strategic Plan</p> <p>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 delivery on assets required to support capital growth.</p> <p>10. City Deal provides the opportunity to support inclusive growth.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	<p><b>Q4 22/23.</b> A number of prioritised Learning Estate strategy projects are not funded within existing Capital Programme, some have external funding which is at potential risk.</p> <p><b>Q3 22/23:</b> Capital Plan prioritisation also includes Learning Estate Strategy expanded to meet statutory requirements</p> <p><b>Q2 22/23:</b> 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</p>	Director of Education; Executive Director Place	31-Aug-2023	
SRP.RA.16.0 2	Capital Plan reprioritisation	<p><b>Q3 22/23:</b> 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.</p>	Executive Director Place, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	31-Mar-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	<p><b>Risk cause</b> UK vote to leave the European Union</p> <p><b>Risk event</b> UK leaving the European Union</p> <p><b>Risk effect</b> The impacts associated with the UK's decision to leave the UK have yet to be realised and will only</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health	<p>01 – Risk and Resilience Group</p> <p>02 – Taking a risk management approach to identifying and assessing anticipated impacts</p> <p>03 – Working with a range of national and local bodies to inform preparatory arrangements.</p> <p>04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	4	5	



	become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.	and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.01	Refresh of Economic Strategy	<b>Q2 22/23:</b> Report recommendations agreed by Council in Oct 2022. Work is now underway to refresh the Economic Strategy by March 2023	Chief Officer Place	31 Aug 2023	


### SRP.RR.19 Health & Safety

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


	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.	Young People and Partnerships; Protective Services Senior Manager; Health, Safety and Resilience Manager				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.0 1	Delivery of Health, Safety and Wellbeing Strategy	<b>Q4 22/23:</b> A Health, Safety & Resilience Service Plan, 2023/24 has been drafted and is being implemented. <b>Q3 22/23:</b> Health, Safety and Resilience Manager started 9 January 2023. <b>Q2 22/23:</b> Appointment made for Team Manager Health, Safety & Resilience. Due to take up post in Jan 2023.	Chief Officer Place; Edel Ryan	2023/24 31-Mar-2023	
SRP.RA.19.0 7	H&S audit across all Council estate	<b>Q4 22/23: Health, Safety and Resilience Service Plan's revised suggested approach – Training, Self-Assessment and Audit.</b> <b>Zurich Insurance high level audit of H&amp;S due to start in July 2023.</b> <b>Q3 22/23:</b> Zurich rolling out training across the Council <b>Q2 22/23:</b> 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	2023/24 31-March-2023	


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<b>Risk cause</b> 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.  <b>Risk event</b> Failure to resource and plan for these rises will significantly	Chief Executive; Executive Director Place; Executive Director Children, Young People and Partnerships; Chief Finance Officer	1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections to be reviewed and updated 5. Business Support and Finance Business Partners reviewing external funding landscape closely for future funding options	4	5	


	<p>impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>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.</p> <p><b>Risk effect</b> Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.20.01	1140 future years funding	<p><b>Q4 22/23</b> Projects have been reviewed and rationalised to reflect the Learning Estate strategy, regular updates provided to Scottish Futures Trust. Sustainable rate discussions continue at a national level. Impact of uncertainty at a local level is a concern and may have a negative on provision.</p> <p><b>Q3 22/23:</b> No change – awaiting outcome of funding position</p> <p><b>Q2 22/23:</b> 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.</p>	Executive Director Children, Young People and Partnerships, Chief Finance Officer	31-Mar-2023	

## SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p><b>Risk Cause:</b> Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p><b>Risk Event:</b> The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and	<ol style="list-style-type: none"> <li>1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan</li> <li>2. Cyber Essentials Plus Certification</li> <li>3. Public Sector Network (PSN) Certification</li> <li>4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack</li> <li>5. Employing an Information Governance and Security Lead</li> <li>6. Implementing Scottish Government Cyber Security Action Plan</li> <li>7. Creating a Midlothian Cyber Defence Action Plan.</li> <li>8. Adoption of the NCSC (National Cyber Security Centre) Active</li> </ol>	3	5	



	<b>Risk Effect:</b> 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.	Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development, Senior Manager Protective Services, Health, Safety & Resilience Manager	Cyber Defence programme			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.21.1	Appropriate Technical and Organisational Measures	<b>Q4 22/23:</b> Action/mitigation includes:- 1. Appointment of Principal Data & Information Officer to implement best practices for security and information governance through configuration of new Microsoft modules 2. Staff phishing exercise completed 3. Cyber security training software implemented via MS Teams and deployed 4. Preparations completed for Q1 2023/24 PSN Audit/ Penetration Testing, and Cyber Essentials certification 5. Patching / server upgrades across various applications to ensure potential security vulnerabilities are closed 6. Continued engagement with NCSC and other public sector bodies to identify, share and implement any emerging cyber security best practices	Chief Digital Officer; Cyber Security, Information Governance and Compliance Manager	31-Mar-2023	

## SRP.IR.12 Cost of Living Crisis

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.12	<b>Risk cause</b>	Chief Executive,	1. Council Cost of Living Task Force to oversee the Council's response	3	5	

	<p>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.</p> <p><b>Risk event</b> Rapid ongoing rise of energy prices (gas, electricity and fuel) as well as food and drink prices.</p> <p><b>Risk effect</b> 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 (<a href="#">Office for National Statistics; Francis-Devine et al, 2022</a>). 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.</p>	Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care	<p>to the crisis</p> <ol style="list-style-type: none"> <li>2. Allocation of LACER funding to support those most affected</li> <li>3. Strategic Evaluation Partner appointed to create poverty profile</li> <li>4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health</li> <li>5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships)</li> <li>6. Child Poverty self-evaluation underway with Improvement Service</li> </ol>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.1	Cost of Living Task Force	<p><b>Q3 22/23:</b> Establishment of Warm and Welcoming Hubs in Lasswade and Newbattle libraries for the winter</p> <p><b>Q2 22/23:</b> 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.</p>	Chief Executive	31 March 2023	
SRP.RA.12.2	LACER funding	<b>Q2 22/23:</b> Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish re-heatable food initiatives.	Lifelong Learning and Employability	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 Children, Young People and Partnerships,	<ol style="list-style-type: none"> <li>1. Shawfair Landowners Group meets quarterly.</li> <li>2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure.</li> <li>3. Approved masterplan and design guide for the entire community</li> <li>4. Business and industrial provision, including small business incubator</li> </ol>	5	4	



		Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Senior Manager Planning, Sustainable Growth and Investment	space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision, currently not reflected in Capital Plan 7. New Primary schools 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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### SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Chief Executive, Executive Director Place, Chief Officer Place	1. Monitored by Economic Development. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Timely submission of bids for approval by the Blueprint Group 4. Close monitoring of approved funded projects. 5. Borders rail subgroup chaired by Midlothian Council Chief Executive.	5	4	

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


### 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	Chief Executive, Executive Director Children, Young People	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.	5	4	


	schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	and Partnerships, Executive Director Place, Director Health and Social Care, Head of Development	3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A 2	A701/A702 Trunk Road Improvements	<p><b>Q4 22/23</b> The funding gap associated with this project is estimated to be £33.2m. Midlothian Council submitted an application to the UKG Levelling Up Fund (LUF) to attract alternative funding into the project to close this gap. The application was unsuccessful. Alternative funding opportunities and means to phase and prioritise the programme are currently under consideration.</p> <p>A revision to alignments due to landfill avoidance and required increase in roundabout sizes at Bush Loan and the A702 Spur Road junctions was made to the specimen design. This is progressing with the target of submitting a planning application Q1 2024.</p>		31- March - 2024	

#### 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, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People	<p>1. City Deal signed in August 2018.</p> <p>2. Maintain strong Midlothian involvement through the City Deal governance structure.</p> <p>3. Midlothian City Deal Key Officer (Internal) Group.</p> <p>4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.</p>	4	5	



		and Partnerships,				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.0 2	Realisation of outcomes of respective work streams	<b>Q3 22/23:</b> Midlothian has now completed its year as chair. Work continues on the relevant programmes. <b>Q2 22/23:</b> 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.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	<p>Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care;</p> <p>Chief Officer Corporate Solutions;</p> <p>Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships,</p>	<p>1. Community Planning Partnership</p> <p>2. The Single Midlothian Plan</p> <p>3. Strategic Housing Investment Plan (SHIP)</p>	5	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RA.16.0 1	Capital Programme	Q4 22/23 Funding of statutory learning estate projects is required and not currently reflected in the Capital plan putting projects at potential risk, <b>Q3 22/23:</b> Capital Plan prioritisation also includes Learning Estate Strategy expanded to meet statutory requirements. <b>Q2 22/23:</b> 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	Director of Education; Executive Director Place	31-Aug-2023	
SRP.RA.16.0 2	Capital Plan reprioritisation	<b>Q3 22/23:</b> 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, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	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	<p>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.</p> <p><b>Risk event:</b> The Phase 2 <i>Equipped for Learning</i> 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.</p> <p>Programme is at risk of succeeding due to escalating inflation costs and resultant pressure on the overall capital plan budget, as well as resourcing to deliver Learning Estate programme.</p> <p><b>Risk Effect:</b> Without the technical support and appropriate infrastructure we will not achieve the change resulting in a negative impact on learners experiences and outcomes</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships,	<ol style="list-style-type: none"> <li>Digital Centre of Excellence at Newbattle Community High School</li> <li>Partnership agreement with the University of Edinburgh</li> <li>Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets</li> <li>Accelerating our ambition – Digital Strategy</li> <li>Review of Digital team to support Digital Centre for Excellence</li> </ol>	4	5	

		Head of Development				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	<b>Q2 22/23:</b> 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	
SRP.OP.A.07.03	Equipped for Learning	<b>Q3 22/23:</b> Appointment made for Google Administrator and commenced 4 Jan 2023. <b>Q2 22/23:</b> 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	
	Equipped for Learning	Delay in Google Roadmap. Requirement for digital services to progress	Education Chief Operating Officer	1 October 2023	