

Notice of Meeting and Agenda



Audit Committee

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

Date: Monday, 24 February 2025

Time: 11:00

Executive Director : Place

Contact:

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

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

Minute of Audit Committee 25 November 2024 submitted for approval 5 - 16

4.2 Action Log 17 - 18

5 Public Reports

5.1 Midlothian Council Annual Audit Plan 2024/25 - Draft, report by Audit Director, Audit Scotland 19 - 38

5.2 Local Government in Scotland: Financial Bulletin 2023/24, report for information, Audit Scotland 39 - 74

5.3 Treasury Management and Investment Strategy 2025/26 & Prudential Indicators, report by Chief Financial Officer & Section 95 Officer 75 - 152

5.4 Internal Audit Work to January 2025, report by Chief Internal Auditor 153 - 164

5.5 Internal Audit Mid-Term Performance Report 2024/25, report by Chief Internal Auditor 165 - 176

5.6 Internal Audit Charter, report by Chief Internal Auditor 177 - 190

5.7 Internal Audit Strategy and Annual Plan 2025/26, report by Chief Internal Auditor 191 - 206

5.8 Counter Fraud Annual Plan 2025/26, report by Chief Internal Auditor 207 - 212

5.9 Audit Committee Recruitment of an Independent Member, report by Chief Internal Auditor 213 - 224

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Monday 16 June 2025 at 11am.

Minute of Meeting

Audit Committee
Monday 24 February 2025
Item No 4.1



Audit Committee

| Date | Time | Venue |
|-------------------------|------|-------------------------|
| Monday 25 November 2024 | 11am | Council Chambers/Hybrid |

Present:

| |
|---------------------------|
| Councillor McEwan (Chair) |
| Councillor McCall |
| Councillor Bowen |

In Attendance:

| | |
|---------------------------------|--------------------------------------------------------------------------------------|
| Councillor Pottinger (virtual) | |
| Councillor Scott (virtual) | |
| Councillor Winchester (virtual) | |
| Dr Grace Vickers | Chief Executive |
| Kevin Anderson | Executive Director Place |
| Morag Barrow | Director of Health & Social Care: Midlothian HSCP Chief Officer to Midlothian IJB |
| David Gladwin | Chief Financial Officer and Section 95 Officer |
| Saty Kaur | Chief Officer Corporate Solutions |
| Derek Oliver | Chief Officer Place |
| Duncan Stainbank | Chief Internal Auditor |
| Michelle Strong | Education Chief Operating Officer |

| | |
|-----------------|-----------------------------------------------------|
| Gary Thomson | Senior Finance Business Partner |
| Alan Turpie | Legal and Governance Manager and Monitoring Officer |
| Patricia Fraser | Audit Scotland |
| Claire Gardiner | Audit Director, Audit Scotland |
| Lisa Young | Acting Senior Business Partner |
| Iina Jaara | Democratic Services Team Leader |
| Maria Perez | Democratic Services Officer |

1. Welcome and Apologies for Absence

The Chair welcomed everyone to the meeting of the Audit Committee.

Apologies were received from Councillor Milligan.

2. Order of Business

The order of business was as detailed in the agenda.

3. Declarations of interest

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

4. Minute of Previous Meeting

4.1 Minutes of the previous meeting held 30 September 2024 were submitted and approved as the correct record. Minutes were moved by Councillor McCall and seconded by Councillor Bowen.

4.2 The Action Log was submitted and noted.

5. Public Reports

| Report No. | Report Title | Submitted by: |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------|
| 5.1 | Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2024 | Audit Scotland |
| Outline of report and summary of discussion | | |
| <p>The Audit Director presented the report for noting.</p> <p>Audit Scotland completed two reports on the 2023-2024 accounts, including the Independent Auditor's report and the Annual Audit Report.</p> <p>The Audit Director referred to the International Standards in Auditing (ISA) 580 letter which is required by audit standards and discussed the financial statements' audit work. The Audit Director stated that the report provides an unmodified opinion on the annual accounts and in that regard everything is satisfactory.</p> | | |

The purpose of the Annual Audit Report's role is to highlight significant audit matters and unadjusted errors. The Audit Director stated that there are no errors for the financial year audited.

Appendix B in the report contains the Chief Financial Officer and Section 95's letter of representation which offers assurance on the matters of fraud, liability and any non-compliance with rules and regulations. The Audit Director asked the Elected Members to confirm if this letter aligns with their understanding of fraud or non-compliance.

Elected Members thanked the Audit Director for the reports and praised the good financial management shown by the Chief Financial Officer and Section 95's team.

The Audit Director explained that the Annual Audit Report concludes Audit Scotland's involvement for the financial year 2023-2024. Audit Scotland confirmed they had complied with ethical standards and remained independent. The Audit Director highlighted the following parts in the report:

Section 1- The Audit Director confirmed Audit Scotland is issuing an unmodified opinion.

Exhibit 1 highlights a materiality increase from planning which is linked to increased gross expenditure rather than an increase in the percentages applied or the benchmark used.

Exhibit 2 points out seven significant audit matters for the Elected Members' attention. These issues or errors have been discussed with management. The first three issues relate to non-current assets, and these have been highlighted to the Finance Team and Valuer:

- Condition ratings (received post year-end) led to the Valuer making adjustment on the value of Council buildings and resulted in an adjustment of £19 million in the accounts.
- Valuation process used for Council dwellings. While Audit Scotland found no material error, they recommend the Valuer considers rent yield factor for next valuation
- Two mixed use properties in which the majority use had not been reflected in the choice of the Building Cost Information Service code. This resulted in an adjustment of £1 million.

The Audit Director also highlighted holiday pay accrual and explained that the absence rates applied had an error which was corrected resulting in a £3 million adjustment.

Exhibits 3 and 4 in the report highlight risks identified during the audit process but in all instances Audit Scotland is satisfied these risks will not result in material misstatement in the annual accounts.

Sections 2 to 5 in the report flag that appropriate and effective financial arrangements are in place, and that the Council ended the financial year with a small budget underspend of £0.1 million. The report also identified some areas in

which controls could be strengthened. These are not seen by Audit Scotland as weaknesses but as areas for improvement.

The report also highlighted reserves diminished in year, and that the Council made use of the financial flexibilities around service concessions in year which has impacted the opening balance of reserves by moving it upwards by £20 million.

In terms of financial sustainability, the Council's Medium Term Financial Strategy has identified a budget gap of £20 million. The Audit Director stated that Midlothian Council is not underestimating the risk and is taking appropriate action to address sustainability.

The Audit Director stated that there is an effective governance and performance framework in place, summarised by the Best Value Report brought to this Committee in September 2024. The Workforce Strategy recommendations made in the Best Value Report are in the process of being implemented. The Audit Director thanked the Finance Team for their hard work and cooperation during the audit process.

Elected Members expressed their satisfaction with the findings of the Audit Scotland report and thanked all those involved.

The report was moved by Councillor McCall and seconded by Councillor Bowen.

Decision

The Audit Committee approved the recommendations in the report.

| Report No. | Report Title | Submitted by: |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------|
| 5.2 | Annual Accounts for the year ended 31 March 2024 | Chief Financial Officer and Section 95 Officer |
| Outline of report and summary of discussion | | |
| <p>he Chief Financial Officer and Section 95 Officer presented the report for decision.</p> <p>The Chief Financial Officer and Section 95 Officer noted that the draft annual accounts had been submitted to the Audit Committee on 24 June 2024 and passed to Audit Scotland. The Committee is asked to approve the audited annual accounts. It is a governance requirement for the annual accounts to be approved prior to the Chief Financial Officer and Section 95 Officer, Chief Executive and Council Leader signing them so that Audit Scotland can issue the audit certificate.</p> <p>During the last 5 months Audit Scotland carried out an extensive audit and issued an unmodified opinion.</p> <p>The Audit Director already addressed some areas of accounts that required adjustment which are also listed in section 3.2 of the Chief Financial Officer and Section 95's report:</p> <ul style="list-style-type: none"> • The error in the unused annual leave calculation has been amended, resulting in changes to the comprehensive income and expenditure account, increased creditor balance and increased statutory reserve for employee benefits. This is a non-cash adjustment. • In terms of accounting for non-current assets, the draft annual accounts were prepared with information available at the time. There was an asset condition survey carried out simultaneously, and after the findings of this survey were released, the decreased value of some assets resulted on a reduction of £19.5 million pounds. • Other adjustments have been made in the valuation methodology of mixed-use properties and housing stock discount factor but in either case these are non-cash adjustments and Council reserves were not affected. <p>The Chief Financial Officer and Section 95 Officer noted the challenging financial landscape and the difficulty to justify investing in additional resources. This mismatch between demand, focus, expectations of auditors and the need to provide resource allocations by Councils has been observed at a national level.</p> <p>The third adjustment impacts the value of Midlothian Energy Limited, in which the Council holds a 50% share consolidated in group accounts. Again, this has not resulted in a change to reserves.</p> <p>Finally, the Scottish Government changes to non-domestic rates have resulted in some adjustments to the creditor accounts. This has not impacted cash reserves. In response to feedback received from Audit Scotland and Elected Members, there have been other minor adjustments to the annual accounts.</p> | | |

The Chief Financial Officer and Section 95 Officer noted that Audit Scotland found the papers provided to be of good standard and that colleagues in the Council had worked well with auditors during the audit process.

The Chief Financial Officer and Section 95 Officer highlighted reserve sustainability which along with the budget gap are the main challenges noted in the report. Members were reminded that the usable reserves in March 2023 had £33 million in the Housing Revenue Account to support the Council's housebuilding program. The Capital Fund had £17 million earmarked to support capital investment. Midlothian's growth is putting pressure on this fund as new infrastructure is required. Another £4 million was earmarked for repairs and renewals as part of the Public Private Partnership (PPP) accounting regime. The General Fund had £46 million, most of which was either cross-year flexibility or to be released in the coming years to support recurring expenditure whilst longer-term sustainable change is made.

Planned utilisation of reserves leaves the Council with £9 million of non-earmarked reserves, which have decreased to £6.8 million reflecting the pressures of the current financial year. The Chief Financial Officer and Section 95 Officer warned that Council reserves are getting close to the minimum 2% figure of £4.8 million.

Elected Members asked whether retrofitting a property affects the value of the asset, and in that case whether re-evaluation is needed. The Chief Financial Officer and Section 95 Officer confirmed that investment in assets is reflected in the value of those assets.

Councillor McCall moved to approve the 2023-2024 audited annual accounts, Councillor Bowen seconded the motion.

Decision

The Audit Committee approved the audited annual accounts for the financial year ending 31 March 2024 for signature in light of the appointed auditor's report.

| Report No. | Report Title | Submitted by: |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------|
| 5.3 | Treasury Management Mid-Year review 2024/2025 | Chief Financial Officer and Section 95 Officer |
| Outline of report and summary of discussion | | |
| The Chief Financial Officer and Section 95 Officer presented the report for noting. The report informs Elected Members of treasury management activity undertaken during the first half of 2024/2025 and the forecast activity for the second half of 2024/2025 in accordance with the Treasury Management and Annual Investment Strategy approved by Council on 27 February 2024. Elected Members are invited to comment on this report which is to be presented to Council on 17 December 2024. | | |

Section 3 of the report provides background information on the role of the Audit Committee in treasury management.

Section 4 provides a summary of the economic environment of the first half of this financial year.

Section 5 describes the main areas of treasury activity.

The position on 31 March 2024 showed an under borrowed position of £60.9 million which had increased to £67.8 million by 30 September 2024. The Council took advantage of low interest rates in August to secure two £10 million loans for a 4-5 year period. A further £10 million was borrowed last week under the same rationale, with the additional risk mitigation that it would allow the Council not to rely on internal borrowing. Table 2 on page 184 shows information on the Council's funds on deposits showing little variation between the deposit values on 31 March and 30 September 2024.

Section 6.6.1 provides an update on economic conditions post-UK budget showing an increase in inflationary pressures and section 6.6.2 shows expected treasury activity for the second half of the financial year 2024/2025. Through effective treasury decisions the Council avoided the need to borrow during the period of high interest rates. The Chief Financial Officer and Section 95 Officer stressed the need to not overly rely on internal borrowing and added that the Finance Team will continue to explore favourable borrowing opportunities.

Section 8 shows Midlothian's performance indicators compared to other Local Authorities. Data on other Local Authorities' loan fund rate is provided for comparison and illustrates the financial benefits of the current treasury management strategy for Midlothian Council.

Elected Members congratulated the Chief Financial Officer and Section 95 Officer for their probity and efficient bookkeeping.

Councillor McCall moved to adopt the recommendations in the report, seconded by Councillor Bowen.

Decision

The Audit Committee noted the recommendations set out in the report.

| Report No. | Report Title | Submitted by: |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------|
| 5.4 | Internal Audit Work to October 2024 | Chief Internal Auditor |
| Outline of report and summary of discussion | | |
| The Chief Internal Auditor presented the report for decision. The report informs Members of the recent work carried out by the Internal Audit Team and the findings and actions agreed by management to improve internal controls and governance arrangements. | | |
| The Chief Internal Auditor highlighted that final assurance reports have been completed for Attainment Scotland Funding and Midlothian Energy Limited which show that risk management, governance and controls are reasonable. Midlothian | | |

Energy Limited is a 50/50 joint venture established in 2020 between Vattenfall and Midlothian Council to provide low carbon heating and eventually other energy solutions. Key agreements including a shareholders' agreement and concession agreement are in place between both organisations.

The internal audit work on Midlothian Energy Limited has identified the following areas for improvement:

- Although financial extracts are provided to Midlothian Energy Limited, full management accounts as required by the shareholders agreement are not being provided.
- There is no separate risk register for approved projects approved or an overall risk register for Midlothian Energy Limited and no separate risk management policy.

The Chief Internal Auditor advised that page 215 in the report contains the Attainment Scotland Funding summary. The Attainment Scotland Funding is distributed from the Scottish Government to Local Authorities and is composed of funds from Pupil Equity, Strategic Equity and Care Experienced Young People Funding. Midlothian Council fully allocates Pupil Equity Funds to schools. The report highlights that there are processes and governance in line with Council procedures and national guidance. However, some issues were identified, and the report recommends that they are addressed, and management have agreed to complete by March 2025:

- Schools have not provided an annual audit report of the use of their school fund since the pandemic.
- Transfers from Pupil Equity Funds to schools increased significantly over the past two years and processes have not yet been established for schools to formally report on their use of the Pupil Equity Funding.
- There is no service level agreement for the use of Pupil Equity Funds for play therapy in primary school settings.
- The Care Experienced Young People Fund does not have a service level agreement for their provider of art therapy supplies

Elected Members thanked the Chief Internal Auditor for the report. Councillor McCall recommended the adoption of this report and Councillor Bowen seconded this motion.

Decision

The Audit Committee approved the recommendations set out in the report.

| Report No. | Report Title | Submitted by: |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------|
| 5.5 | Follow-Up Review of Completed Internal Audit Recommendations and Progress Update | Chief Internal Auditor |
| Outline of report and summary of discussion | | |
| <p>The Chief Internal Auditor presented the report for decision. The report updates Elected Members on the results of the internal audit follow-up review including a sample check on the adequacy of new internal controls for internal audit recommendations which were marked as completed by management in the period April 2023 to March 2024. The report also updates Elected Members on the status of the implementation by management of recommendations from Internal Audit Reports.</p> <p>From a sample of 33 recommendations, 22 have been completed in a satisfactory manner, 7 have been partially completed and 4 are yet to be completed. Of the 7 partially completed recommendations 5 are low rated and the remaining 2 are medium rated, and all are to be taken to finalisation by management.</p> <p>Of the 4 not yet completed recommendations, 2 are medium rated and 2 are low rated. One of the partially completed recommendations has been confirmed as closed since the completion of this report brings the number of partially completed recommendations down to 6 which will be monitored until completion by management and internal audit within the Council.</p> <p>Appendix 1 on page 221 provides a list of recommendations which are past their target dates.</p> <p>The Chief Internal Auditor summarised that the report shows management are taking appropriate steps to implement recommendations made by the Internal Audit Report however competing priorities sometimes delays this process.</p> <p>Elected Members pointed out that Appendix 1 in the report needs to be updated as some of the action owners have left Midlothian Council. The Chief Internal Auditor advised this would be updated.</p> <p>Councillor McCall recommended the adoption of this report with the above amendment and Councillor Bowen seconded this recommendation.</p> | | |
| Decision | | |
| The Audit Committee accepted the recommendations set out in the report. | | |
| Action | | |
| Chief Internal Auditor to update Appendix 1 in report with the correct overdue action owners. | | |

| Report No. | Report Title | Submitted by: |
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| 5.6 | Audit Scotland Report: The National Fraud Initiative in Scotland 2024 | Chief Internal Auditor |
| Outline of report and summary of discussion | | |
| <p>The Chief Internal Auditor presented the report for noting. The report informs Elected Members of Audit Scotland's National Fraud Initiative 2024. Midlothian Council continues to be involved in the National Fraud initiative which involved 110 public sector bodies and takes place every two years.</p> <p>The report highlights the following key findings:</p> <ul style="list-style-type: none"> • £21.5 million in fraud and payment errors across the Scottish public sector, increasing from £14.9 million in 2021. Although savings have increased from £4.5 million to £5.7 million similar to the 2018/19 savings, some of the other increases in savings and notional outcome estimates are due in part to methodology changes. • £4.5 million was saved through Council tax discounts by removing ineligible claims, £1.2 million through housing benefit overpayments and £1.5 million from preserved occupational pensions where the claimant has passed away. <p>Th Chief Internal Auditor explained that these findings were included in the Annual Fraud Report presented to the Audit Committee in June 2024. The findings showed £444,000 in fraud and payment errors from Midlothian Council which are included within National Fraud Initiative results. The Council's Counter Fraud Team is working together with the National Fraud Initiative and further matches for the new exercise will be available in December 2024.</p> <p>Elected Members asked if it is possible to carry out recovery actions on discovering overpayment of a deceased person's pension. The Chief Officer Corporate Solutions advised that there is a process to recover monies from a deceased person's estate and the decision whether to carry out recovery is made on a case-by-case basis. This recovery process would not apply for pensions because these are not administered by the Council.</p> <p>Elected Members asked if artificial intelligence is used to identify fraud. The Chief Internal Auditor stated that there is continuous improvement in the data and joint working with the Department of Work and Pensions, but that there is no artificial intelligence involved in the process.</p> <p>Elected Members noted that the number of applicants taken off the housing list has increased and asked whether the Council has the correct information. The Chief Internal Auditor stated that individuals were removed after a data matching exercise. The Executive Director Place advised that the last data review process took place during the pandemic and a new review is due. They advised that matching is done based on applicants' declarations and if any individuals are removed from the housing list this is due to their circumstances being inconsistent with this declaration.</p> | | |

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|------------------------------------------------------------------------------------------------------------------------|
| Councillor McCall moved to adopt the recommendations in the report, and Councillor Bowen seconded this recommendation. |
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| Decision |
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| The Audit Committee noted the recommendations set out in the report. |
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6. Private Reports

No items for discussion.

7. Date of Next Meeting

The next meeting will be held on Monday 24 February 2025 at 11:00am.

The meeting ended at 11.54am.

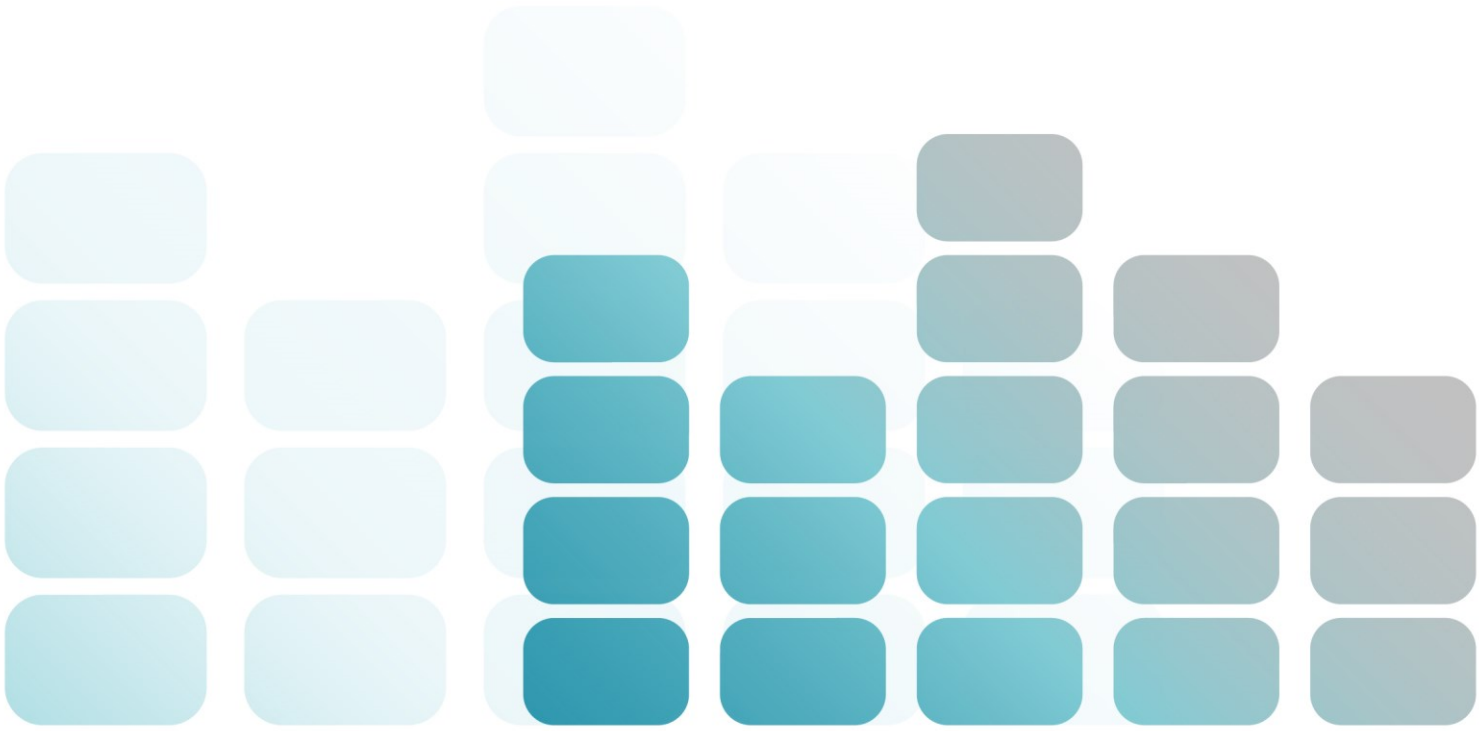
Audit Committee Action Log

| No | Date of Meeting | Item No and Title | Action | Action Owner | Expected completion date | Comments |
|----|-----------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------|-------------------------|------------------------------------------|--------------------------------------------------------------------------------------------|
| 1 | 5.1 Treasury management | 06/12/2022 | Session with members to be organised with regards to responsible treasury management/ethical issues. | Chief Financial Officer | February 2025 | An update will be provided in the Treasury Management and Investment Strategy for 2025/26. |
| 2 | 5.5 Risk Management Update – Strategic Risk Profile Quarter 1 2024/25 | 30/09/2024 | Review report to determine if risk scores linked to cost of living and Care at Home need to be upgraded. | Chief Officer Place | Dec 2024 in line with Q2 risk reporting. | A combined Q2 and Q3 Strategic Risk Report submitted to Audit Committee on 24 February. |

| No | Date of Meeting | Item No and Title | Action | Action Owner | Expected completion date | Comments |
|----|--------------------------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------|------------------------|--------------------------|------------------------------------------------------------------------------------------------------|
| 3 | 5.5 Follow-Up Review of Completed Internal Audit Recommendations and Progress Update | 25/11/2024 | Data in Appendix 1 - Overdue Actions to be reviewed and updated so the name of action owners is correct. | Chief Internal Auditor | December 2024 | Completed - report updated to show the correct action owners. Recommended for closure. |

Midlothian Council

Annual Audit Plan 2024/25 - DRAFT



Prepared for Midlothian Council
February 2025

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| Other matters | 17 |

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of the Midlothian Council annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Claire Gardiner of Audit Scotland has been appointed by the Accounts Commission as external auditor of Midlothian Council (the council) for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. The appointed auditor and the audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the council to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on the arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, and the Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information

reported within the annual accounts and concluding on arrangements in place for the wider scope areas.

8. Midlothian Council's responsibilities

9. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual accounts

Introduction

10. The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

12. Materiality determines whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Materiality is ultimately a matter of the auditor’s professional judgement.

13. The materiality levels determined for the audit of the council and its group are outlined in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for Midlothian Council and its group

| Materiality | Midlothian Council and its group |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Materiality – Based on an assessment of the needs of users of the financial statements and the nature of the council’s operations. The benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark. | £11 million |

| Materiality | Midlothian Council and its group |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 70% of planning materiality. | £7 million |
| Reporting threshold – all misstatements greater than the reporting threshold will be reported. | £0.5 million |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team's cumulative knowledge of the council including:

- the nature of its operations and its significant transaction streams
- the system of internal control
- governance arrangements and processes; and
- developments that could impact on its financial reporting.

15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks.

16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the council and those charged with governance, where relevant.

Exhibit 2**Significant risks of material misstatement to the financial statements**

| Risk of material misstatement | Planned audit response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. |

| Risk of material misstatement | Planned audit response |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Valuation of property, plant and equipment</p> <p>The council held £1 billion of land and building assets at 31 March 2024.</p> <p>The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that the council ensures the financial statements accurately reflect the value of the land and buildings.</p> <p>Due to the inherent complexity and subjectivity involved, a significant risk of material misstatement for valuations has been identified.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. |

Source: Audit Scotland

Key audit matters

17. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.

- Significant events or transactions that occurred during the year.

19. In addition to the significant risks of material misstatement in Exhibit 2 the following key audit matters have been identified as part of our planning process and will be reported on in our Annual Audit Report.

20. Pension Valuation: The valuation requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in the assumptions can result in material changes to valuations. 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.

21. IFRS 16 takes effect for local government bodies from 1 April 2024. This will change the way in which Midlothian Council accounts for service concession arrangements and operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. We will review the accounting treatment and disclosures made in relation to the new standard in line with guidance.

Group audit

22. The council is part of a group and prepares group financial statements. Midlothian Council is the parent of the group which includes five other components.

23. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

| Group component | Accounting treatment | Risk of material misstatement | Audit procedures required | Auditor |
|--------------------|----------------------|-------------------------------|---------------------------|----------------|
| Midlothian Council | Parent body | Yes – Exhibit 2 | Yes – full scope audit | Audit Scotland |

| Group component | Accounting treatment | Risk of material misstatement | Audit procedures required | Auditor |
|----------------------------------------------------|--------------------------------------|-----------------------------------------------------|----------------------------------------|------------------|
| Trusts, bequests, common good community funds | Consolidated on a line-by-line basis | No – not material to the group financial statements | Group level analytical procedures only | Audit Scotland |
| Pacific Shelf 826 Ltd (Subsidiary) | Consolidated on a line-by-line basis | No – not material to the group financial statements | Group level analytical procedures only | Henderson Loggie |
| Lothian Valuation Joint Board (Associate) | Accounted for on equity basis | No – not material to the group financial statements | Group level analytical procedures only | Audit Scotland |
| Midlothian Integration Joint Board (Joint Venture) | Accounted for on equity basis | No – not material to group financial statements | Group level analytical procedures only | Audit Scotland |
| Midlothian Energy Ltd (Joint Venture) | Accounted for on equity basis | No – not material to the group financial statements | Group level analytical procedures only | PWC |

Source: Audit Scotland

24. Where audit procedures are required on a component's financial statements, and the component auditor is different to the council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

Wider scope and Best Value

Introduction

25. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the council's medium- to longer-term planning for service delivery.

This area remains a significant risk across the local government sector for all councils including Midlothian, especially in the longer term. This area is being actively managed by the council with appropriate financial plans in place which are subject to regular review. We will continue to review and assess the arrangements in place at the council to ensure operations are financially sustainable.

- **Vision, Leadership and Governance** – – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

26. A conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of the wider scope areas will be reported in the Annual Audit Report

Best Value

27. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

Best Value thematic review 3: Transformation

28. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council.

29. The thematic review for 2024/25 is about service transformation and involves considering how the council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report, where required.

30. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. Midlothian Council is included in the fifth year of the programme.

Significant wider scope and Best Value risks

31. No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

Reporting arrangements, timetable and audit fee

Audit outputs

32. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to the council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, and recommendations.

33. The matters to be reported will be discussed with the relevant senior officers of the council for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

34. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2025 for local government bodies.

35. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date 30 September 2025.

Audit timetable

36. Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the council and reported to those charged with governance, where required.

Exhibit 4

2024/25 audit timetable

| Audit activity | Midlothian Council target date | Audit team target date | Relevant committee date |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|-------------------------|
| Issue of Annual Audit Plan | N/A | 31 March 2025 | 24 February 2025 |
| Annual Accounts | | | |
| Consideration of unaudited annual accounts by those charged with governance | 30 June 2025 | N/A | 16 June 2025 |
| Latest submission date for the receipt of the unaudited annual accounts with complete working papers package. | 1 July 2025 | N/A | N/A |
| Latest date for final clearance meeting with the Director of Finance | 29 August 2025 | 29 August 2025 | N/A |
| Agreement of audited and unsigned annual accounts and issue of draft Letter of Representation, proposed Independent Auditor's Report, and draft Annual Audit Report | Autumn 2025 Date TBC | Autumn 2025 Date TBC | Autumn 2025 Date TBC |
| Signed Independent Auditor's Report | Date TBC | 30 September 2025 | Date TBC |
| Housing Benefit grant claim, NDRI return | 30 September 2025 | 31 December 2025 | N/A |
| Best Value 3 Transformation | | | |
| Issue of Best Value Management Report | 2 June 2025 | 2 June 2025 | 16 June 2025 |

Source: Audit Scotland

Audit fee

37. Midlothian Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The planned audit fee for 2024/25 is £295,490 (2023/24: £289,950).

38. In setting the audit fee, it is assumed that the council has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

39. The council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

40. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

41. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

43. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

44. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

45. Audit Scotland may periodically seek the views of the council on the quality of audit services provided. The audit team would also welcome feedback at any time.

Midlothian Council

Annual Audit Plan 2024/25 - DRAFT - Draft



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Local government in Scotland

Financial bulletin 2023/24



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
January 2025



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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

Some of these are based on a sample – see paragraph 4 for further information on our methodology

Funding and budgets

- **1.8 per cent:** the real-terms reduction in revenue funding from the Scottish Government in 2023/24 compared to 2022/23
- **21 per cent:** the proportion of Scottish Government revenue funding that was ring-fenced or directed towards national policy commitments in 2023/24
- **£759 million:** the budget gap identified by our sample of 29 councils at the start of 2023/24. The 2024/25 budget gap identified by all 32 councils was £585 million
- **1.2 per cent:** the real-terms reduction in capital funding from the Scottish Government in 2023/24 compared to 2022/23.

Financial performance

- **3.3 per cent:** the real-terms reduction in councils' total revenue funding and income in 2023/24 compared to 2022/23
- **9 out of 29:** the number of councils that reported overspends against their agreed revenue budgets
- **11 out of 30:** the number of councils that achieved all their planned savings
- **25 out of 30:** the number of councils that reported lower expenditure than planned across their capital programmes in 2023/24
- **£19.8 billion:** councils' net debt in 2023/24, a 15.8 per cent increase on 2022/23, as councils become more reliant on borrowing to finance their capital programmes.

Financial position and outlook

- **5 per cent:** the decrease in councils' total usable reserves
- **84 per cent:** the proportion of the General Fund that is committed
- **12 out of 29:** the number of councils that made unplanned use of their reserves in 2023/24 to manage budget pressures
- **15 out of 30:** the number of councils that have long-term financial plans in place, with councils reporting difficulty planning for the longer term due to future uncertainty.

Key messages

Despite an increase in overall revenue and capital funding for councils in 2024/25, and the Scottish Government's budget proposals in December 2024 indicating a further real terms uplift in funding for 2025/26, the financial outlook for Scotland's councils remains challenging.

- 1** In 2023/24, councils' total revenue and income fell, including another real terms decrease in revenue funding from the Scottish Government. Councils are increasingly reliant on identifying savings, which becomes progressively more difficult year-on-year, and again used reserves to remain within their agreed budgets.
- 2** In 2023/24, capital funding remained constrained, with councils borrowing more and managing a range of complex funding models. Capital funding from the Scottish Government reduced slightly in real terms, continuing a longer-term trend. Capital expenditure was lower than planned. Councils continue to borrow more to enable investment in their estates and council debt, and annual interest costs, continue to increase.
- 3** In 2023/24, usable reserves, which are those that can be used to support service delivery, reduced and most are already committed for specific purposes. This presents an ongoing challenge for councils reliant on reserves to balance their budgets, as well as to longer-term financial sustainability. Using reserves to routinely balance budgets is not sustainable.

- 4 Councils need to intensify transformation activity, progressing at scale and pace to ensure their financial sustainability. How councils plan to use their reserves, make savings and transform their services needs to become more transparent. The need to consult local communities and clearly communicate the implications for local services of the budget decisions taken has never been more important.
-

Recommendations

In 2025, councils should:

- Report on the savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring ([paragraphs 29 - 30](#)).
- Ensure that the impact of capital underspends, future borrowing projections and of using financial flexibilities on their indebtedness are reported clearly alongside the impact of these on future revenue budgets ([paragraphs 34 - 41](#)).
- Ensure reserves policies indicate explicitly and clearly the impact of financial flexibilities on reserves held; the nature, level of and intended timing of the deployment of committed usable reserves held; and the level of uncommitted and contingency funding held within General Funds ([paragraph 54 and Case study](#)).
- Prioritise service transformation, considering the impact of current service delivery models on longer-term financial sustainability, including the medium-term impact on reserve levels ([paragraphs 61 - 62](#)).
- Ensure that financial sustainability becomes a central focus of financial monitoring and reporting, making greater use of financial sustainability indicators within reports to elected members and within their regular public reporting and financial strategies and plans ([paragraphs 63 - 67](#)).

We note progress against the recommendations from our [Financial bulletin 2022/23](#) in [Appendix 1](#).

Introduction

About this report

1. This report is part of a series of overview outputs produced by the Accounts Commission which together provide an independent overview of the financial and operational performance of Scotland's local government sector.

2. This report examines councils' financial performance in 2023/24. This follows the unprecedented challenges of the Covid-19 pandemic and cost-of-living crisis and sits against a backdrop of the whole of the Scottish public sector facing challenges to its financial sustainability. The bulletin sets out:

- councils' funding and budget-setting
- councils' financial performance
- councils' position at the end of 2023/24 and the financial outlook.

3. In spring 2025, we will publish a budget briefing examining the 2025/26 budgets set by councils, including analysis of anticipated budget gaps and the decisions made by councils when setting their budgets. This will be followed by a report focused on service performance later in 2025.

Methodology

4. The primary sources of information for this report are councils' 2023/24 accounts and annual audit reports, a data request issued to councils in October 2024 and Scottish Budget documents.

5. Our findings are based primarily on:

- The 2023/24 annual accounts for 29 councils (20 audited and nine unaudited). At our 2 December 2024 deadline, accounts were unavailable for Clackmannanshire, Eilean Siar and East Dunbartonshire and these councils are not included in our 2023/24 analysis (or comparisons to previous years).
- Supplementary information from 30 councils collected via a data return issued to council directors of finance and was also reviewed by appointed auditors. At our 25 November 2024 deadline, data returns were unavailable for Clackmannanshire and Eilean Siar and these councils are not included in our analysis. We also utilised

elements of data returns previously submitted to us in support of our [Financial bulletin 2022/23 report](#).

- Scottish Government Budget documents. Our analysis of Scottish Government funding reports on the funding position for all 32 of Scotland's councils.

6. When looking at trends, we convert some figures to real terms.

This adjusts financial information from past and future years to prices for the year under review (ie, 2023/24). This is to take account of inflation so that trend information is comparable. To adjust for inflation, we use gross domestic product (GDP) deflators, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK Government and Scottish Government when analysing public expenditure.

7. Financial trend data (both capital and revenue) relating to funding, income or expenditure will generally be shown in real terms. Financial information from the councils' accounts' balance sheets remains unadjusted. This includes trend analysis on reserves, sources of capital finance, borrowing and debt. These are not adjusted to real terms as they are already subject to revaluations within the councils' accounts to reflect current prices.

1. Council funding and budgets

Both revenue and capital funding from the Scottish Government to councils were reduced in real terms in 2023/24, with councils once again setting budgets that required significant gaps to be addressed.

Councils are reliant on Scottish Government funding which makes up over 60 per cent of income

8. As the largest source of funding or income for councils, at over 60 per cent, Scottish Government funding shapes the fiscal environment that councils operate in. Currently councils receive a single year settlement, with a draft allocation published in the Scottish Budget in December. This is revised throughout the year and in recent years a low initial settlement has been followed by large additional transfers during the financial year.

9. In 2023/24, the Scottish Government allocated councils total revenue and capital funding of £13.7 billion. This settlement was higher than before the pandemic but in real terms funding was reduced year-on-year since 2020/21. The 2024/25 settlement has reversed this trend and the 2025/26 draft settlement published in December 2024 indicates another real-terms uplift in funding for councils ([Exhibit 1, page 10](#)).

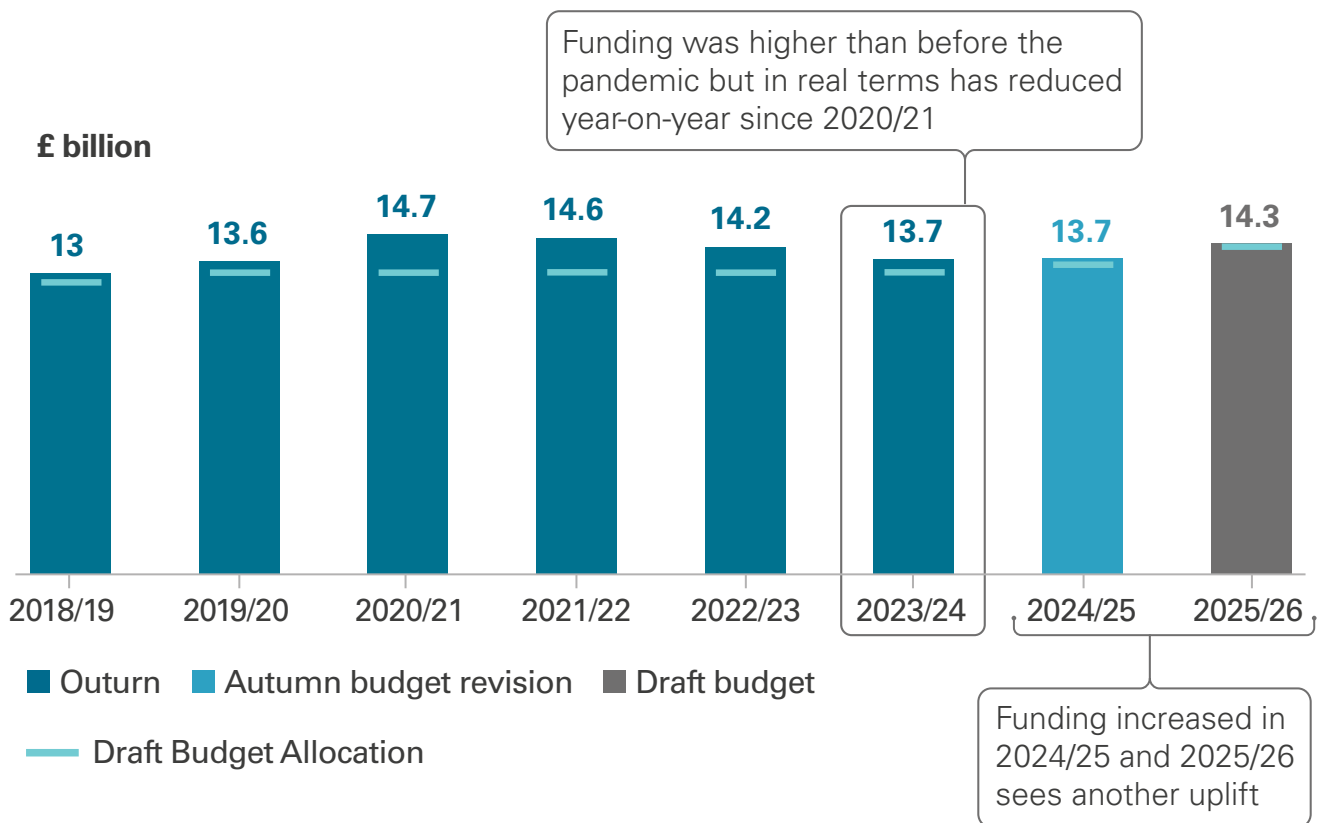
10. This initial 2025/26 draft settlement allocates £15 billion of revenue and capital funding to councils, a 5.8 per cent real terms increase on the 2024/25 draft settlement. Increases to revenue funding include an uplift to the general revenue grant, funding for pay awards and teachers' pensions. Increases to capital include additional funds to support inter-islands connectivity and climate change. There is still uncertainty as to how increased employers' National Insurance (NI) contributions, announced by the UK Government, will be funded. The Convention of Scottish Local Authorities (COSLA) estimates these will be an additional £265 million cost pressure for councils in 2025/26.

11. The funding increase for councils recently announced as part of the Scottish Government's 2025/26 draft budget in December 2024 does not change the fact that the financial outlook remains challenging ([Part 3](#)). We will examine the implications of the Scottish Budget for councils' own budget-setting in our next Local government in Scotland publication, [Local government budgets 2025/26](#).

Exhibit 1.

Scottish Government revenue and capital funding to councils since 2018/19 in real terms

Funding in 2023/24 was higher than before the pandemic but in real terms has reduced year-on-year since 2020/21. This trend reversed in 2024/25 and 2025/26 sees a further funding uplift.



Note: Draft budget allocations include transfers from other portfolios. 2020/21 and 2021/22 totals include Covid-19 funding allocations. Barnett consequentials (and other funding) will be allocated to 2024/25 in the Spring Budget Revision. The draft 2025/26 settlement will be subject to additional in-year allocations that are already included in earlier year totals.

Source: Scottish Government Budget documents

Revenue funding from the Scottish Government fell by 1.8 per cent in real terms in 2023/24, despite significant in-year allocations

12. In 2023/24, revenue funding from the Scottish Government (at the spring revision) was £12.7 billion, a 4.2 per cent cash increase on the previous year but 1.8 per cent lower in real terms. General revenue grant funding and non-domestic rates combined decreased by 1.5 per cent. Specific revenue grants saw no cash increase which meant a reduction of 6.9 per cent in real terms.

13. Some further Scottish Government funding received by councils, although not formally ring-fenced, is provided with the expectation that it is directed to specific purposes. This is announced and distributed to councils in-year. In 2023/24, councils received an additional £1.6 billion at the autumn revision including additional funding to support teachers' salaries as well as the expected transfers from other portfolios including health and education. A further £0.3 billion was transferred from other portfolios at the spring revision.

14. In 2023/24, we calculated that ring-fenced and directed funding amounted to almost £2.7 billion, which is 21 per cent of Scottish Government revenue funding to councils. This is lower than in 2022/23. In the 2024/25 Scottish Budget, following a commitment in the Verity House Agreement to reduce the level of ring-fenced funding, a number of ring-fenced or directed items were 'baselined' into the general revenue grant. This includes all £522 million of the early learning and childcare specific revenue grant and £429 million of in-year transfers including adult social care Living Wage funding, Free Personal and Nursing Care and Free School Meals Intervention. While no longer ring-fenced, spending will still need to be directed towards these policies. In the 2025/26 Scottish Budget, initial indications do not show any significant alterations.

Councils identified £759 million of budget gaps at the start of 2023/24, and planned to use savings and reserves to address these

15. Councils set their own budgets in February and March for the financial year ahead using the initial allocation from the Scottish Government. At the time of setting their 2023/24 budgets, councils in our sample of 29 identified a cumulative **budget gap** of at least £759 million for the year. This represented a budget gap of 4.8 per cent of the total net cost of services.

16. To close the budget gap and set a balanced budget, councils took a range of actions. Over 90 per cent was covered by agreeing:

- to make £260 million of recurring savings (34 per cent of the total share)
- to make a further £30 million of non-recurring, one-off savings (four per cent)
- to use £202 million of reserves (26 per cent)
- to raise £144 million through increases to council tax (19 per cent)
- to use £73 million of funding released via application of financial flexibilities (nine per cent)¹ ([Exhibit 2, page 13](#)).



During the budget-setting process, councils may identify a **budget gap**, which is the difference between their anticipated expenditure for the year and the funding and income they expect to receive. Councils will identify and agree bridging actions to allow them to set a balanced budget. This may include an agreement on savings to be made during the year.

¹ The budget gap and values that make up the bridging actions vary from those published in last year's Financial bulletin as the sample is different and additional data returns were received post publication that are now included.

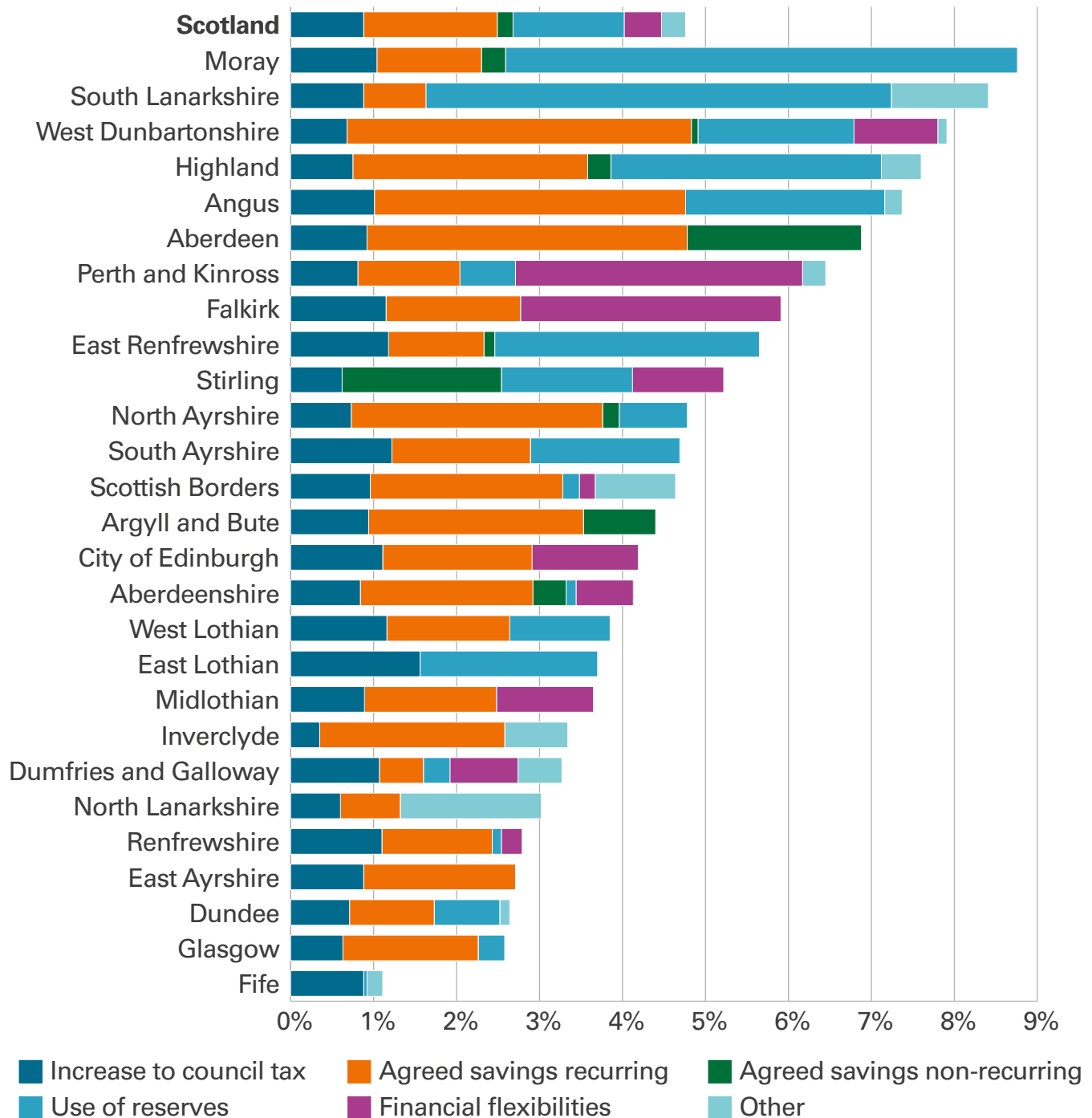
17. The use of reserves and other non-recurring measures is unsustainable and is only a temporary plug for a budget gap in that one year. The gap will remain in future years until recurring measures such as recurring savings or increases to income are found or the service cost base is reduced.

18. The setting of council tax levels is an important mechanism available to councils in delivering a balanced budget. In 2023/24, councils increased their tax by an average of 5.4 per cent. This was used to bridge 19 per cent of the overall budget gap. The Scottish Government imposed a council tax freeze for 2024/25, instead providing £144 million to 'fully fund' the freeze to the equivalent of a five per cent increase. The Cabinet Secretary for Finance and Local Government confirmed during her budget statement in December 2024 that there will be no council tax freeze or cap for 2025/26.

Exhibit 2.

The bridging actions councils identified within their 2023/24 budgets as a proportion of net cost of services

Recurring savings and using reserves made up the majority of how councils intended to meet their identified budget gaps.



Note: In addition to the three councils whose 2023/24 annual accounts were not available, Shetland and Orkney are excluded from this chart as both are outliers due to their high use of reserves to set their budget, reflecting the councils' regular utilisation of the returns from significant investments and harbour income. Shetland's bridging actions made up 35 per cent of their net cost of services (over 80 per cent of which related to reserves use). Orkney's bridging actions made up 13 per cent of their net cost of services (of which over 90 per cent was use of reserves).

Source: Council data returns (2023) and Councils' annual accounts 2023/24 (audited and unaudited)

With Scottish Government capital funding remaining constrained, councils are increasingly reliant upon borrowing to fund planned investment decisions

19. Capital funding from the Scottish Government (at the spring revision) fell by 1.2 per cent in real terms between 2022/23 and 2023/24 and was 21 per cent lower than 2018/19. Both the general capital grant and specific capital grant have decreased in real terms. The specific capital grant, the proportion of funding that is ring-fenced for specific uses, was much lower than five years ago and has been relatively static for the past three years. This is due to the completion of the capital element of the Early Learning and Childcare Expansion Programme. Councils received £70 million of capital funding for use in 2023/24, by allowing an equivalent amount of revenue reserves to be released, and a further £22 million of funding to support the cost of local government pay awards (for example by allowing councils to use this instead of planned transfers from revenue budgets).

20. Capital funding was reduced further in 2024/25. The initial draft allocation for 2025/26 saw an increase compared to 2024/25 but capital funding remains lower than 2023/24 and earlier years. The longer-term reduction in capital grants means councils are having to finance their chosen investment in new facilities by other means. Councils are now more reliant on other sources of finance, such as borrowing, transfers from their revenue budgets and making use of financial flexibilities, than has previously been the case ([paragraphs 33 - 41](#)).

2. Financial performance

Councils increasingly relied on savings and reserves to ensure they remained within agreed revenue budgets; capital expenditure was lower than planned and borrowing increased. Improvements in how councils report their savings are still needed.

Councils' total revenue funding and income fell by 3.3 per cent in real terms in 2023/24, with income from service fees still below pre-pandemic levels.

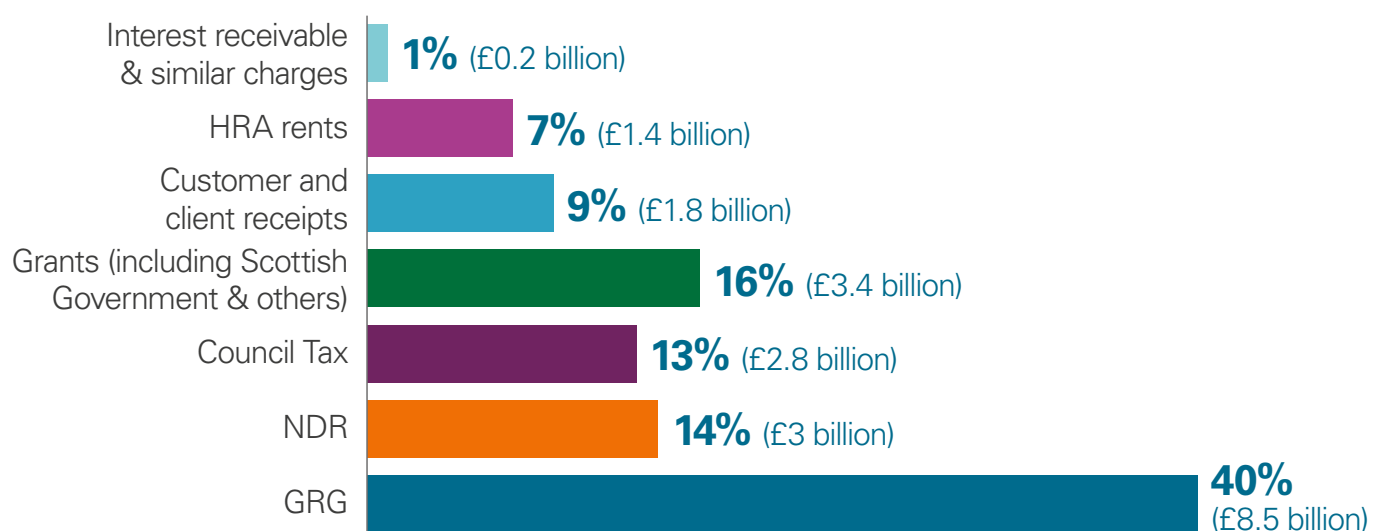
21. In addition to Scottish Government funding and council tax, councils receive funding and income from several other sources, including fees and charges for using services and council house rents ([Exhibit 3](#)).

22. In 2023/24, from our review of 29 councils' annual accounts, councils received £21.2 billion in revenue funding and income. This is £540 million more than 2022/23 but represents a real terms decrease of 3.3 per cent (£725 million) as increases in income have not kept pace with inflation. In 2023/24, total funding and income fell back to 2019/20 levels.

Exhibit 3.

Sources of council funding and income in 2023/24

The proportion of funding from each source is similar to 2022/23.



Note: Interest receivable refers to the interest that has been earned by investments, loans, or income to be received from overdue invoices.

Source: Councils' annual accounts 2023/24 (audited and unaudited) (based on 29 annual accounts)

23. Council tax is an important source of income for councils, providing £2.8 billion in 2023/24. The proportion has remained static for the last five years at around 13 per cent of total funding and income. In 2023/24, councils received £11 million more income from council tax than in 2022/23, which is a 0.4 per cent real terms increase.

24. Income from customer and client receipts dropped significantly during the pandemic and has not yet returned to previous levels. Customer and client receipts are 12 per cent (£253 million) lower in real terms than in 2019/20. Councils reported receiving lower income than budgeted for as a reason for service overspends in 2023/24 across a broad range of services, with parking and waste the most common. However, the picture is mixed and for some councils and service areas increased income offset expenditure and led to services underspending against their budgets. Income generation, and the limited capacity to increase this, was cited by a number of councils as a risk to financial sustainability.

Overall, councils remained within their agreed revenue budgets, but some services spent more than planned



25. In 2023/24, councils managed net budgets of around £15 billion, compared to £13.4 billion in 2022/23. Overall, councils reported a revenue budget underspend of £111 million or 0.7 per cent. This is around half the variance seen in 2022/23. Since 2019/20 there has been a small overall underspend each year and, except for 2020/21, this variance has decreased year-on-year. Despite the overall underspend, nine reported overspends against their agreed revenue budgets.

26. Councils reported both underspends and overspends at a service level, with workforce issues and income a common theme for both ([Exhibit 4, page 17](#)).

Exhibit 4.

Council overspends and underspends at a service level and reasons for them

Workforce issues and income generation are a common theme for both.

| | Service area | Reasons for |
|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Overspends | <ul style="list-style-type: none"> Reported in a wide range of service areas with culture and leisure, children and families, education and adult social care being noted most often. | <ul style="list-style-type: none"> Service area overspends were mostly attributed to a lack of funding, workforce pressures and general cost increases. Underperformance of a range of income streams also contributed to overspends in some councils. |
|  Underspends | <ul style="list-style-type: none"> Education and early years were referred to most often. Communities, culture and leisure, and planning and economic development were also identified by some councils as areas of underspend. | <ul style="list-style-type: none"> Underspends in education and early years were often attributed to lower than anticipated demand and unfilled staff positions. Underspends were sometimes attributed to more favourable income position, such as generating greater income than budgeted for and receiving additional VAT reimbursements. Workforce issues, such as challenges with recruitment, and high vacancy levels, were also identified as a cause of underspends. |

Note: Culture and leisure services were reported in both but twice as often as an area of overspend than an underspend.

Source: Council data returns

Councils delivered significant savings, but some remain reliant on one-off measures and reporting against savings targets should be more transparent

27. From our sample of 30, 28 councils set a savings target in 2023/24, totalling £362 million, with £332 million (92 per cent) being achieved. This is significantly higher than the savings target reported by the same councils last year (£214 million).

28. Of the 30 councils:

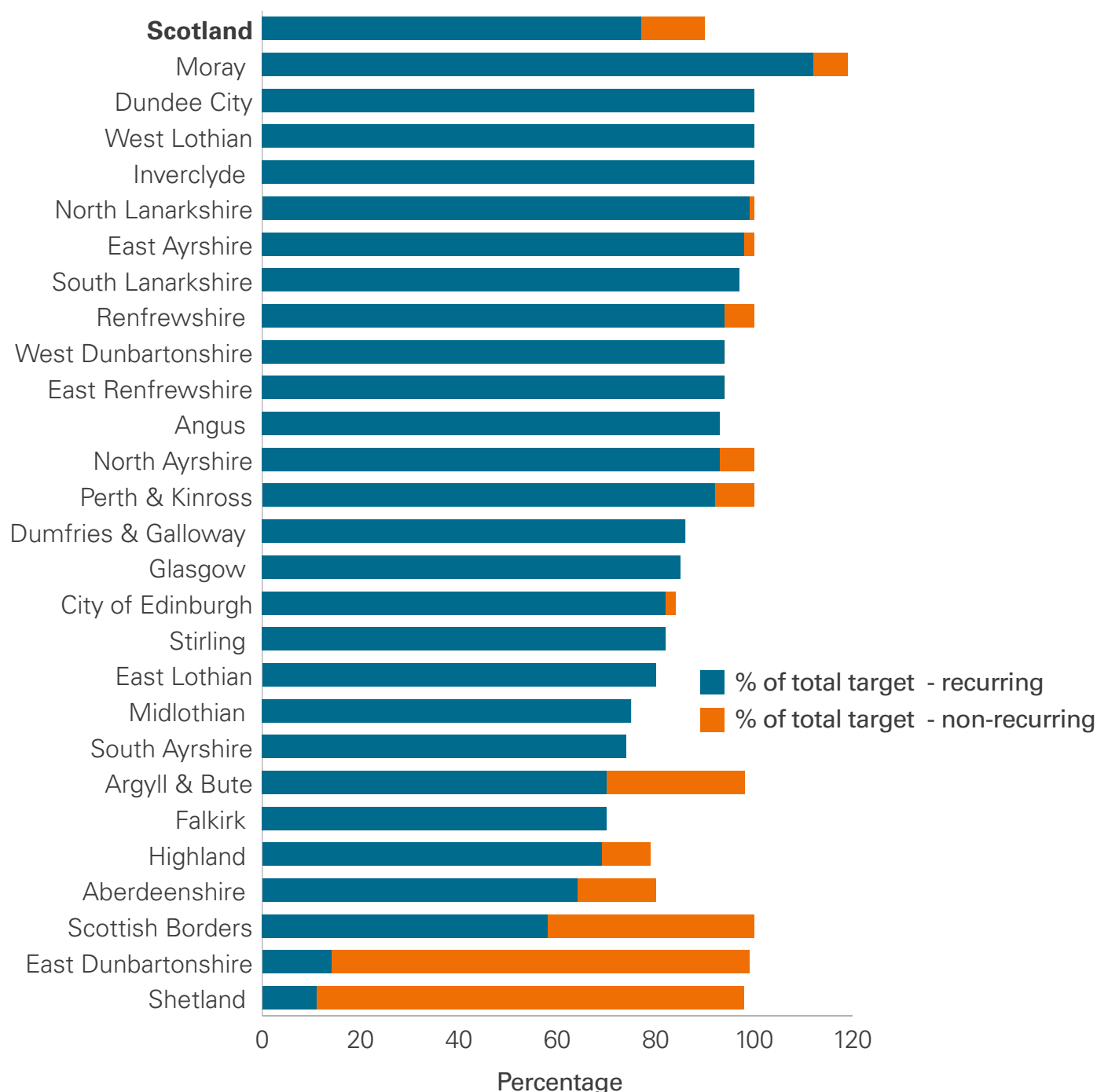
- eleven achieved their full savings target or more
- thirteen missed their target but achieved 80 per cent or more
- four achieved less than 80 per cent of their target
- two councils (Fife and Orkney) did not have savings targets in place.

29. Not all councils could split savings targets or achieved savings information into recurring or non-recurring categories. Where we have a breakdown of how savings were achieved (27), 85 per cent (£244 million) were achieved on a recurring basis, compared to 82 per cent in 2022/23. Non-recurring savings accounted for 15 per cent of total savings achieved, at £42 million ([Exhibit 5, page 19](#)).

Exhibit 5.

Proportion of savings targets achieved in 2023/24, split by recurring and non-recurring savings (based on 27 councils that can split their savings in this way)

Some councils continue to rely upon one-off measures to deliver in-year savings.



Note: In addition to the two councils that did not submit a data return, a further three councils are excluded from this exhibit. Aberdeen City sets a savings target to be achieved in the year but does not differentiate between recurring and non-recurring savings for monitoring purposes. The savings target was achieved for 2023/24. Fife and Orkney did not have a savings target in place in 2023/24.

Source: Council data returns

30. In our [Financial bulletin 2022/23](#) we recommended that councils prioritise the achievement of recurring savings and avoid reliance on non-recurring measures. The overall extent of progress against our recommendation is difficult to assess due to a lack of detail and transparency in reporting on savings performance. Non-recurring savings are not always included in savings targets or performance information so it remains difficult to assess the overall reliance on these or, indeed, the overall savings achieved.

31. Additionally, a review of management commentaries within annual accounts found that not all councils are reporting progress against savings plans and, for the majority that are, these largely focus on their previous or future plans. The majority lacked detail on areas such as performance trends and, again, often did not report if savings were recurring or non-recurring.

32. Councils have identified the need to generate future savings as they undertake wider-scale transformation, redesign how services are delivered and consider their future policies on fees and charges for accessing services. This will need to be done in consultation with their partners and citizens. Councils should report more transparently the nature of their savings and how these could impact services on an ongoing basis.

Capital expenditure was 20 per cent lower than planned and funded by increased borrowing

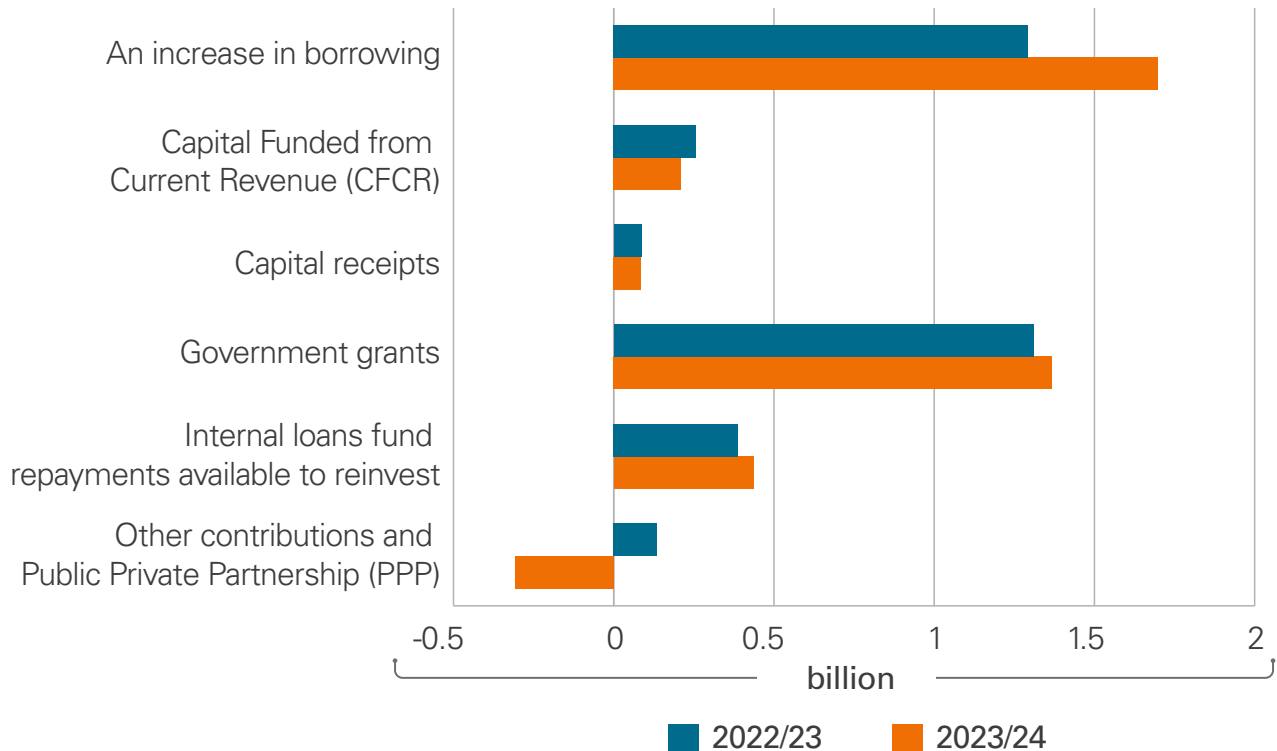
33. The value of council estates, mainly council owned property (including buildings and schools) and equipment, increased by £5 billion in 2023/24 to £51 billion. This reflects continuing investment by councils and, in 2023/24, capital expenditure was £3.5 billion. This is comparable in cash terms to 2022/23. Borrowing increased again in 2023/24 to £1.7 billion, a significant increase of £406 million (31 per cent) since 2022/23, and up £1.2 billion (196 per cent) since 2018/19. Borrowing was used to finance 49 per cent of total capital expenditure ([Exhibit 6, page 21](#)).

34. From our sample of 30 councils providing information through the data return, 25 reported a capital underspend in 2023/24 of £755 million. This equates to 20 per cent of councils' total capital budget. This is less than the underspend of 24 per cent in 2022/23; however, it is still higher than the 17 per cent reported in 2018/19. Significant underspends were reported for both General Fund (23 per cent of budget) and HRA capital programmes (15 per cent of budget). Councils reported a range of project types and reasons for why capital underspends had occurred ([Exhibit 7, page 21](#)).

Exhibit 6.

Capital expenditure split by sources of finance, in cash terms

Borrowing and government grants remain the most significant means of financing capital investment.




Note: Internal loans fund repayments are an annual charge that recognise capital costs in the revenue budget. Once repaid, they allow borrowed funds to be used elsewhere. Capital receipts are income councils generate from selling existing assets. Revenue transfers is capital expenditure funded from service revenue budgets.

Source: Councils' annual accounts 2022/23 and 2023/24 (audited and unaudited)

Exhibit 7.

Type and reasons for underspends on councils' capital programmes

| | Project type | Reasons for |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Underspends | <ul style="list-style-type: none"> School and early learning building projects. Housing projects. Large-scale infrastructure projects (with a small number of councils underspending in relation to projects being delivered as part of their City Deals). | <ul style="list-style-type: none"> Project and programme slippage, caused by a range of supply chain and capacity issues. Project delays caused by cost, contract and legal negotiations and unexpected issues arising during the course of works. Project deferment. |

Source: Council data returns

35. Managing their capital programmes is an important tool for councils to control their annual expenditure. All but two councils reported having a multi-year capital plan in place. These covered a range of periods from five to 30 years, with most covering five to ten years. South Lanarkshire and Stirling councils both reported only having an annual capital plan in place. A multi-year plan allows councils to manage their capital spending over this period.

36. However, consistently failing to invest in estates and infrastructure increases the risk that asset failures may impact services, projects will become more expensive to deliver, and that maintenance spending will need to increase due to assets becoming older. It also impacts the ability of councils to manage their overall estates, identify surplus assets and consider the efficiency of partnership working, including co-location with other services.

Borrowing means debt has again increased, and further borrowing will be needed to invest in new schools

37. Due to the increased reliance on borrowing to fund investment, councils' net debt has now risen to £19.8 billion. This is an increase of 15.8 per cent from 2022/23 and a 29.7 per cent increase since 2018/19. All but one council increased their debt in 2023/24. The cost of servicing debt has risen, with a 16 per cent rise in interest payable and similar charges since 2022/23. Interest payable as a proportion of net cost of services, was six per cent compared to five per cent in 2022/23.

38. Under **LEIP**, councils borrow to meet the cost of building new schools, with the Scottish Government providing revenue grant funding over a 25-year period linked to specific outcomes (maintenance, energy efficiency, digital infrastructure and job creation) to meet maintenance and life-cycle costs. Councils, however, need to fund the £1 billion cost of building schools, including any interest on the money borrowed to fund this. The programme has faced significant delays and cost increases and, to complete the programme by the planned date of 2027, significant further borrowing by councils will be needed.

39. Alongside investing and maintaining their own estates, councils have made use of a range of different Public Private Partnership (PPP) contracts to invest in their estates. A number of earlier Private Finance Initiative (PFI) contracts are now nearing the end of their terms. Councils are having to prepare for, and manage, complex closing arrangements. Councils have already entered into negotiations relating to contracts that are ending, with 10 PFI contracts due to expire by the end of 2030.



In September 2019, the Scottish Government announced it would support £1 billion of capital investment in the school estate on a match-funding basis. In consultation with councils, this created a joint £2 billion **Learning Estate Improvement Programme (LEIP)**, enabling additional investment without the use of private finance contracts. Councils provide upfront capital funding and Scottish Government revenue follows over 25 years for achievement of outcomes.

40. By making use of **financial flexibilities** across 2022/23 and 2023/24, councils have been able to reprofile the debt associated with PPP contracts. This has allowed councils to recognise significant gains from annual contractual payments they have previously made, recognising these within their usable reserves. Future capital expenditure will be able to be offset against these, but they are not cash backed. This means the need for councils to borrow to finance their future capital investment has not changed, nor have their current external debts. Alongside LEIP projects, councils have already committed to significant future borrowing.

41. Councils set and agree their borrowing and treasury management strategies individually, deciding on what is a prudent and affordable level of debt under the Prudential Code. As part of this, a range of indicators are considered, including the cost of servicing their debts, to show that capital plans are affordable and sustainable. Increased borrowing means increased costs that will need to be met annually from revenue budgets. While auditors have not expressed specific concerns about the level of borrowing (in the 15 annual audit reports that were available at the time of our review), it is a factor in the assessment of financial sustainability and auditors are expressing greater concerns about the overall financial sustainability of councils ([paragraph 58](#)).



Between 2020 and 2024, the Scottish Government permitted councils to make use of a range of **financial flexibilities** to manage financial pressures. One of these related to service concessions (including PPP) and allowed councils to reprofile debt repayments. This offered an immediate benefit of significant one-off increases to reserves but these are not cash backed, and debt payments will need to be made for longer, deferring costs to later years which has implications for future revenue budgets.

3. Financial position and outlook

Using reserves to manage financial pressures and stay within agreed budgets is not sustainable. Usable reserves fell in 2023/24, and most are committed for specific purposes. Progress on transformation and reform must be prioritised to ensure longer-term financial sustainability.

Councils' usable reserves remain higher than before the pandemic, mainly due to the use of financial flexibilities, but decreased in 2023/24

42. Holding and using reserves is a normal, and helpful, way of managing council finances but reserves are a one-off resource meaning councils need to carefully plan and monitor how these are being used. Using reserves to support services in the short term is not sustainable unless they are used to support service transformation and generate future savings.

43. In 2023/24, councils' total usable reserves decreased by five per cent to £4.1 billion which equates to around 25 per cent of net cost of services. The overall decrease is attributed to a fall in capital reserves along with a very modest increase in revenue reserves ([Exhibit 8, page 25](#)).

44. Usable reserves remain £1.66 billion higher than before the pandemic. Revenue reserves were boosted in recent years by:

- Covid-19 funding, but these are largely exhausted with only around £67 million remaining earmarked (2.8 per cent of the committed General Fund balance)
- making use of financial flexibilities related to service concessions, resulting in reprofiled debt and significant one-off increases to reserves. Although an accounting adjustment, and not cash backed, these can be used to support services.



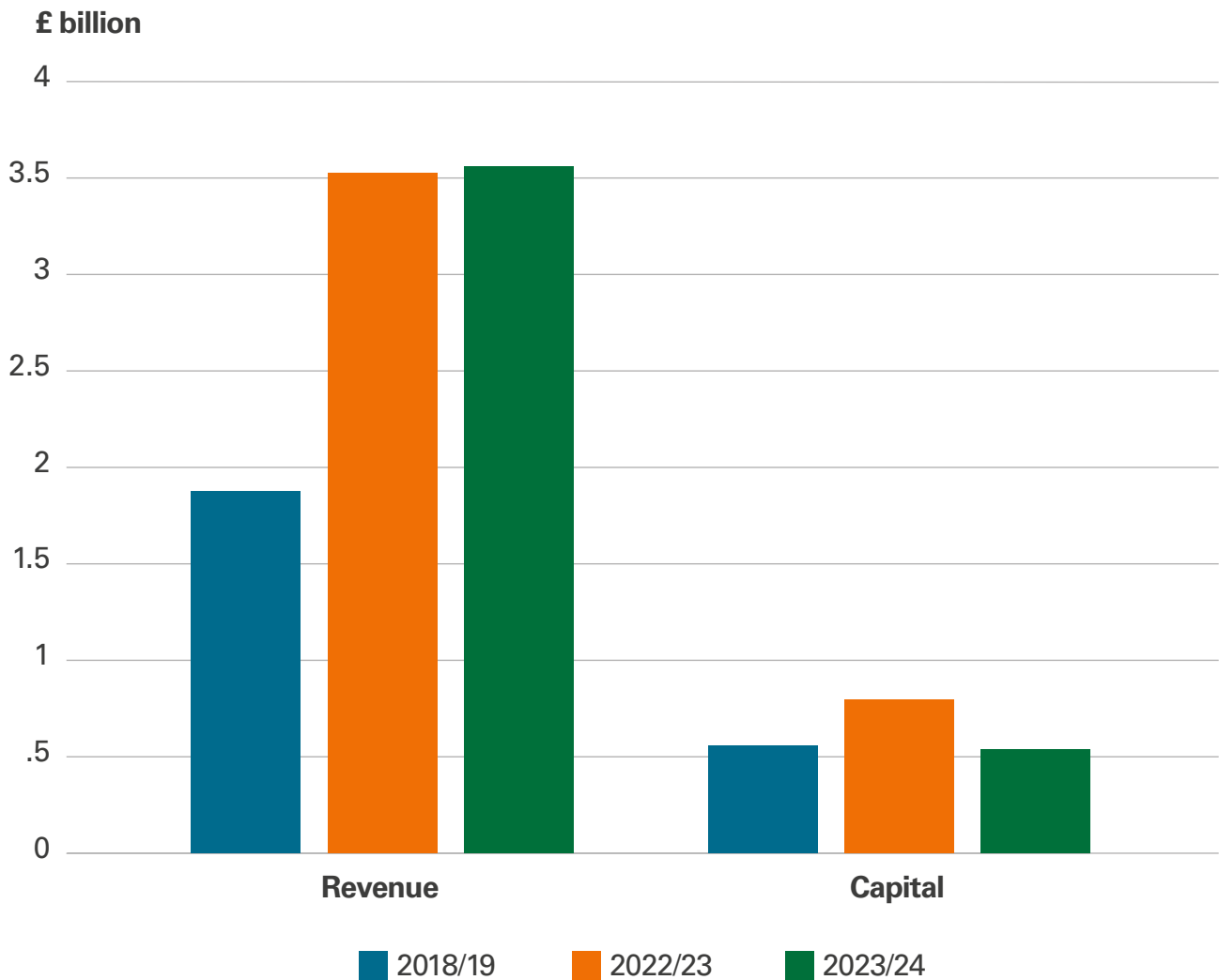
Usable reserves can be used to support service delivery, and to meet in-year expenditure (and are sometimes referred to as cash backed reserves).

Unusable reserves represent accounting adjustments to reflect things such as an increase in the value of council-owned buildings. They generally cannot be routinely accessed or used to support services.

Exhibit 8.

Councils' usable reserves, 2023/24 compared to 2022/23 and 2018/19

Revenue reserves are higher than pre-pandemic but have remained relatively static in the last year.



Note: Total usable reserves were £4.1 billion in 2023/24. Between 2022/23 and 2023/24 revenue reserves increased by 0.8 per cent, capital reserves fell by 33 per cent. Total usable reserves are 68 per cent higher than in 2018/19, up from £2.4 billion (90 per cent increase in revenue reserves, four per cent decrease in capital reserves)

Source: Councils' annual accounts 2023/24 (audited and unaudited)

45. The overall decrease in usable reserves in 2023/24 is notable as they have been increasing significantly in recent years. Two-thirds of councils still increased their total usable reserves, but this is largely attributable to councils making use of financial flexibilities (a number of councils accounted for this in 2022/23, while others introduced it in 2023/24).

46. Around a third of councils saw their total usable reserve fall in 2023/24, including some large decreases related to the drawing down of committed reserves. These reserves were used for Equal Pay settlements, pay awards, budget support and the further deployment of Covid-19 reserves.

General Fund reserves increased slightly but over 80 per cent are committed for specific purposes

47. General Fund reserves (excluding the HRA element which not all councils have) continued the upward trend of the past five years, increasing by three per cent in 2023/24 to £2.8 billion. This equates to 17 per cent of net cost of services and is driven by growth in **committed reserves**. **Uncommitted reserves** have remained constant at between two and three per cent of net cost of services ([Exhibit 9, page 27](#)).

48. In 2023/24, over 80 per cent of the General Fund was committed. This means that it has been allocated for specific purposes and is not readily available for other uses.



The **General Fund** is the principal usable revenue reserve held by councils. It can be used for a wide range of purposes, including bridging budgets gaps as it can be used to finance spending on services or some elements of capital spending.

The Housing Revenue Account (HRA) reserve can only be used to fund spending on council-owned housing.



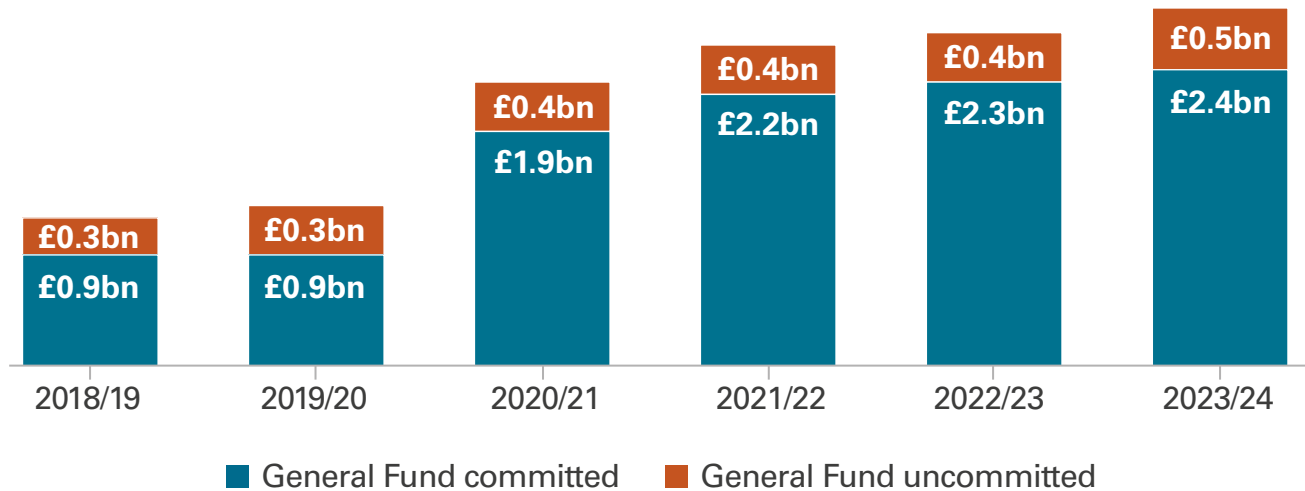
Committed reserves have been allocated (or earmarked) for specific purposes and are not readily available for other uses.

Uncommitted reserves can be deployed more easily and, because of the nature and scale of it, the uncommitted element of the General Fund can be considered to represent a degree of contingency funding.

Exhibit 9.

Councils' General Fund balance between 2018/19 and 2023/24, split by committed and uncommitted

General Fund reserves are increasing but over 80 per cent is committed.



Source: Councils' annual accounts 2023/24 (audited and unaudited)

Some councils' levels of uncommitted reserves are low, but they have specific reserves earmarked for contingency

49. Councils have reserve policies in place, which set out the rationale for the minimum level of uncommitted reserves held by the council. Most have an agreed minimum level, usually two per cent of their net budgeted revenue expenditure, although four councils have set this higher.

50. In 2023/24, nine councils had an uncommitted reserves level of less than two per cent of net budgeted revenue expenditure. However, a review found that in many cases these low reserve levels were planned decisions and the levels were deemed to be sufficient and/or supported by additional committed funds for contingencies. Aberdeenshire, South Ayrshire and West Dunbartonshire all had uncommitted reserves below their minimum level and intend to review this during 2024/25.

51. While councils hold uncommitted reserves for contingencies, around a third reported also earmarking some reserves specifically for contingencies to either manage budget risks or specific risks, such as adverse weather. The nine councils providing information on the value of the reserves earmarked for contingencies reported a total of £50 million.

Councils continue to use their reserves to manage budget pressures, but this is not sustainable

52. While overall usable reserves levels remain high, there is evidence that councils are continuing to use reserves to support service spend and this is not sustainable. In 2023/24:

- Councils bridged over a quarter of their budget gap using reserves (£202 million).
- Twelve councils reported making unplanned use of reserves in 2023/24, to support in-year spending and to balance the outturn position. This was most often to cover the cost of the 2023/24 pay award; to address specific service or project pressures, or to provide financial support to IJBs.

53. Usable reserves held as a proportion of spending has reduced. In 2023/24, 15 councils held usable reserves that were over 20 per cent of their net cost of services, which is less than 2022/23 (20 councils) but still higher than before the pandemic (nine councils). This indicates that reserves are increasing at a slower rate than expenditure, even with use of financial flexibilities. One council had total usable reserves of less than ten per cent of their net cost of services.

Councils could improve how clearly they report on how they intend to use their reserves

54. With the use of reserves to support services and the low level of uncommitted reserves across the sector it is increasingly important that councils report how and when they intend to make use of their reserves ([Case study 1, page 29](#)).

Case study 1.

Councils could be more transparent within their published plans about how they intend to make use of reserves

A review of councils' management commentaries found that all councils clearly identify key areas of reserves and explain their purpose, with most identifying their minimum reserve level.

All but two councils reported, through their data return, that they formally document or publish at least some information about their committed reserves. Committed reserves information is usually documented in councils' accounts or financial outturn reports, and sometimes in other formats, such as reserves reports. Few councils reported documenting information in performance monitoring reports.

Nearly all councils publish and document a full costed breakdown of committed reserves categories and details of what has been drawn down within the year. Although most formally document what is committed for major initiatives, this information is not always published. Only two thirds of councils document or publish information on planned spend for future years.

Source: Council data returns and Council annual accounts 2023/24 (audited and unaudited)

Recent changes to pension contribution rates offer councils a short-term window to reduce costs

55. The result of the 2023 triennial revaluation showed a significantly improved funding position across Scotland's 11 local government pension funds. Councils are using this as an opportunity to lower their employer contributions and reduce their costs in the short-term. The 12 councils who are members of Strathclyde Pension Fund are reducing their contribution rates from 19.3 per cent to 6.5 per cent for 2024/25 and 2025/26 (increasing to 17.5 per cent in 2026/27), significantly reducing their annual contribution costs for two years. Other councils are making more modest reductions to their contribution rates of between two and three percentage points.

Ensuring medium- and long-term financial sustainability is a significant challenge

56. The risks to financial sustainability are well known. These include external factors such as increased demand, demographic changes and the need to invest significantly to address certain policy areas such as climate change and its impact. There are also specific pressures that councils identified as presenting risks to achieving future financial balance/sustainability including:

- **Uncertainty about future funding:** single-year settlements, ring-fencing of funding and directed funding for specific Scottish Government policies limiting local flexibility (for example, teacher numbers, social care provision and IJB allocations).
- **Council tax freezes:** while there is no freeze in 2025/26, the Scottish Government froze council tax between 2008/09 and 2016/17, and in 2021/22, and capped increases at three per cent in 2017/18 and 2018/19. The risk of future freezes is seen as a main challenge to ensuring medium- to long-term financial sustainability. Even when 'fully funded' a council tax freeze suppresses the growth of the council tax base over that period and the income generated when the freeze is lifted is lower than if councils were able to make tax-raising decisions at a local level.
- **Pay awards and employers' NI costs:** overspends have been caused by pay awards, with some councils reporting that the budgets provided are not enough to cover the costs or these costs are unfunded. In 2023/24, three councils made unplanned use of reserves to meet pay awards and there is ongoing uncertainty about the scale of future annual offers. There is now also uncertainty over how increased employers' NI contributions will be funded.
- **Inflationary pressures:** general pressures and some specific issues that impact the delivery of capital programmes (costs of goods and services, service demand, public perception, borrowing, funding, increasing standards and difficulty with asset sales).
- **Savings:** some councils cited the challenge of identifying and achieving recurring savings.

57. Most councils reported that financial sustainability was a significant challenge. Some specific challenges reported by councils include:

- Angus Council reported the need for change if they are to be financially sustainable over the medium to long term. The scale of reductions required could leave some services unable to function.
- East Lothian Council identified critical risks to its fiscal sustainability and reported managing their financial environment as the highest ever scoring risk on their Corporate Risk Register.
- Inverclyde Council reported that ongoing depopulation may mean significant future funding reductions.
- Orkney Islands Council highlighted the growing contribution from reserves to meet in-year service costs as being unsustainable.
- Shetland Islands Council reported they were financially unsustainable on the basis of current plans.

58. Alongside councils' own assessment of their financial sustainability, many auditors highlighted in their 2023/24 annual audit reports (15 available for review) the challenges councils face in achieving financial balance in future years and securing long-term financial sustainability. These centred on the scale of budget gaps; the need to keep on top of savings plans; low levels of uncommitted reserves; unsustainable cost bases and the difficult choices to be made.

Councils have medium-term financial plans in place but must now make progress on transformation and reform

59. While several councils reported confidence that they had robust processes and actions in place to ensure they were financially sustainable, councils largely reported that it is difficult to plan into the future without clarity on medium- or long-term government funding and priorities, stating there is general economic uncertainty and volatility. This difficulty, however, underlines the importance of councils ensuring that they have a clear understanding of risks to their financial positions, effective risk management processes to monitor these, and indicative forecasts informed by scenario planning.

60. All councils that provided data returns to us reported having medium-term financial plans in place, with most of these spanning 3-5 years (25 out of 30 councils). Most councils (25) reported that they reviewed their financial plans in 2024. Half of councils (15 out of 30) have a long-term financial plan in place and, for those that do, most cover a 10-year period.

61. As we set out in our recent [Transformation in councils](#) report, councils must prioritise and progress the delivery of their plans for transformation. And a step change is needed in terms of scale and pace. That could look like new innovative approaches to service delivery, reconsidering which services could be more effectively delivered by other partners, exploring opportunities for new income generation (including those that are being legislated for) or identifying how economies of scale could be achieved by sharing services.

62. Delivering transformation successfully requires resources to be committed towards it and it is positive to see that most councils (27 from our data return sample of 30) reported holding reserves earmarked for transformation. Glasgow, Orkney and Shetland did not. Of the 26 providing information on the value held, a total of £270 million was reported which is about 13 per cent of committed General Fund balance and equates to two per cent of the net cost of services. Most councils' transformation reserves were equivalent to two per cent or lower of net cost of services, but some earmarked a significantly higher proportion. Argyll and Bute earmarked the equivalent of ten per cent of net cost of services, Scottish Borders six per cent, and Aberdeenshire, East Lothian and Highland all earmarked five per cent.



Transformation is our next Best Value thematic focus and we will be auditing councils' plans for transformation as part of the 2024/25 annual audit.

Councils could make more use of financial sustainability indicators, including to inform their longer-term planning

63. Assessing and monitoring financial sustainability is essential. Councils use a range of indicators to do so, but the type used, and extent of their use, varies. The Local Government Benchmarking Framework includes sustainability indicators, currently being reviewed by Directors of Finance, to ensure that they remain appropriate, and CIPFA also recommends indicators. Councils are not required to use specific indicators and have discretion as to how they assess their own financial sustainability.

64. We asked councils how they assess and monitor financial sustainability, including how this is reported to elected members:

- Around three-quarters of councils use the Local Government Benchmarking Framework Indicators and the CIPFA level of reserves indicator.
- Around a third of councils use the CIPFA change in reserves and reserves sustainability measures.
- Some councils reported that they use their own equivalent calculations or different indicators including outturn against expenditure, ratio of council tax to overall funding, ratio of financing costs to net revenue stream, external debt and borrowing levels, and recurrent versus non-current budget mitigation.

65. Most councils reported that they assess and monitor financial sustainability more generally, such as via the regular monitoring of budgets, reserves and the capital financing requirement; and carrying out periodic risk assessments. For example, East Ayrshire Council's 'East Ayrshire Performs' reports financial and service performance information about the council publicly, including a suite of financial resilience indicators, focusing on council reserves and liquidity but also capital financing, investment and borrowing.

66. Most councils include and consider financial indicators within their financial plans, with 17 councils including an analysis of financial sustainability and/or resilience indicators within their medium-term financial plans and nine within their longer-term plans.

67. All councils reported to us that elected members had been provided with a summary of the council's medium- to long-term financial sustainability but more needs to be done to regularly and formally report upon the consideration of financial sustainability. This should be reported publicly, as a minimum, as part of annual budget-setting papers and within annual refreshes of financial plans.

Financial outlook

68. Within this report we outline the financial challenges Scotland's councils are now facing. While indications are that the 2025/26 budget will result in increased funding, and councils are now free to vary council tax rates, it is unlikely that increased funding and income will be able to keep pace with increasing costs. In recent years councils have been able to increase the reserves they hold, but much of this has been due to additional Covid-19 funding, use of financial flexibilities and other one-off actions. The initial benefits of these measures, and the reserves that councils were able to build, do not negate the need for significant reform and transformation. 2023/24 saw a reduction in usable reserves and while this represented only five per cent of these reserves, this was equivalent to over eight per cent of the usable reserves held as recently as 2019/20.

69. How councils plan to use their reserves, make savings and transform their services needs to become more transparent as financial sustainability issues are to be addressed. The need to consult local communities and clearly communicate the implications of budget decisions has never been more important.

70. Our next Local government in Scotland publication, [Local government budgets 2025/26](#), will examine the steps that Scotland's councils take as they set their budgets for 2025/26, setting out the finalised funding settlement from the Scottish Government, decisions taken in setting council tax and the steps they intend to take to fund and transform services.

Appendix 1

Progress against the recommendations in Local Government in Scotland Financial Bulletin 2022/23

| Councils should: | Progress/ status |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability | <p>In progress/Limited progress</p> <p>The overall extent of progress against this recommendation is difficult to assess due to a lack of detail and transparency in reporting on recurring and non-recurring savings performance (paragraph 30).</p> <p>An updated recommendation on savings performance and transparency is included in this report.</p> |
| Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets | <p>In progress</p> <p>Our review of 2023/24 management commentaries found that that most councils reported outturn against budget with significant variations explained. However not all councils provided sufficient information on savings target achievement.</p> <p>An updated recommendation on savings performance and transparency is included in this report.</p> |
| Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability | <p>Complete / In progress</p> <p>A review of available councils' management commentaries found that key areas of reserves were clearly identified, with the purpose explained and the majority identifying a minimum reserve level. However publication of committed reserve information was less well evidenced (Case study 1).</p> <p>An updated recommendation on greater transparency of reserves is included in this report.</p> |

Cont.

| Councils should: | Progress/ status |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget</p> | <p>In progress</p> <p>Less than half of councils stated, via our data return, that public consultation was undertaken when preparing budgets for 2023/24. In our Local government budgets 2024/25 publication, 24 out of 32 councils stated they undertook community engagement on financial pressures.</p> <p>We will follow this up in our budget briefing in Spring 2025 when we look at councils' 2025/26 budget setting.</p> |
| <p>Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability</p> | <p>In progress</p> <p>Most councils reported that they assess and monitor financial sustainability, with financial indicators used in financial plans, with 17 explicitly using these within their medium- and long-term financial plans (paragraphs 63 - 67).</p> <p>An updated recommendation on the use of financial indicators in monitoring and reporting is included in this report.</p> |
| <p>Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years</p> | <p>In progress</p> <p>We understand that COSLA and the Scottish Government have been progressing the development of a fiscal framework</p> |

Local government in Scotland

Financial bulletin 2023/24



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Treasury Management and Investment Strategy 2025/26 & Prudential Indicators**Report by David Gladwin, Chief Financial Officer & Section 95 Officer****Report for Decision****1 Recommendations**

The Audit Committee is invited to comment on this report before it is presented to Council. In particular, Audit Committee should note the following recommendations which are proposed to be put to Council on 25 February 2025:-

- a) Approve the restriction of the Authorised Limit to the value of the Capital Financing Requirement at 31 March 2026 (£604.957 million), pending finalisation of the General Services Capital Plan Prioritisation;
- b) Note that there are no other material changes proposed to the Treasury Management and Investment Strategy (TMIS) for 2025/26 from the strategy currently in place, other than:-
 - i. to no longer fully cash back the Council's useable reserves – instead, to run down cash balances to support the deferral of borrowing as outlined in Section 4, to allow the Council to navigate past the current interest rate hump; and
 - ii. to update the Prudential Indicators (Section 5 and Appendix 2), to reflect the revised capital plans;
- c) Note the use of the Asset Life method for the repayment of all loans fund advances as outlined in Section 6; and
- d) Accordingly approve the Treasury Management and Investment Strategy for 2025/26.

2 Purpose of Report/Executive Summary

In accordance with the Treasury Management Code of Practice, the annual Treasury Management & Investment Strategy (TMIS) & Prudential Indicators report is required to be adequately scrutinised before being recommended to the Council. For Midlothian, this role is undertaken by the Audit Committee, with this report being presented to Audit Committee on 24 February 2025 prior to consideration by Council on 25 February 2025.

The purpose of the report to Council will be to provide an update on the implementation of the Council's TMIS 2024/25, and to make recommendations to facilitate consideration of the 2025/26 Strategy,

specifically the TMIS for 2025/26, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.

Any revisions arising from Audit Committee consideration of the report on 24 February 2025 will be verbally updated to Council before discussing the report on 25 February 2025.

Date: 07 February 2025

Report Contact:

Gary Thomson, Senior Finance Business Partner

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3. Update on implementation of TMIS for 2024/25

3.1 Borrowing

The Council's borrowing position as set out in the 2024/25 Treasury Management Mid-Year Review Report was £340.871 million at 31 March 2024, and six months later was £359.812 million on 30 September 2024.

The principal source of borrowing is the UK Debt Management Office's Public Works Loans Board (PWLB) and fixed rate loans are taken at a time and tenure which takes cognisance of the PWLB rates (derived from the UK Gilts market) and the management of maturity risk in the long term across the Council's loan portfolio.

The Council's loan portfolio, as at 24 January 2025, is shown in table 1 below:-

Table 1: Current Loan Portfolio as at 24 January 2025

| Loan Type | Principal Outstanding £000's | Weighted Average Rate |
|--------------------|---------------------------------|-----------------------|
| PWLB Annuity | 395 | 8.91% |
| PWLB Maturity | 343,502 | 3.15% |
| LOBO | 20,000 | 4.51% |
| Market Loans | 15,548 | 2.68% |
| Total Loans | 379,445 | 3.21% |

The repayment profile of this debt is shown in graphical and tabular form below:-

Figure 1: Loan Maturity Structure

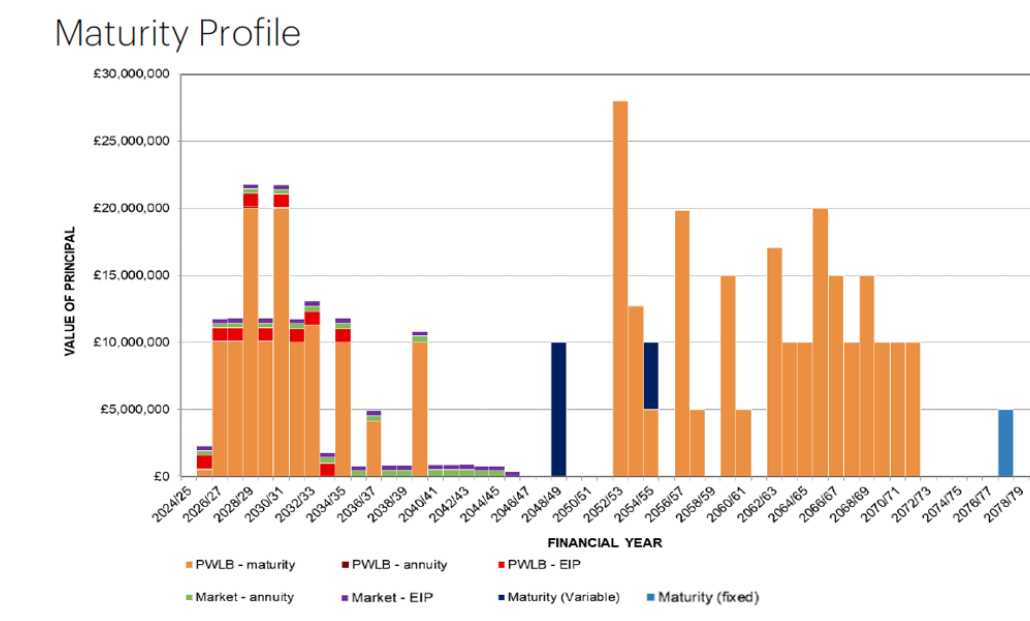


Table 2: Loan Maturity Profile

| Financial Year | 2024/25 Remaining £000's | 2025/26- 2026/27 £000's | 2026/27- 2028/29 £000's | 2029/30- 2032/33 £000's | 2033/34- 2037/38 £000's | 2038/39+ £000's |
|----------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------|
| Debt Maturing | 0 | 2,263 | 46,323 | 60,106 | 32,365 | 238,389 |
| % of total portfolio | 0.00% | 0.60% | 12.21% | 15.84% | 8.53% | 62.83% |

Proactive Treasury Management by the Council in the last decade has placed the Council in a strong refinancing position for its existing external debt portfolio, with just 12.80% (£48.585 million) of the Council's total Loan Portfolio of £379.445 million requiring refinancing over the remainder of the current, and forthcoming four, financial years, as shown in the table above.

The majority of this (£43m) matures in the final few years of this decade (March 2027+) where borrowing in the last 12 months to fund the Council's in-year Capital Financing Requirements has been sourced in line with the approved TMIS – specifically, to borrow from PWLB for a relatively shorter term (3-5 years Maturity loan; 10 year Equal Instalment of Principle (EIP) loan), to navigate past the current interest rate hump, with gilt yields expected to ease throughout the course of the next 12-36 months.

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

3.2 Deposits

The Council's position for funds on deposit fluctuates on a daily basis, with the 2024/25 Treasury Management Mid-Year Review Report setting out the position at 31 March 2024 of £56.619 million and six months later on 30 September 2024, at £49.550 million.

The position at 31 January 2025, as set out in Table 3 below, totals £45.408 million.

Table 3: Current Deposits as at 31 January 2025

| Deposit Type | Principal Outstanding £000's | Weighted Average Rate |
|--------------------------|------------------------------------|-----------------------------|
| Bank Call Accounts | 1,655 | 4.71% |
| Money Market Funds | 23,753 | 4.72% |
| Bank Fixed Term Deposits | 20,000 | 5.06% |
| Total Deposits | 45,408 | 4.87% |

The Council's current deposit portfolio is broadly reflective of the wider UK Local Authority position, as noted in the Treasury Management & Annual Investment Strategy Statement – 2025/26 Detailed in Appendix 3, Section 4.4.

4. Treasury Management & Investment Strategy 2025/26

4.1 Main Objectives of TMIS 2025/26

The objectives of the proposed TMIS are:-

- To secure long-term borrowing to fund capital investment, through locking in to long-term interest rates and de-risking the Council's Capital Financing Requirement (CFR);
- To ensure short-term liquidity to manage the Council's day-to-day cashflow. This is achieved through the utilisation of instant access Money Market Fund and Bank Accounts, with the amount held in these reflecting the Council's level of working capital and fluctuating throughout the year due to a number of factors;

The only material changes to the 2025/26 TMIS, from the 2024/25 TMIS approved by Council, are as follows:-

1. Approve the restriction of the Authorised Limit to the value of the Capital Financing Requirement at 31 March 2026 (£604.957 million) (see Section 5 – Prudential Indicators), pending finalisation of the General Services Capital Plan Prioritisation;
2. To approve a change in policy to no longer fully cash-back the Council's usable reserves (see Section 4.4 – Investment Strategy).

There are no changes recommended to the Permitted Investments.

More detail on the borrowing and investment strategy for 2025/26 is provided in Sections 4.2, 4.3 and 4.4 below.

4.2 Borrowing Requirement 2024/25 to 2028/29

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

The projected borrowing requirement arising from the Council's Capital Plans, the Midlothian Energy Limited (MEL) Shareholder Injection, and the maturing long-term loans that require to be refinanced, over the period 2024/25 to 2028/29 is shown in table 4:-

Table 4: Total Borrowing Requirement over the period 2024/25 to 2028/29

| | 2024/25 £000's | 2025/26 £000's | 2026/27 £000's | 2027/28 £000's | 2028/29 £000's | Total £000's |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------|
| Capital Expenditure | | | | | | |
| General Services | 53,913 | 91,680 | 129,171 | 86,134 | 12,185 | 373,083 |
| HRA | 47,429 | 80,242 | 72,003 | 44,139 | 28,826 | 272,639 |

| | | | | | | |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|---------------|----------------|
| Total Capital Expenditure | 101,342 | 171,922 | 201,174 | 130,273 | 41,011 | 645,722 |
| Total Available Financing | -32,039 | -36,073 | -40,007 | -23,478 | -17,805 | -149,403 |
| Principal Debt Repayments | -10,394 | -10,679 | -12,111 | -13,711 | -15,111 | -62,006 |
| Capital Expenditure less available Financing | 58,909 | 125,170 | 149,054 | 93,084 | 8,095 | 434,313 |
| MEL Shareholder Injection | 4,590 | 0 | 0 | 0 | 0 | 4,590 |
| Maturing Long-term Loans | 0 | 2,263 | 12,391 | 12,409 | 22,427 | 49,490 |
| Total Borrowing Requirement | 63,499 | 127,433 | 161,445 | 105,493 | 30,522 | 488,393 |
| Borrowing secured | -40,000 | 0 | 0 | 0 | 0 | -40,000 |
| Anticipated borrowing over remainder of 2024/25 | -15,000 | 0 | 0 | 0 | 0 | -15,000 |
| Total Remaining Borrowing Requirement | 8,499 | 127,433 | 161,445 | 105,493 | 30,522 | 433,393 |

4.3 Borrowing Strategy for remainder of 2024/25 and 2025/26

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost-effective way. As can be noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2024/25 to 2028/29).

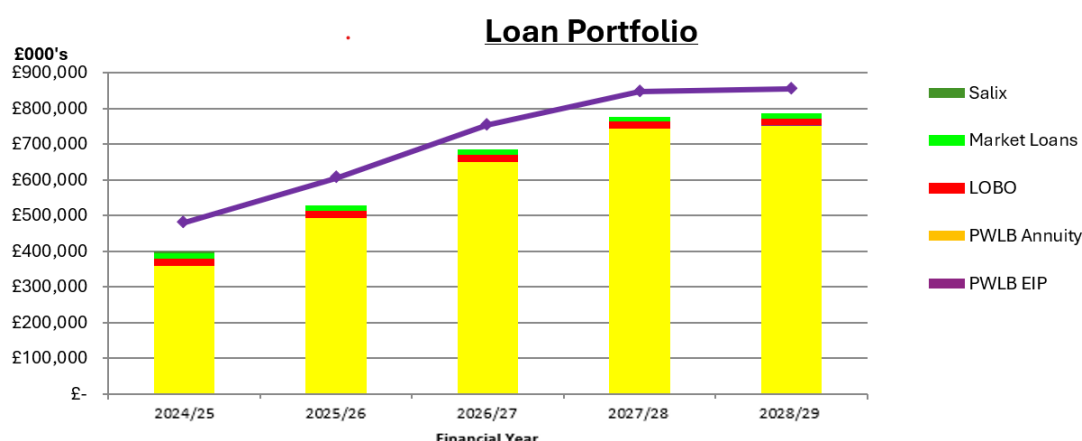
This TMIS provides for this capital investment to be underpinned by long-term borrowing, recognising the current interest rate environment, the significant borrowing requirement arising from the Council's capital plans, and the long term benefits of de-risking the delivery and affordability of these capital plans by locking into the certainty brought by PWLB fixed rate loans.

The Council's **external loan debt** at 31 March 2025 is projected to be **£394.445 million**. Based on the Council's historic and current approved Capital Plans, the **Underlying Borrowing Requirement (UBR)** – which is the Council's underlying need to borrow for capital purposes (excluding the long-term liability arising from PFI/DBFM projects) – at 31 March 2025 is expected to equate to **£479.787 million** (see Appendix 2, Table 2.3).

This means that the Council is expected to be **£85.342 million (18%) under-borrowed** at the end of the 2024/25 financial year i.e. the Council has funded the majority (82%) of its underlying borrowing requirement as at 31 March 2025. In the current economic climate, this is a prudent approach which balances (a) de-risking the longer term borrowing requirement at current longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections; and is in line with the majority of other Scottish Local Authorities. As noted in Section 3.1 above, the Council has a relatively low short-medium term exposure to refinancing risk and is therefore in a strong position to plan its new borrowing requirements in advance, taking advantage of any dips in longer-term borrowing rates from PWLB and other sources, and maintain a low weighted average coupon rate on external debt.

The **Underlying Borrowing Requirement** is projected to rise to **£855.191 million by 31 March 2029** (see Appendix 2, Section 2.3) – more than double the current external debt portfolio value. The profile of this, and the projected external loan portfolio to fund the Underlying Borrowing Requirement over the period 2024/25 to 2028/29, is shown in graphical format below.

Figure 3: Projected Loan Portfolio & Underlying Borrowing Requirement



Interest Rates

The current PWLB yield curve is bell shaped with the low point in the curve at the 3 year mark (4.90%; certainty rate) with rates trending upwards towards the 20-30 year tenor (high point of 5.86%) before easing back slightly to sit at c. 5.55% in the 50 year duration.

Current PWLB rates have generally increased by c. 50bps across the entire curve from levels reported at the time of the 2024/25 TMIS to Council in February 2024, and have shifted upwards by 25-35bps across the medium to long part of the curve since the TM Mid Year Review Report to Council in December 2024 whilst holding fairly steady at the very short (up to 7 year) range.

The yield curve is expected to remain bell shaped over the short-medium term, with a gradual shift downwards of the entire curve by c. 40bps over the next 12 months, a further 40bps over the subsequent 12 months and a further 20bps over the following 12 months of the forecast period (so 100bps total).

This is forecast to bring longer-term borrowing rates down from between 5.30%-5.50%, to between:-

- 4.90%-5.10% by March 2026;
- 4.50%-4.70% by March 2027; and
- 4.30%-4.50% by March 2028.

The Interest Rate Forecast from the Council's Treasury Advisers, MUFG Corporate Markets (formerly Link Treasury Services Limited), is shown in Table 5 below, with Further commentary on this is provided in Appendix 3 Section 3.3.

Table 5: MUFG Interest Rate Forecasts

| MUFG Corporate Markets Interest Rate View | | | | | | | | | | | | |
|-------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month average earnings | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 year PWLB | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 year PWLB | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 year PWLB | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 year PWLB | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

The funding of the Council's in-year and forward CFR is typically for infrastructure with long asset lives (50-60 years), and the tenor of PWLB and market loans are typically drawn with this in mind.

Borrowing Strategy

Consideration for any new borrowing in the remainder of the 2024/25 financial year and during the 2025/26 financial year, to fund the Council's in-year CFR, will seek to balance:-

- a) the security/certainty of current relatively high longer-term borrowing rates of upwards of 5.30% in the 30-50 year duration (which are forecast to drop by 40bps within one year and a total of 80bps within 24 months) and the potential additional budgetary pressure that this brings in both the short/medium and longer term; with
- b) the option to borrow initially for a shorter-term duration from PWLB or other markets, for 3 to 5 years (at say c. 4.50% at the HRA rate), to allow the Council to fund the immediate in-year borrowing requirement. Based on current interest rate forecasts (see Appendix 3 Section 3.3), this would then allow the Council the option to refinance this borrowing at initial 3-5 year maturity with less expensive, longer term borrowing, e.g. a 45 to 47 year tenor in, say, 36 months at a forecast rate of c. 4.30%.

As noted in Section 3.1, the Council's proactive Treasury Management over the last decade has put the Council in a strong refinancing position for its external debt portfolio which allows the Council to slot in shorter dated external borrowing into the current debt maturity profile to fund the current & forthcoming in-year borrowing requirements, to allow the Council to navigate past the current expected hump in longer-term borrowing rates.

It is expected that any further long-term borrowing that is undertaken during 2024/25 and 2025/26 to finance the current & future year capital plans will be sourced by drawing new PWLB loans at the Certainty Rate (which has been available to the Council since 2012 and is priced at Gilts+80bps), and/or the HRA rate. The HRA rate is available to all Councils to fund HRA capital expenditure, at a rate that is priced at Gilts+40bps. In the UK Budget in October 2024, the availability over which Councils can draw HRA rate borrowing from PWLB was extended to 31 March 2026.

Both the General Services and HRA capital programmes are being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour, and the ratios of financing costs to the net revenue streams. The Council's borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the medium-long-term.

Appendix 3 Section 3.3 provides forecasts for interest rates from the Council's Treasury Management advisor, MUFG Corporate Markets. Council officers, in conjunction with MUFG, will continue to monitor daily long-term borrowing rates in order to take advantage of any dips in the market or to de-risk any change in the medium-longer term forecast for gilt yields.

Forward Borrowing

The opportunity also continues to exist to consider further loans on a 'forward dealing' basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the Council's Underlying Borrowing Requirement.

Debt Rescheduling

As noted in the Mid-Year Review Report, now that the whole of the yield curve has shifted higher there may be opportunities for debt rescheduling in the remainder of the financial year.

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

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

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

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

4.4 Investment Strategy for remainder of 2024/25 and 2025/26

As noted in Section 4.1, the only change to the proposed Investment Strategy for the remainder of 2024/25 and 2025/26 is to no longer fully cash back the Council's useable reserves, instead using these

balances to allow the deferral of borrowing at the current high interest rates payable, to allow the Council to most effectively navigate past the current interest rate hump of the next 36 months, when rates on longer term borrowing are expected to drop by 100bps.

No other changes are proposed to the Investment Strategy from that approved by Council in the 2024/25 TMIS.

All deposits will be placed with high creditworthy counterparties in accordance with the approved creditworthiness policy as outlined in Appendix 1, with a tenor reflective of the expected drawdown of useable reserve forecasts, and at a yield commensurate with this.

The list of Permitted Investments in Appendix 1 remains unchanged from that approved by Council in the 2024/25 TMIS.

As required by the CIPFA Treasury Management Code, Local authorities “must not borrow to invest for the primary purpose of financial return.” Midlothian Council does not and has not borrowed to invest for the primary purpose of financial return.

Environmental, Social and Governance (ESG) in credit and counterparty policies (Treasury Management Practice 1)

As noted in the 2024/25 TMIS, the inclusion of ESG criteria continues to be an emerging area in the Local Authority environment which will require ongoing monitoring.

For the 2025/26 financial year, the Council’s priorities of security, liquidity and then yield remain paramount and unchanged (and in that order), with ESG criteria an added 4th element to consider in the decision making process.

For short term investments with counterparties, this Council utilises the MUFG creditworthiness service which uses the ratings provided by Fitch, Moody’s and Standard & Poor’s to assess creditworthiness, which in themselves include analysis of ESG factors, and specifically the “G” element, when assigning ratings. Of the 3 elements of ESG, the most important element when considering treasury deposits is the Governance aspect – given the majority of treasury deposits undertaken by Midlothian Council are naturally short dated in duration, poor governance can have a more immediate impact on the financial circumstances of an entity and potential for a default event that could impact the amount of principal returned on the deposit.

Those financial institutions viewed as having poor/weak corporate governance are generally less well credit rated in the first instance or have a higher propensity for being subject to negative rating action, and the Council’s existing creditworthiness policy will therefore take this into account.

Environment and Social factors are also important, but relate more to the long-term impact. Council should note that in relation to the security aspect of Treasury deposits, placing an undue weight on the

Environmental and Social factors in the decision making process could have an adverse effect of limiting the list of potential counterparty options, thus decreasing diversification. This could then in turn lead to a widening of credit (security) criteria, or those with a stronger “ESG” performance, in order to restore a balance of diversification across the deposit portfolio, potentially increasing credit risk – and placing the cornerstone of prudent investing at risk.

The inclusion of ESG criteria therefore remains an area which requires ongoing review. Council officers, in conjunction with the Council’s treasury advisers MUFG, will therefore continue to monitor and assess ongoing developments and emerging standards in this area, and methods in which the Council can incorporate ESG factors into our creditworthiness assessment process, and report back to Council accordingly.

5 Prudential Indicators – Midlothian Council

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

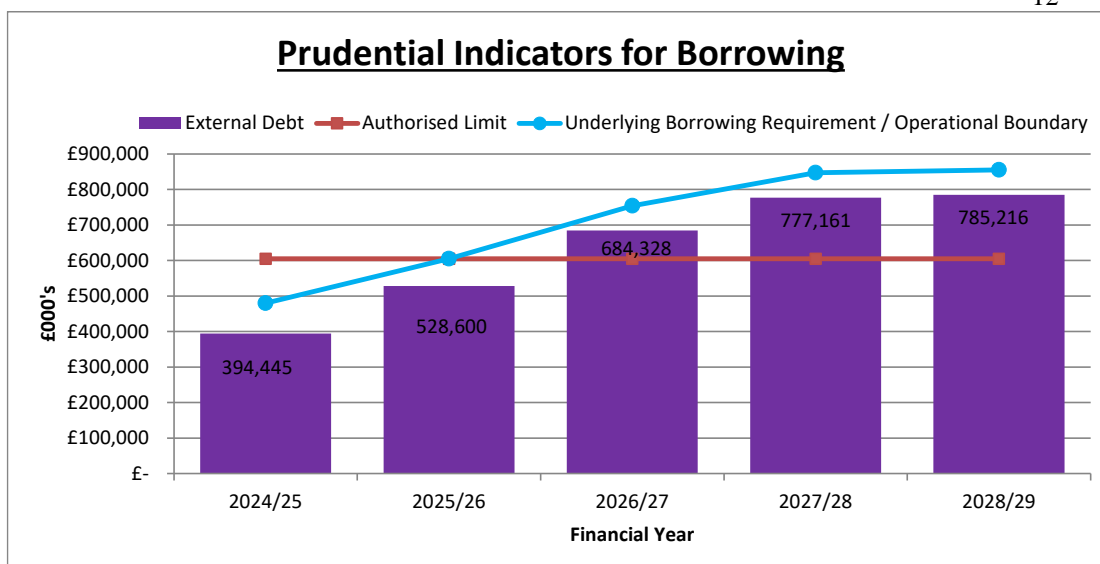
The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council’s Capital Plans), as follows:-

- Actual outcomes for 2023/24;
- Revised estimates of the 2024/25 indicators; and
- Estimates of indicators for 2025/26 to 2028/29.

The Prudential Indicators required by the Code are listed individually in Appendix 2.

The key Prudential Indicators relating to the Underlying Borrowing Requirement, the expected Gross External Debt, and the proposed Authorised Limit, are shown in graphical format below.

Figure 4: Prudential Indicators for Borrowing



The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's PPP/DBFM contracts. The **Underlying Borrowing Requirement** as shown in Figure 4 above strips out the latter of these (long-term liability arising from the Council's PPP/DBFM contracts) from the CFR.

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

The Authorised Limit for Borrowing for the 2025/26 financial year has been calculated to equate to the maximum value of the Underlying Borrowing Requirement in 2025/26. This equates to £604.957 million as outlined in Table 6 below.

Table 6: Authorised Limit for Borrowing: Calculation

| Authorised Limit for Borrowing | Amount £000's |
|------------------------------------------------|------------------|
| CFR – General Services (31 March 2026) | 261,535 |
| CFR – HRA (31 March 2026) | 343,422 |
| Proposed Authorised Limit for Borrowing | 604,957 |

Council is therefore asked to approve an authorised limit for borrowing of £604.957 million (see Appendix 2, Section 4.2).

IFRS16

The Council will adopt IFRS16 for its statutory accounts for financial year 2024/25. This will bring on balance sheet all operating leases where there is a right of use asset addition. Work is being finalised to quantify the effect of this on the Balance Sheet and the Prudential Indicators, and adjustments to the limits will be included in the Treasury Management Outturn Report to Council in June 2025, and the Treasury Management Mid Year Review Report to Council in late 2025. Council should note that the on balance sheet treatment of IFRS16 will have no

impact on the Council's underlying need to borrow for Treasury Management purposes, and therefore no limit on the Authorised Limit for Borrowing of £604.957 million as proposed in this report.

6 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of each financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

6.1 New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

6.2 Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. For the 2025/26 financial year, there are 3 options available: (a) Asset Life method; (b) Depreciation method; and (c) Funding/income profile method.

In line with the policy adopted in 2024/25, the Asset Life method shall be used for those assets in Table 7.

Table 7: Asset Classes adopting the "Asset Life" method

| Infrastructure | Current Loans Fund Advance Period |
|----------------------------------------|------------------------------------------|
| New Primary Schools/Extensions | 60 |
| New Leisure Centres | 60 |
| New Offices | 60 |
| Road Upgrades | 50 |
| Street Lighting Columns | 50 |
| Structures/Bridges | 50 |
| Footway/Cyclepaths | 50 |
| Town Centre Environmental Improvements | 50 |
| New Care Homes | 45 |
| Children's Play Equipment | 20 |

The annual repayments under the "Asset Life" method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, in line with previous years. The annuity interest rate that will be used to calculate loans fund principal

repayments under the “Asset Life” method will be the in-year loans fund rate, which for 2024/25 is currently estimated to be 2.54%.

For all other asset classes, the policy will also be to profile the annual repayments under the “Asset Life” method, with the profile also calculated using the annuity method. The annuity interest rate that will be used to calculate loans fund principal repayments under the “Asset Life” method will be the in-year loans fund rate, which for 2024/25 is currently estimated to be 2.54%.

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

7. Report Implications

7.1 Resource

There are no direct resource implications arising from this report.

7.2 Digital

None

7.3 Risk

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

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

7.4 Ensuring Equalities

There are no equality issues arising from this report.

7.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes addressed in this report:

- ☐ One Council Working with you, for you
- ☒ 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 MUFG Asset Services, the Council's appointed Treasury Consultants.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Background Papers:-

Appendix 1:- Permitted Investments

Appendix 2:- Prudential Indicators

Appendix 3:- Treasury Management & Annual Investment Strategy
Statement – 2025/26 Detailed

Permitted Investments

Appendix 1

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:-

| Link Asset Services Colour Code | Maximum Suggested Duration for Investment |
|--------------------------------------------|------------------------------------------------------|
| Yellow | 6 years* |
| Dark Pink | 6 years** |
| Light Pink | 6 years** |
| Purple | 2.5 years |
| Blue | 1.25 years*** |
| Orange | 1.25 years |
| Red | 7 months |
| Green | 120 days |
| No colour | Not to be used |

* *Note the yellow colour category is for:- UK Government Debt, or its equivalent, 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.

1.1 Deposits

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------|-------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Debt Management Agency Deposit Facility | -- | Term | No | 100% | 6 months |
| Term deposits – local authorities | -- | Term | No | 100% | 5 years |
| Call accounts – banks and building societies | Green | Instant | No | 100% | 1 day |
| Term deposits / Notice Accounts – banks and building societies | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |
| Fixed term deposits with variable rate and variable maturities: - Structured deposits | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |

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

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------|-------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------|
| UK nationalised banks – Call accounts | Blue | Instant | No | 100% | 1 day |
| UK nationalised banks – Term Deposits / Notice Accounts | Blue | Term | No | 100% | 1.25 years |
| UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits | Blue | Term | No | 100% | 1.25 years |
| Non-UK (high sovereign rated country) nationalised banks – Call accounts | Green | Instant | No | 100% | 1 day |
| Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |
| Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |

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

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

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

1.4 Securities issued or guaranteed by governments

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

1.5 Securities issued by corporate organisations

| Investment Category | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|----------------------------------------------------------------|-----------------------------------------------------------------|----------------|-------------|----------------------------|-------------------------------------------------------------------------------------------------------------------|
| Certificates of deposit issued by banks and building societies | Yellow Purple Blue Orange Red Green No Colour | Sale T+0 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |
| Commercial paper other | Yellow Purple Blue Orange Red Green No Colour | Sale T+0 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |
| Floating rate notes | Yellow Purple Blue Orange Red Green No Colour | Sale T+2 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |
| Corporate Bonds other | Yellow Purple Blue Orange Red Green No Colour | Sale T+2 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use |

1.6 Other

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period |
|--------------------------------------------------------|-------------------------|----------------|-------------|-------------------------------|----------------------|
| Local authority mortgage guarantee scheme. | Blue | Term | No | 50% | 5 years |
| Loans to Third Parties | n/a | Term | No | £25m | 25 years |
| Subordinated Debt Subscription to Newbattle Centre SPV | n/a | Term | No | £0.326m | 22 years |
| Midlothian Energy Limited | n/a | Term | No | £10.2m | n/a |

Treasury Risks and Mitigating Controls for each type of investment are as outlined in the Treasury Management & Annual Investment Strategy Statement – 2023/24 Detailed – Appendix 5.3. The Council's Treasury Management Practices have also been updated in line with the new CIPFA Prudential and Treasury Management Codes which were approved by Audit Committee on 6 December 2022.

1. Prudential Indicators for Affordability

These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

1.1 Estimates of Ratio of Financing Costs to Net Revenue Stream

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

| Ratio of Financing Costs to Net Revenue Stream | | | | | | |
|------------------------------------------------|---------|----------|----------|----------|----------|----------|
| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| General Services | 0.62% | 1.30% | 2.85% | 3.87% | 4.90% | 4.98% |
| HRA | 40.24% | 42.80% | 44.42% | 48.49% | 51.95% | 53.19% |

The figures above are based on the current General Services and HRA Capital Plans.

1.2 HRA Ratios

The following indicator identifies the ratio of overall debt on the HRA account compared to annual house rent revenue.

| HRA Debt as a % of Gross Revenue | | | | | | |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| HRA debt £000's | £ 246,524 | £ 277,473 | £ 343,422 | £ 399,595 | £ 426,052 | £ 440,130 |
| HRA Revenues £000's | 33,162 | 37,730 | 41,060 | 44,266 | 46,352 | 48,642 |
| Ratio of HRA Debt to Revenues % | 743% | 735% | 836% | 903% | 919% | 905% |

The following indicator identifies the ratio of overall debt on the HRA account per HRA dwelling.

| HRA Debt per Dwelling | | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| HRA debt £000's | £ 246,524 | £ 277,473 | £ 343,422 | £ 399,595 | £ 426,052 | £ 440,130 |
| Number of HRA dwellings | 7,448 | 7,592 | 7,747 | 8,068 | 8,228 | 8,253 |
| Debt per dwelling £ | £ 33,099 | £ 36,548 | £ 44,330 | £ 49,528 | £ 51,781 | £ 53,330 |

1.3 Net Income from Service & Commercial Investments as a proportion of Net Revenue Stream

An indicator, which is a requirement of the new Prudential Code, identifies the ratio of net income from service and commercial investments as a proportion of the net General Services revenue stream.

| Net Income from Service Investments as a proportion of Net Revenue Stream | | | | | | |
|---------------------------------------------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| % | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| | Actual £000's | Estimate £000's | Estimate £000's | Estimate £000's | Estimate £000's | Estimate £000's |
| Income from Service Investments | 34 | 34 | 34 | 34 | 34 | 34 |
| Net Revenue Stream | 257,849 | 293,755 | 313,460 | 318,960 | 320,210 | 321,460 |
| % | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |

2. Prudential Indicators for Capital Expenditure

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

2.1 Estimated Capital Expenditure

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

| Capital Expenditure | | | | | | |
|---------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| General Services | | | | | | |
| Children, Young People & Estates | £ 26,241 | £ 21,547 | £ 52,177 | £ 101,332 | £ 63,822 | £ 4,572 |
| Asset Management | £ 10,897 | £ 15,736 | £ 18,639 | £ 12,063 | £ 12,160 | £ 8,800 |
| Transport, Energy & Infrastructure | £ 2,340 | £ 3,841 | £ 3,370 | £ 5,308 | £ 2,233 | £ 428 |
| Regeneration & Development | £ 6,263 | £ 13,706 | £ 17,648 | £ 12,097 | £ 10,509 | £ - |
| Other | £ 1,915 | £ 1,623 | £ 1,257 | £ 697 | £ 698 | £ 621 |
| Provision for return of contingencies | £ - | £ (2,539) | £ (1,411) | £ (2,327) | £ (3,287) | £ (2,236) |
| Total General Services | £ 47,656 | £ 53,913 | £ 91,680 | £ 129,170 | £ 86,134 | £ 12,185 |
| Total HRA | £ 50,412 | £ 47,429 | £ 80,242 | £ 72,003 | £ 44,139 | £ 28,826 |
| Combined Total | £ 98,068 | £ 101,342 | £ 171,922 | £ 201,173 | £ 130,273 | £ 41,011 |

2.2 Financing of Capital Expenditure

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

| Capital Expenditure and Available Financing | | | | | | |
|---------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| Capital Expenditure | | | | | | |
| General Services | £ 47,656 | £ 53,913 | £ 91,680 | £ 129,170 | £ 86,134 | £ 12,185 |
| HRA | £ 50,412 | £ 47,429 | £ 80,242 | £ 72,003 | £ 44,139 | £ 28,826 |
| Total | £ 98,068 | £ 101,342 | £ 171,922 | £ 201,173 | £ 130,273 | £ 41,011 |
| Financed by: | | | | | | |
| Capital receipts | £ - | £ - | £ - | £ - | £ - | £ - |
| Capital grants | £ 33,539 | £ 25,462 | £ 22,467 | £ 22,602 | £ 18,712 | £ 13,774 |
| Capital reserves | £ - | £ - | £ - | £ - | £ - | £ - |
| Developer/Other Contributions | £ 88 | £ 6,578 | £ 13,606 | £ 17,405 | £ 4,767 | £ 4,031 |
| Net financing need for the year | £ 64,441 | £ 69,303 | £ 135,849 | £ 161,165 | £ 106,795 | £ 23,206 |

2.3 Estimated Capital Financing Requirement

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

| Capital Financing Requirement (CFR) | | | | | | |
|--------------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| Capital Financing Requirement | | | | | | |
| CFR – General Services | £ 169,764 | £ 202,314 | £ 261,535 | £ 354,416 | £ 421,043 | £ 415,061 |
| CFR – HRA | £ 246,524 | £ 277,473 | £ 343,422 | £ 399,595 | £ 426,052 | £ 440,130 |
| CFR – PFI Schemes | £ 88,739 | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 | £ 66,819 |
| Total CFR | £ 505,027 | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |
| Movement in CFR | £ 102,163 | £ 59,575 | £ 121,016 | £ 144,670 | £ 88,470 | £ 3,251 |
| | | | | | | |
| Movement in CFR represented by | | | | | | |
| Net financing need for the year (previous table) | £ 64,441 | £ 69,303 | £ 135,849 | £ 161,165 | £ 106,795 | £ 23,206 |
| MEL Shareholder Injection | £ - | £ 4,590 | £ - | £ - | £ - | £ - |
| Less Scheduled Debt Amortisation | £ (9,494) | £ (10,394) | £ (10,679) | £ (12,111) | £ (13,711) | £ (15,111) |
| Less net PFI Finance Lease Principal Payments | £ (3,694) | £ (3,924) | £ (4,154) | £ (4,384) | £ (4,614) | £ (4,844) |
| Movement in CFR | £ 51,253 | £ 59,575 | £ 121,016 | £ 144,670 | £ 88,470 | £ 3,251 |

3. Prudential Indicators for Prudence

3.1 Net Borrowing Requirement

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

| Net Borrowing Requirement | | | | | | |
|-----------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| External Debt | | | | | | |
| Debt at 1 April | £ 321,753 | £ 340,871 | £ 394,445 | £ 528,600 | £ 684,328 | £ 777,161 |
| Actual/Expected change in Debt | £ 19,118 | £ 53,574 | £ 134,155 | £ 155,728 | £ 92,833 | £ 8,054 |
| Other long-term liabilities (OLTL) at 1 April | £ 92,433 | £ 88,739 | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 |
| Actual/Expected change in OLTL | £ (3,694) | £ (3,924) | £ (4,154) | £ (4,384) | £ (4,614) | £ (4,844) |
| Actual/Expected Gross Debt at 31 March | £ 429,610 | £ 479,260 | £ 609,261 | £ 760,605 | £ 848,824 | £ 852,035 |
| The Capital Financing Requirement | £ 505,027 | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |
| Under / (over) borrowing | £ 75,417 | £ 85,342 | £ 76,357 | £ 69,683 | £ 69,934 | £ 69,975 |
| | | | | | | |
| Deposits | | | | | | |
| Cash & Cash Equivalents | £ 26,619 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 |
| Short-Term Investments | £ 30,000 | £ - | £ - | £ - | £ - | £ - |
| Total Deposits | £ 56,619 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 |

4. Prudential Indicators for External Debt

4.1 Operational Boundary

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

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the value of the CFR for General Services and HRA combined, over the current financial year and the following 4 financial years (2024/25 to 2028/29); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

| Operational Boundary | | | | | |
|----------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| Operational Boundary - Borrowing | £ 479,787 | £ 604,957 | £ 754,011 | £ 847,095 | £ 855,191 |
| Operational Boundary - Other long term liabilities | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 | £ 66,819 |
| Total | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |

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

4.2 Authorised Limit of Total External Debt

This indicator sets the limit for total external debt.

The Authorised Limit for Borrowing for the 2025/26 financial year has been calculated to equate to the maximum value of the Underlying Borrowing Requirement in 2025/26. This equates to £604.957 million as outlined below.

| Authorised Limit for Borrowing | |
|-----------------------------------------|------------------|
| | £000's |
| CFR - General Services at 31 March 2026 | £ 261,535 |
| CFR - HRA at 31 March 2026 | £ 343,422 |
| Authorised Limit for Borrowing | £ 604,957 |

5. Prudential Indicators for Treasury Management

5.1 Upper limits on Fixed and Variable Interest Rates

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

| Upper Limits on Exposure to Fixed and Variable Interest Rates 2025/26 | | | |
|-----------------------------------------------------------------------|--|--|-------------|
| Interest rate exposures | | | Upper Limit |
| Limits on fixed interest rates based on gross debt | | | 100.00% |
| Limits on variable interest rates based on gross debt | | | 30.00% |
| Limits on fixed interest rates based on investments | | | 100.00% |
| Limits on variable interest rates based on investments | | | 100.00% |

5.2 Maturity Structure of Borrowing

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

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

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

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

| Maturity Structure of Borrowing 2025/26 | | |
|-----------------------------------------------------------------------|--------------|--------------|
| Maturity structure of fixed interest rate borrowing 2025/26 | Lower | Upper |
| Under 12 months | 0.00% | 50.00% |
| 12 months to 2 years | 0.00% | 50.00% |
| 2 years to 5 years | 0.00% | 50.00% |
| 5 years to 10 years | 0.00% | 50.00% |
| 10 years to 20 years | 0.00% | 50.00% |
| 20 years to 30 years | 0.00% | 50.00% |
| 30 years to 40 years | 0.00% | 50.00% |
| 40 years to 50 years | 0.00% | 50.00% |
| 50 years and above | 0.00% | 50.00% |
| Maturity structure of variable interest rate borrowing 2025/26 | Lower | Upper |
| <i>Under 12 months</i> | 0.00% | 30.00% |
| <i>12 months to 2 years</i> | 0.00% | 30.00% |
| <i>2 years to 5 years</i> | 0.00% | 30.00% |
| <i>5 years to 10 years</i> | 0.00% | 30.00% |
| <i>10 years to 20 years</i> | 0.00% | 30.00% |
| <i>20 years to 30 years</i> | 0.00% | 30.00% |
| <i>30 years to 40 years</i> | 0.00% | 30.00% |
| <i>40 years to 50 years</i> | 0.00% | 30.00% |
| <i>50 years and above</i> | 0.00% | 30.00% |

5.4 Total Principal Sums Invested for Periods Longer than 365 Days

This indicator relates to the total level of investments held for periods longer than 365 days.

| Principal Sums Invested for > 365 Days | | |
|--------------------------------------------------|--|------|
| Limit | | £70m |

The current strategy as outlined in the body of these reports is to continue to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of fixed term deposits and/or certificates of deposit. Given expected reserve forecasts and the current interest rate environment, in particular the short-medium term forecast for the Council's Capital Fund and HRA Reserve, the limit for principal sums invested for > 365 days has been retained at £70m.

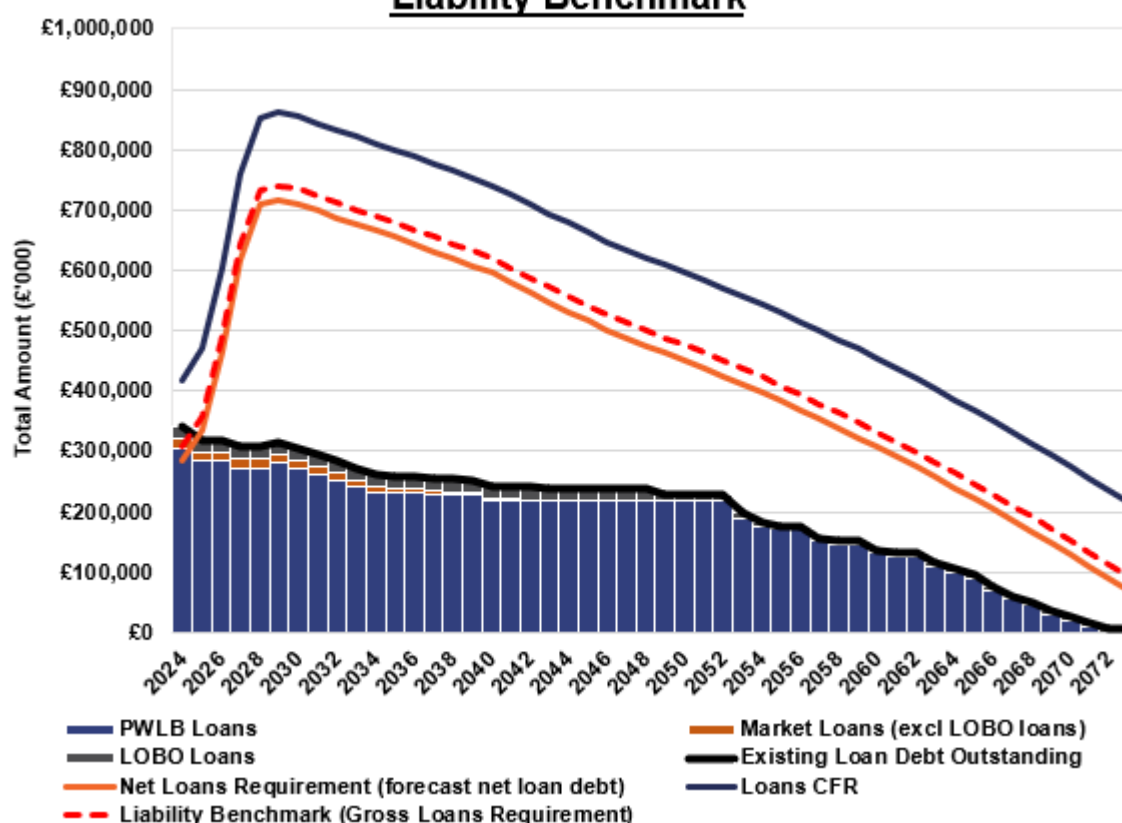
For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and money market funds.

5.5 Liability Benchmark

The "Liability Benchmark" identifies future borrowing needs across the short, medium and longer terms, against the maturity profile of the Council's existing loan portfolio.

The Council's Liability Benchmark in graphical format is as shown below.

Liability Benchmark



There are four components to the Liability Benchmark: -

- 1 **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years – shown as the stacked bar elements of the figure above.
- 2 **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments.
- 3 **Net loans requirement:** this shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows (drawdowns/enhancement of reserves) forecast.
- 4 **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity/working capital allowance.

The Liability Benchmark Indicator identifies the Council's expected future capital financing requirement, as driven by the Council's approved Capital Plans – and therefore the Council's future borrowing needs; along with how this matches to the existing debt maturity profile. It is therefore a key tool to support the financing risk management of the capital financing requirement.

As can be noted from the figure above, the Council has a significant borrowing requirement (which equates to £448.393 million) in the short-medium term, arising as a direct result of the Council's approved Capital Plans. The proposed approach to securing this borrowing need for the 2025/26 financial year is outlined in the main body of this report, Section 4.3.

The Liability Benchmark also outlines the profile of the Council's CFR over the medium-long term, against the Council's existing debt portfolio maturity profile. As can be seen from the figure

above, the profile of the CFR movements in the medium-long term broadly matches the movements in the Council's external debt portfolio over this period.

The Debt Liability Benchmark will assist the Council with plotting the tenor of borrowing to finance the Council's approved capital plans that is undertaken in the remainder of 2024/25 and the forthcoming 2025/26 period, to ensure that this aligns with the Council's future expected CFR profile and Liability Benchmark projections, taking into account the profile of existing loan maturities as identified in the figure above.

Treasury Management Strategy Statement and Annual Investment Strategy

Midlothian Council
2025/26

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1 INTRODUCTION

1.1 Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which provides the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management Reporting

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

- a) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:
 - the capital plans (including prudential indicators) for 2024/25 to 2028/29;
 - a policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy (how the investments and borrowings are to be organised) for 2025/26, including treasury indicators; and
 - a permitted investment strategy for 2025/26 (the parameters on how investments are to be managed).
- b) **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the actual treasury strategy is meeting the strategy outlined in advance of the year, or whether any policies require revision.
- c) **An annual treasury outturn report** – This provides details of a selection of actual prudential and treasury indicators for the previous financial year and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee with this report being presented to Audit Committee prior to consideration by Council. Any revisions arising from Audit Committee consideration of the report on 24 February 2025 will be verbally updated to Council before discussing the report on 25 February 2025.

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

- the capital expenditure plans and the prudential indicators (Section 2 of this report);
- The policy for the statutory repayment of loans fund advance (Section 2.4 of this report).

Treasury management issues

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

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and The Scottish Government Local Authority (Capital Finance & Accounting) (Scotland) Regulations 2016.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

Organisations need to consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA

website to download. This was presented to members of the Audit Committee and Council as part of the Council's Treasury Management 2021-22 Mid-Year Review Report.

A formal record of Knowledge & Skills Schedule has been developed as part of the Council's Treasury Management Practices. This will be periodically reviewed to assess suitability, and updated to reflect ongoing training, knowledge and skills gained. Similarly, a formal record of the treasury management/capital finance training received by members will also be periodically reviewed and updated.

1.5 Treasury management consultants

The Council uses MUFG Corporate Markets (former Link, Treasury Solutions Limited) as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2028/29

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

2.1 Capital expenditure

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

The table below summarises the Capital Expenditure forecasts:-

| Table 1: Capital Expenditure | | | | | | |
|---------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| General Services | | | | | | |
| Children, Young People & Estates | £ 26,241 | £ 21,547 | £ 52,177 | £ 101,332 | £ 63,822 | £ 4,572 |
| Asset Management | £ 10,897 | £ 15,736 | £ 18,639 | £ 12,063 | £ 12,160 | £ 8,800 |
| Transport, Energy & Infrastructure | £ 2,340 | £ 3,841 | £ 3,370 | £ 5,308 | £ 2,233 | £ 428 |
| Regeneration & Development | £ 6,263 | £ 13,706 | £ 17,648 | £ 12,097 | £ 10,509 | £ - |
| Other | £ 1,915 | £ 1,623 | £ 1,257 | £ 697 | £ 698 | £ 621 |
| Provision for return of contingencies | £ - | £ (2,539) | £ (1,411) | £ (2,327) | £ (3,287) | £ (2,236) |
| Total General Services | £ 47,656 | £ 53,913 | £ 91,680 | £ 129,170 | £ 86,134 | £ 12,185 |
| Total HRA | £ 50,412 | £ 47,429 | £ 80,242 | £ 72,003 | £ 44,139 | £ 28,826 |
| Combined Total | £ 98,068 | £ 101,342 | £ 171,922 | £ 201,173 | £ 130,273 | £ 41,011 |

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

Members are asked to approve the capital expenditure forecasts and the financing of these forecasts:-

| Table 2: Capital Expenditure and Available Financing | | | | | | |
|------------------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| Capital Expenditure | | | | | | |
| General Services | £ 47,656 | £ 53,913 | £ 91,680 | £ 129,170 | £ 86,134 | £ 12,185 |
| HRA | £ 50,412 | £ 47,429 | £ 80,242 | £ 72,003 | £ 44,139 | £ 28,826 |
| Total | £ 98,068 | £ 101,342 | £ 171,922 | £ 201,173 | £ 130,273 | £ 41,011 |
| Financed by: | | | | | | |
| Capital receipts | £ - | £ - | £ - | £ - | £ - | £ - |
| Capital grants | £ 33,539 | £ 25,462 | £ 22,467 | £ 22,602 | £ 18,712 | £ 13,774 |
| Capital reserves | £ - | £ - | £ - | £ - | £ - | £ - |
| Developer/Other Contributions | £ 88 | £ 6,578 | £ 13,606 | £ 17,405 | £ 4,767 | £ 4,031 |
| Net financing need for the year | £ 64,441 | £ 69,303 | £ 135,849 | £ 161,165 | £ 106,795 | £ 23,206 |

Note: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (financed), will increase the CFR.

The CFR does not increase indefinitely, as annual repayments from revenue need to be made which reflect the useful life of capital assets financed from borrowing. From 1st April 2016, Local Authorities may choose whether to use scheduled debt amortisation (loans pool charges) or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme already include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £88.739m of such schemes within the CFR. The Council is asked to approve the CFR projections below:

| Table 3: Capital Financing Requirement (CFR) | | | | | | |
|--------------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| Capital Financing Requirement | | | | | | |
| CFR – General Services | £ 169,764 | £ 202,314 | £ 261,535 | £ 354,416 | £ 421,043 | £ 415,061 |
| CFR – HRA | £ 246,524 | £ 277,473 | £ 343,422 | £ 399,595 | £ 426,052 | £ 440,130 |
| CFR – PFI Schemes | £ 88,739 | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 | £ 66,819 |
| Total CFR | £ 505,027 | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |
| Movement in CFR | £ 102,163 | £ 59,575 | £ 121,016 | £ 144,670 | £ 88,470 | £ 3,251 |
| Movement in CFR represented by | | | | | | |
| Net financing need for the year (previous table) | £ 64,441 | £ 69,303 | £ 135,849 | £ 161,165 | £ 106,795 | £ 23,206 |
| MEL Shareholder Injection | £ - | £ 4,590 | £ - | £ - | £ - | £ - |
| Less Scheduled Debt Amortisation | £ (9,494) | £ (10,394) | £ (10,679) | £ (12,111) | £ (13,711) | £ (15,111) |
| Less net PFI Finance Lease Principal Payments | £ (3,694) | £ (3,924) | £ (4,154) | £ (4,384) | £ (4,614) | £ (4,844) |
| Movement in CFR | £ 51,253 | £ 59,575 | £ 121,016 | £ 144,670 | £ 88,470 | £ 3,251 |

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

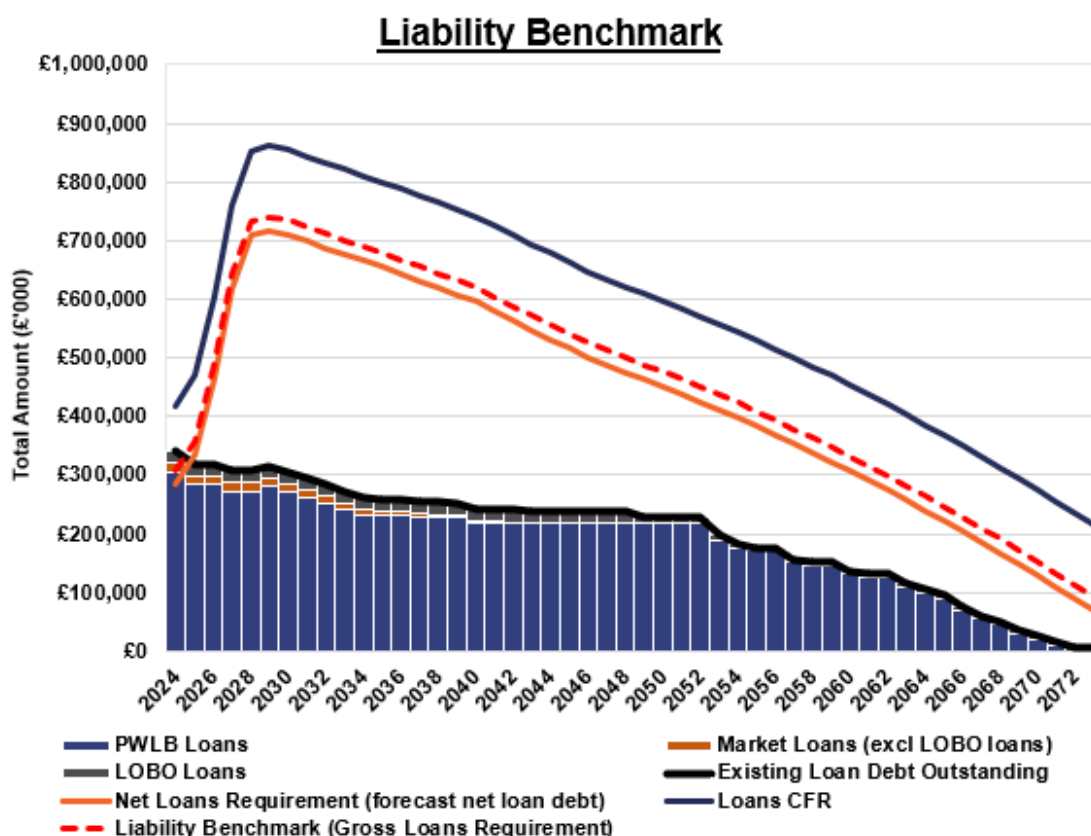
2.3 Liability Benchmark

A third prudential indicator is the Debt Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark: -

- 1 **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
- 2 **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments.
- 3 **Net loans requirement:** this shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows (drawdowns/enhancement of reserves) forecast.

- 4 **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity/working capital allowance.



2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

| Table 4: Balance Sheet Resources | | | | | | |
|------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Reserve | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| HRA Balances | £ 32,143 | £ 35,352 | £ 35,351 | £ 35,660 | £ 36,011 | £ 36,152 |
| General Fund Balances | £ 9,877 | £ 7,000 | £ 5,000 | £ 5,000 | £ 5,000 | £ 5,000 |
| Earmarked reserves | £ 24,317 | £ 13,767 | £ 6,883 | £ - | £ - | £ - |
| Provisions | £ 4,138 | £ 3,900 | £ 3,800 | £ 3,700 | £ 3,600 | £ 3,500 |
| Capital Fund | £ 20,107 | £ 18,137 | £ 18,137 | £ 18,137 | £ 18,137 | £ 18,137 |
| Total Reserves / Core Funds | £ 90,582 | £ 78,156 | £ 69,171 | £ 62,497 | £ 62,748 | £ 62,789 |

**Working capital balances shown are estimated year-end; these may be higher mid-year*

2.5 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is now required to set out its policy for the statutory repayment of loans fund advances prior to the start of each financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

It is proposed to retain the methodology adopted in 2024/25 – that is as follows:-

New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. There are 4 options available: (a) Asset Life method; (b) Statutory method; (c) Depreciation method; and (d) Funding/income profile method.

In line with the policy adopted in 2024/25, the Asset Life method shall be used for those assets in Table 5.

Table 5: Asset Classes adopting the “Asset Life” method

| Infrastructure | Current Loans Fund Advance Period |
|----------------------------------------|------------------------------------------|
| New Primary Schools/Extensions | 60 |
| New Leisure Centres | 60 |
| New Offices | 60 |
| Road Upgrades | 50 |
| Street Lighting Columns | 50 |
| Structures/Bridges | 50 |
| Footway/Cyclepaths | 50 |
| Town Centre Environmental Improvements | 50 |
| New Care Homes | 45 |
| Children’s Play Equipment | 20 |

The annual repayments under the “Asset Life” method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, to ensure consistency of approach with the Statutory method for all other asset classes (see below). The annuity interest rate that will be used to calculate loans fund principal repayments under the “Asset Life” method will be the in-year loans fund rate, which for 2024/25 is currently estimated to be 2.54%.

For all other asset classes, the policy will also be to profile the annual repayments under the “Asset Life” method, with the profile also calculated using the annuity method. The annuity interest rate that will be used to calculate loans fund principal repayments under the “Asset Life” method will be the in-year loans fund rate, which for 2024/25 is currently estimated to be 2.54%.

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

IFRS16

The Council will adopt IFRS16 for its statutory accounts for financial year 2024/25. This will bring on balance sheet all operating leases where there is a right of use asset addition. Work is being finalised to quantify the effect of this on the Balance Sheet and the Prudential Indicators, and adjustments to the limits will be included in the Treasury Management Outturn Report to Council in June 2025, and the Treasury Management Mid-Year Review Report to Council in late 2025. Council should note that the on-balance sheet treatment of IFRS16 will have no impact on the Council's underlying need to borrow for Treasury Management purposes, and therefore no limit on the Authorised Limit for Borrowing of £605.707 million as proposed in this report.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Treasury management portfolio position

The overall treasury management portfolio as at 31 March 2024 and for the position as at 31 January 2025 are shown below for both borrowing and investments.

Table 6: Portfolio Position 31 March 2024 and 31 January 2025

| Loan Type | 31 March 2024 | | 31 January 2025 | |
|--------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | Principal Outstanding £000's | Weighted Average Rate | Principal Outstanding £000's | Weighted Average Rate |
| PWLB Annuity | 452 | 8.91% | 395 | 8.91% |
| PWLB Maturity | 304,128 | 3.01% | 343,502 | 3.15% |
| LOBO | 20,000 | 4.51% | 20,000 | 4.51% |
| Market Loans | 16,221 | 2.68% | 15,548 | 2.68% |
| Salix Loans | 70 | 0.00% | - | 0.00% |
| Total Loans | 340,871 | 3.09% | 379,445 | 3.21% |

| Deposit Type | 31 March 2024 | | 31 January 2025 | |
|--------------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | Principal Outstanding £000's | Weighted Average Rate | Principal Outstanding £000's | Weighted Average Rate |
| Bank Call Accounts | 1,519 | 5.14% | 1,655 | 4.71% |
| Money Market Funds | 25,100 | 5.29% | 23,753 | 4.72% |
| Bank Fixed Term Deposits | 30,000 | 5.12% | 20,000 | 5.06% |
| Total Deposits | 56,619 | 5.20% | 45,408 | 4.87% |

The Council's forward projections for borrowing and investments are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| Table 7: Net Borrowing Requirement | | | | | | |
|-----------------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2023/24 Actual £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
| External Debt | | | | | | |
| Debt at 1 April | £ 321,753 | £ 340,871 | £ 394,445 | £ 528,600 | £ 684,328 | £ 777,161 |
| Actual/Expected change in Debt | £ 19,118 | £ 53,574 | £ 134,155 | £ 155,728 | £ 92,833 | £ 8,054 |
| Other long-term liabilities (OLTL) at 1 April | £ 92,433 | £ 88,739 | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 |
| Actual/Expected change in OLTL | £ (3,694) | £ (3,924) | £ (4,154) | £ (4,384) | £ (4,614) | £ (4,844) |
| Actual/Expected Gross Debt at 31 March | £ 429,610 | £ 479,260 | £ 609,261 | £ 760,605 | £ 848,824 | £ 852,035 |
| The Capital Financing Requirement | £ 505,027 | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |
| Under / (over) borrowing | £ 75,417 | £ 85,342 | £ 76,357 | £ 69,683 | £ 69,934 | £ 69,975 |
| | | | | | | |
| Deposits | | | | | | |
| Cash & Cash Equivalents | £ 26,619 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 |
| Short-Term Investments | £ 30,000 | £ - | £ - | £ - | £ - | £ - |
| Total Deposits | £ 56,619 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 | £ 20,000 |

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed

the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26.

The Chief Financial Officer & Section 95 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the in-year value of the CFR over the current and following 4 financial years (2024/25 to 2028/29); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

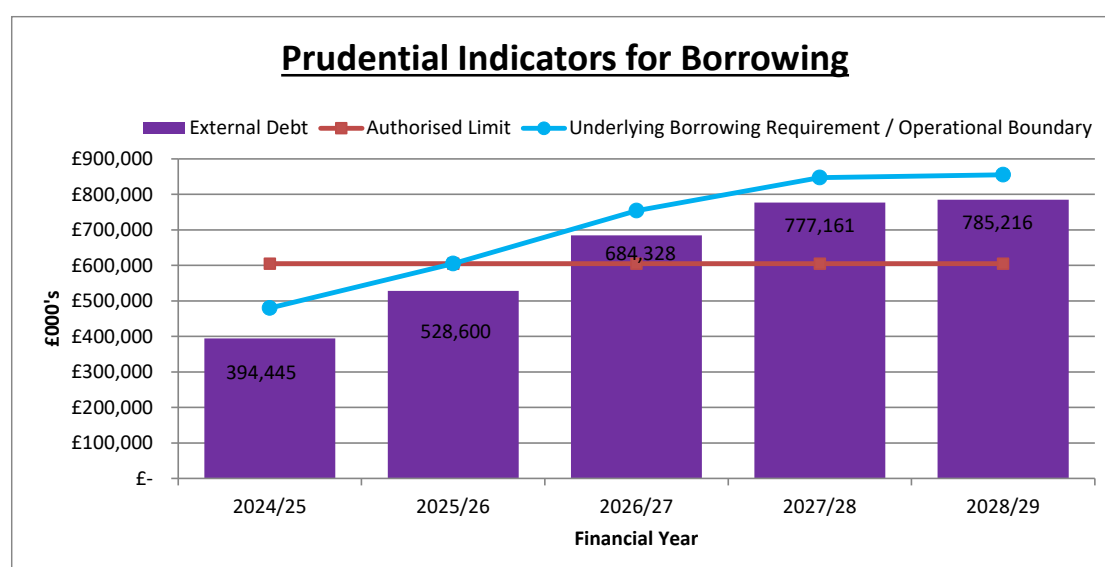
| | 2024/25 Estimate £000's | 2025/26 Estimate £000's | 2026/27 Estimate £000's | 2027/28 Estimate £000's | 2028/29 Estimate £000's |
|----------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Operational Boundary - Borrowing | £ 479,787 | £ 604,957 | £ 754,011 | £ 847,095 | £ 855,191 |
| Operational Boundary - Other long term liabilities | £ 84,815 | £ 80,661 | £ 76,277 | £ 71,663 | £ 66,819 |
| Total | £ 564,602 | £ 685,618 | £ 830,288 | £ 918,758 | £ 922,010 |

The authorised limit for external debt

This indicator sets the limit for total external debt.

The Authorised Limit for Borrowing for the 2025/26 financial year has been calculated to equate to the maximum value of the Underlying Borrowing Requirement in 2025/26. This equates to £604.957 million as outlined below.

| | £000's |
|-----------------------------------------|------------------|
| CFR - General Services at 31 March 2026 | £ 261,535 |
| CFR - HRA at 31 March 2026 | £ 343,422 |
| Authorised Limit for Borrowing | £ 604,957 |



3.3 Prospects for interest rates

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts for certainty rates (gilt yields plus 80 bps) on 11 November with the next update scheduled for the week commencing 10th February following the Bank of England's Monetary Policy Committee Meeting on 6th February 2025.

MUFG's revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps).

| MUFG Corporate Markets Interest Rate View | | | | | | | | | | | | |
|-------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month average earnings | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 year PWLB | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 year PWLB | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 year PWLB | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 year PWLB | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, MUFG have significantly revised their central forecasts for the first time since May 2024. In summary, the Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst the PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

Reflecting on the 30 October Budget, MUFG's central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

MUFG's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. MUFG forecast the next reduction in Bank Rate to be made in February (MPC meeting on 06/02/2025) and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut

decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

Regarding the PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Donald Trump's victory in the US Election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

The MPC voted by 7-2 on 6 February 2025 to cut the Bank of England's base rate by 0.25% to 4.50%. However, the other two votes were for base rate to be cut by 0.50% which is a very dovish outlook – with the prospect that yields will now fall.

A more detailed interest rate view and economic commentary is provided at appendix 5.1.

3.4 Borrowing strategy

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost-effective way. As can be noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2024/25 to 2028/29).

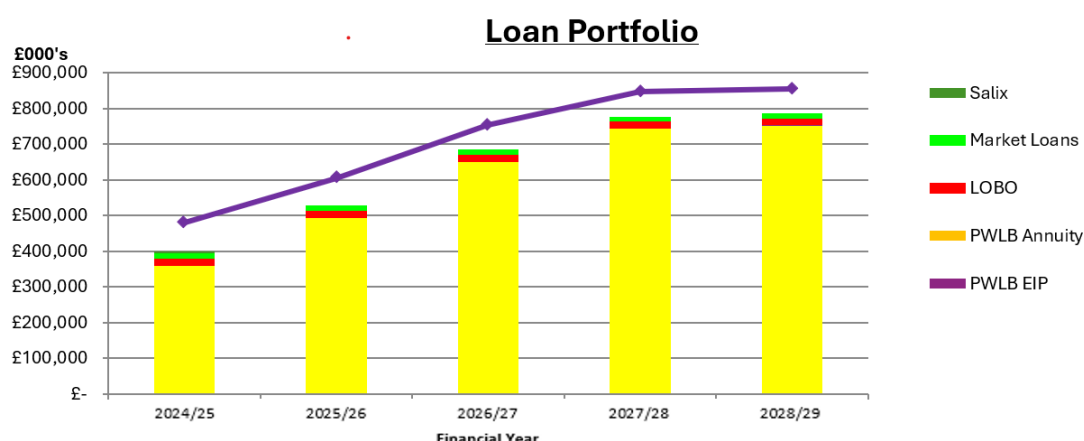
This TMIS provides for this capital investment to be underpinned by long-term borrowing, recognising the current interest rate environment, the significant borrowing requirement arising from the Council's capital plans, and the long term benefits of de-risking the delivery and affordability of these capital plans by locking into the certainty brought by PWLB fixed rate loans.

The Council's **external loan debt** at 31 March 2025 is projected to be **£394.445 million**. Based on the Council's historic and current approved Capital Plans, the **Underlying Borrowing Requirement (UBR)** – which is the Council's underlying need to borrow for capital purposes (excluding the long-term liability arising from PFI/DBFM projects) – at 31 March 2025 is expected to equate to **£479.787 million**.

This means that the Council is expected to be **£85.342 million (18%) under-borrowed** at the end of the 2024/25 financial year i.e. the Council has funded the majority (82%) of its underlying borrowing requirement as at 31 March 2025. In the current economic climate, this is a prudent approach which balances (a) de-risking the longer term borrowing requirement at current longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections. The Council has a relatively low short-medium term exposure to refinancing risk and is therefore in a strong position to plan its new borrowing requirements in advance, taking advantage of any dips in longer-term borrowing rates from PWLB and other sources, and maintain a low weighted average coupon rate on external debt.

The **Underlying Borrowing Requirement** is projected to rise to **£855.191 million by 31 March 2029** – more than double the current external debt portfolio value. The profile of this, and the projected external loan portfolio to fund the Underlying Borrowing Requirement over the period 2024/25 to 2028/29, is shown in graphical format below.

Figure 3: Loan Portfolio & Underlying Borrowing Requirement



Interest Rates

The current PWLB yield curve is bell shaped with the low point in the curve at the 3 year mark (4.90%; certainty rate) with rates trending upwards towards the 20-30 year tenor (high point of 5.86%) before easing back slightly to sit at c. 5.55% in the 50 year duration.

Current PWLB rates have generally increased by c. 50bps across the entire curve from levels reported at the time of the 2024/25 TMIS to Council in February 2024, and have shifted upwards by 25-35bps across the medium to long part of the curve since the TM Mid Year Review Report to Council in December 2024 whilst holding fairly steady at the very short (up to 7 year) range.

The yield curve is expected to remain bell shaped over the short-medium term, with a gradual shift downwards of the entire curve by c. 40bps over the next 12 months, a further 40bps over the subsequent 12 months and a further 20bps over the following 12 months of the forecast period (so 100bps total).

This is forecast to bring longer-term borrowing rates down from between 5.30%-5.50%, to between:-

- 4.90%-5.10% by March 2026;
- 4.50%-4.70% by March 2027; and
- 4.30%-4.50% by March 2028.

The Interest Rate Forecast from the Council's Treasury Advisers, MUFG Corporate Markets, is shown in Table 5 below, with Further commentary on this is provided in Appendix 3 Section 3.3.

Table 5: MUFG Interest Rate Forecasts

| MUFG Corporate Markets Interest Rate View | | | | | | | | | | | | |
|-------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month average earnings | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month average earnings | 4.40 | 4.20 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 year PWLB | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 year PWLB | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 year PWLB | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 year PWLB | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

The funding of the Council's in-year and forward CFR is typically for infrastructure with long asset lives (50-60 years), and the tenor of PWLB and market loans are typically drawn with this in mind.

Borrowing Strategy

Consideration for any new borrowing in the remainder of the 2024/25 financial year and during the 2025/26 financial year, to fund the Council's in-year CFR, will seek to balance:-

- a) the security/certainty of current relatively high longer-term borrowing rates of upwards of 5.30% in the 30-50 year duration (which are forecast to drop by 40bps within one year and a total of 80bps within 24 months) and the potential additional budgetary pressure that this brings in both the short/medium and longer term; with
- b) the option to borrow initially for a shorter-term duration from PWLB or other markets, for 3 to 5 years (at say c. 4.50% at the HRA rate), to allow the Council to fund the immediate in-year borrowing requirement. Based on current interest rate forecasts (see Appendix 3 Section 3.3), this would then allow the Council the option to refinance this borrowing at initial 3-5 year maturity with less expensive, longer term borrowing, e.g. a 45 to 47 year tenor in, say, 36 months at a forecast rate of c. 4.30%.

As noted in Section 3.1 of the main body of this report, the Council's proactive Treasury Management over the last decade has put the Council in a strong refinancing

position for its external debt portfolio which allows the Council to slot in shorter dated external borrowing into the current debt maturity profile to fund the current & forthcoming in-year borrowing requirements, to allow the Council to navigate past the current expected hump in longer-term borrowing rates.

It is expected that any further long-term borrowing that is undertaken during 2024/25 and 2025/26 to finance the current & future year capital plans will be sourced by drawing new PWLB loans at the Certainty Rate (which has been available to the Council since 2012 and is priced at Gilts+80bps), and/or the HRA rate. The HRA rate is available to all Councils to fund HRA capital expenditure, at a rate that is priced at Gilts+40bps. In the UK Budget in October 2024, the availability over which Councils can draw HRA rate borrowing from PWLB was extended to 31 March 2026.

Both the General Services and HRA capital programmes are being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour, and the ratios of financing costs to the net revenue streams. The Council's borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the medium-long-term. The impact particularly of the General Services Capital Plan Prioritisation – which is also reported to Council on today's agenda – will have a bearing on this.

Appendix 3 Section 3.3 provides forecasts for interest rates from the Council's Treasury Management advisor, MUFG Corporate Markets. Council officers, in conjunction with MUFG, will continue to monitor daily long-term borrowing rates in order to take advantage of any dips in the market or to de-risk any change in the medium-longer term forecast for gilt yields.

Forward Borrowing

The opportunity also continues to exist to consider further loans on a 'forward dealing' basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the Council's Underlying Borrowing Requirement.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates for borrowing based upon the gross debt position, and variable interest rates for investments based upon the total investment position;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates for both borrowing and investments;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

| Upper Limits on Exposure to Fixed and Variable Interest Rates 2025/26 | | | |
|------------------------------------------------------------------------------|--|--|--------------------|
| Interest rate exposures | | | Upper Limit |
| Limits on fixed interest rates based on gross debt | | | 100.00% |
| Limits on variable interest rates based on gross debt | | | 30.00% |
| Limits on fixed interest rates based on investments | | | 100.00% |
| Limits on variable interest rates based on investments | | | 100.00% |

| Maturity Structure of Borrowing 2025/26 | | |
|-----------------------------------------------------------------------|--------------|--------------|
| Maturity structure of fixed interest rate borrowing 2025/26 | Lower | Upper |
| Under 12 months | 0.00% | 50.00% |
| 12 months to 2 years | 0.00% | 50.00% |
| 2 years to 5 years | 0.00% | 50.00% |
| 5 years to 10 years | 0.00% | 50.00% |
| 10 years to 20 years | 0.00% | 50.00% |
| 20 years to 30 years | 0.00% | 50.00% |
| 30 years to 40 years | 0.00% | 50.00% |
| 40 years to 50 years | 0.00% | 50.00% |
| 50 years and above | 0.00% | 50.00% |
| Maturity structure of variable interest rate borrowing 2025/26 | Lower | Upper |
| <i>Under 12 months</i> | 0.00% | 30.00% |
| <i>12 months to 2 years</i> | 0.00% | 30.00% |
| <i>2 years to 5 years</i> | 0.00% | 30.00% |
| <i>5 years to 10 years</i> | 0.00% | 30.00% |
| <i>10 years to 20 years</i> | 0.00% | 30.00% |
| <i>20 years to 30 years</i> | 0.00% | 30.00% |
| <i>30 years to 40 years</i> | 0.00% | 30.00% |
| <i>40 years to 50 years</i> | 0.00% | 30.00% |
| <i>50 years and above</i> | 0.00% | 30.00% |

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates (as detailed in Section 3.2) and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As noted in the Mid-Year Review Report, now that the whole of the yield curve has shifted higher there may be opportunities for debt rescheduling in the remainder of the financial year.

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

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

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

Council officers will explore debt rescheduling opportunities with MUFG Corporate Markets; with only prudent and affordable debt rescheduling that considers both the short and medium-longer term impact being considered.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy implements the requirements of the following: -

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010);
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code");
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions as we move down the interest rate yield curve.

The above regulations and guidance place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. The Council applies **minimum acceptable credit criteria** in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in appendix 5.2. Appendix 5.3 expands on the risks involved in each type of investment and the mitigating controls.
5. **Lending limits**, (maturity tenors), for each counterparty will be set through applying the matrix table in Section 4.2 (maturity durations).
6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
7. Lending per **Country** and **Institution** will be set through the application of the criteria in Section 4.3 (amounts).

8. **Transaction limits** are set for each type of investment in appendix 5.2.
9. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in sterling.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

| Table 14: Recommended Maximum Durations for Investments | |
|----------------------------------------------------------------|--------------------------------------------------|
| Link Asset Services Colour Code | Maximum Suggested Duration for Investment |
| Yellow | 6 years* |
| Dark Pink | 6 years** |
| Light Pink | 6 years** |
| Purple | 2.5 years |
| Blue | 1.25 years*** |
| Orange | 1.25 years |
| Red | 7 months |
| Green | 120 days |
| No colour | Not to be used |

* Note the yellow colour category is for:- UK Government Debt, or its equivalent, Money Market Funds (MMFs), 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

*** Applies only 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, Purple, Blue and Orange categories, to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. Equally, the maximum suggested duration for the Red category has been extended by a month to 8 months, on the same basis. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

The MUFG Corporate Markets creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be (Fitch or equivalents):-

- Short term rating F1;
- Long term rating A-.

There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to the Council by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country and sector limits

The Council has determined that it will only use approved counterparties from the UK, or approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch.

The list of countries that qualify using the above criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The Council will avoid a concentration of investments in too few counterparties or countries by adopting a spreading approach to investing whereby no more than £30 million will be invested in Lloyds Banking Group and the NatWest (Royal Bank of Scotland) Group, £15 million in any other UK counterparty, and £15 million in any one counterparty, group or country outwith the UK.

4.4 Investment strategy

Current Deposits

As at 31 January 2025, the Council's deposits were as follows:-

| Counterparty | Amount £000's | Security Long/Short Term Rating* (Colour)** | Liquidity | Yield | UK Local Authority Investment*** £000's |
|----------------------------------|------------------|------------------------------------------------------|----------------------------------------|-------|--------------------------------------------------|
| MMF Aberdeen | 11,913 | AAAmf (Yellow) | Instant Access | 4.69% | 1,425,558 |
| MMF Federated | 485 | AAAmf (Yellow) | Instant Access | 4.72% | 978,210 |
| MMF LGIM | 11,356 | AAAmf (Yellow) | Instant Access | 4.73% | 502,695 |
| Bank of Scotland Call Account | 1,635 | A+/F1+ (Orange) | Instant Access | 4.62% | 162,411 |
| Handelsbanken AB Call Account | 19 | AA-/F1+ (Orange) | Instant Access | 4.59% | 145,084 |
| National Westminster Bank plc | 20,000 | A+/F1 (Red) | Start: 27 Mar 2024 End: 27 Mar 2025 | 5.06% | 418,175 |
| Total | 45,408 | | | | 3,632,133 |

* Credit Rating from Fitch

** Colour represents maximum recommended duration for investment per MUFG Corporate Markets Credit Scoring methodology – see Appendix 2.

*** As at 31 December 2024

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months, with the yield curve reducing the further out deposits are placed).

While an element of cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods, where this is possible within the Council's day-to-day and monthly cashflow projections;
- Conversely, if it is thought that Bank Rate is likely to rise significantly within the time horizon being considered (unlikely in the current climate), then consideration will be given to keeping most investments as being short term or variable.

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reduce from the current level of 4.50% at the time of writing (3 February 2025) to 3.50% by the end of the forecast time horizon (December 2027).

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

| Average earnings in each year | |
|-------------------------------|-------|
| 2024/25 (residual) | 4.60% |
| 2025/26 | 4.10% |
| 2026/27 | 3.70% |
| 2027/28 | 3.50% |
| 2028/29 | 3.50% |
| Long term later years | 3.50% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and expected usable reserve forecasts, and are based on the availability of funds after each year-end.

The Council is asked to retain the following treasury indicator and limit: -

| Principal Sums Invested for > 365 Days | | |
|----------------------------------------|--|------|
| Limit | | £70m |

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and money market funds.

4.5 Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 6 month SONIA compounded. The Council also participates in Investment Benchmarking groups with MUFG Corporate Markets whereby performance with other Benchmarking club members and the wider Scottish and UK Local Authority Investment benchmarking is compared.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 Appendices

1. Economic background
2. Treasury Management Practice 1 – Permitted Investments
3. Treasury Management Practice 1 – Credit and Counterparty Risk Management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 95 officer

5.1 APPENDIX: Economic Background

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

Reflecting on the 30 October Budget, MUFG's central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement

for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

Focussing on borrowing, a term that is likely to be prevalent throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

The US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, further rate reductions and their timing will very much be determined by Trump’s policy announcements and their implications for both inflation and Treasury issuance.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8,304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI’s impact on business growth and performance.

MPC meetings: 9 May 2024, 20 June 2024, 1 August 2024, 19 September 2024, 7 November 2024, 6 February 2025

- On 9 May 2024, the Bank of England’s Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from

MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November 2024, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geopolitical events.
- On 6 February 2025, the MPC voted by 7-2 to cut base rate by 0.25% to 4.50%. However, the other two votes were for base rate to be cut by 0.50% which is a very dovish outlook – with the prospect that yields will now fall.

5.2 APPENDIX: Treasury Management Practice (TMP1): Permitted Investments

This Council is asked to approve the following forms of investment instrument for use as permitted investments as set out in tables 1.1-1.4.

Treasury risks

All the investment instruments in tables 1.1-1.4 are subject to the following risks:-

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.
2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1.1-1.4 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.
3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.
4. **Interest rate risk:** this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report (see Section 3.4).
5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See Sections 4.2 and 4.3.
2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.
3. **Market risk:** this authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.
4. **Interest rate risk:** this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See Section 4.4.
5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 / 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category. The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.
2. **High credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £15 million can be placed with any one institution or group at any one time, other than the Bank of Scotland or Royal Bank of Scotland where the limit is £30 million.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- a) **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.
- b) **Term Deposits – Local Authorities.** They are quasi-Government bodies with low counterparty and value risk. Typical deposit terms vary from 1 month to 2 years, with longer term deposits offering an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and typically higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date other than with agreement of the counterparty, at which point penalties would typically apply.
- c) **Call accounts with high credit worthiness banks and building societies.** See Section 4.2 for an explanation of this authority's definition of high credit worthiness. These typically offer a much higher rate of return than the DMADF and now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. There is instant access to recalling cash deposited (or short-dated notice e.g. 15-30 days). This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit (see 1d below). However, there are a number of call accounts which at the time of writing, offer rates 2 – 3 times more than term deposits with the DMADF. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.
- d) **Term deposits with high credit worthiness banks and building societies.** The objectives are as for 1c. These offer a much higher rate of return than the DMADF and deposits made with other Local Authorities (dependent upon term) and, similar to 1c, now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. This is the most widely used form of investing used by local authorities. The authority will ensure diversification of its portfolio of deposits ensuring that no more than £15 million is invested with any (non-nationalised) UK counterparty, and no more than £15 million is invested with any other non-UK counterparty, group or country. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.
- e) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of

this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF UK GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of UK Government backing through either direct (partial or full) ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- a. **Call accounts.** As for 1c. but UK Government stated support implies that the UK Government stands behind these banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk.
- b. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1d. but Government ownership partial or full implies that the UK Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers this indicates a low and acceptable level of residual risk.
- c. **Fixed term deposits with variable rate and variable maturities (structured deposits).** As for 1e but UK Government stated support implies that the UK Government stands behind eligible banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

- a. **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.
- b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.
- c. **Ultra Short Dated Bond Funds .** These funds are similar to MMFs, can still be AAA rated but have Variable Net Asset Values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.
- d. **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.
- e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

- a. **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.
- b. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.
- c. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.
- d. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.
- e. **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

- a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.
- b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

- c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.
- d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. OTHER

- a. **Local Authority Mortgage Scheme.** Authorities who are participating in the Local Authority Mortgage Guarantee Scheme (LAMS) may be required to place a deposit with the mortgage provider(s) up to the full value of the guarantee. The deposit will be in place for the term of the guarantee i.e. 5 years (with the possibility of a further 2 year extension if the account is 90+ days in arrears at the end of the initial 5 years) - and may have conditions / structures attached. The mortgage provider will not hold a legal charge over the deposit.
- b. **Loans to third parties** – This would involve the Council borrowing from the PWLB/markets and onward lending to Registered Social Landlords to enable them to access lower cost loans and kickstart developments of affordable mid-market homes. The risk associated with such an investment would be mitigated by an assessment of the counterparty in advance of any loan being granted and through the application of a premium on the loan rate. Interest would be paid by the RSL over the term of the loan, with repayment of principal upon the earlier of 10/20 years or at the point of house sales. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation.
- c. **Subordinated Debt Subscription to the SPV set up to deliver the Newbattle Centre project** – this involved the Council subscribing £332,806 of subordinated debt to the SPV that was set up to deliver the Newbattle Centre project (2 year construction and 25 year operational contract length). The length of the investment is 25 years with the subscription made at operation commencement of the contract. The repayment profile will comprise 81% of the principal remaining invested until the final two years of the contract. The risk associated with this type of investment will be mitigated through an annual assessment as a minimum to review the holding of such debt, and whether the exposure to risk arising from the investment has changed over the period.
- d. **ESCO:** Midlothian Energy Limited (MEL) Joint Venture between Midlothian Council and Vattenfall to deliver energy supply to Shawfair using heat supplied from the Millerhill Energy from Waste plant and related projects.

Table 1: Permitted Investments**1.1 Deposits**

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period | Max Transaction Value |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------|--------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------|
| Debt Management Agency Deposit Facility | UK Government | Term | No | 100% | 6 months | n/a |
| Term deposits – local authorities | Quasi-UK Government | Term | No | 100% | 5 years | £15m |
| Call accounts – banks and building societies | Green | Instant | No | 100% | 1 day | £15m |
| Term deposits / Notice Accounts – banks and building societies | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |
| Fixed term deposits with variable rate and variable maturities: - Structured deposits | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |

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

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period | Max Transaction Value |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------|--------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------|
| UK nationalised banks – Call accounts | Blue | Instant | No | 100% | 1 day | £30m |
| UK nationalised banks – Term Deposits / Notice Accounts | Blue | Term | No | 100% | 2 years | £30m |
| UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits | Blue | Term | No | 100% | 2 years | £30m |
| Non-UK (high sovereign rated country) nationalised banks – Call accounts | Green | Instant | No | 100% | 1 day | £15m |
| Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |
| Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits | Yellow Purple Blue Orange Red Green No Colour | Term | No | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |

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

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

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period | Max Transaction Value |
|----------------------------------------------------------|-------------------------|----------------|-------------|-------------------------------|----------------------|-----------------------|
| Government Liquidity Funds | AAA | Instant | No | 100% | 1 day | £15m |
| Money Market Funds CNAV | AAA | Instant | No | 100% | 1 day | £15m |
| Money Market Funds LVNAV | AAA | Instant | No | 100% | 1 day | £15m |
| Money Market Funds VNAV | AAA | Instant | No | 100% | 1 day | £15m |
| Ultra Short Dated Bond Funds with a credit score of 1.25 | AAA | T+1 to T+5 | Yes | 100% | 1 week | £15m |
| Ultra Short Dated Bond Funds with a credit score of 1.5 | AAA | T+1 to T+5 | Yes | 100% | 1 week | £15m |
| Bond Funds | AAA | T+2 or longer | Yes | 50% | 2 days | £15m |
| Gilt Funds | AAA | T+2 or longer | Yes | 50% | 2 days | £15m |

1.4 Securities issued or guaranteed by governments

| Investment Category | * Minimum Credit Criteria | Liquidity risk | Market risk | Max %?£m of total investments | Max. maturity period |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------|-------------|-------------------------------|----------------------|
| Treasury Bills | UK sovereign rating | Sale T+1 | Yes | 100% | 6 months |
| UK Government Gilts | UK sovereign rating | Sale T+1 | Yes | 100% | 50 years |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail | UK sovereign rating | Sale T+3 | Yes | 100% | 50 years |
| Sovereign bond issues (other than the UK govt) | AAA (or state your criteria if different) | Sale T+1 | Yes | 100% | 50 years |
| Bonds issued by multilateral development banks | AAA (or state your criteria if different) | Sale T+1 | Yes | 100% | 50 years |

1.5 Securities issued by corporate organisations

| Investment Category | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period | Max Transaction Value |
|----------------------------------------------------------------|-----------------------------------------------------------------|----------------|-------------|----------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------|
| Certificates of deposit issued by banks and building societies | Yellow Purple Blue Orange Red Green No Colour | Sale T+1 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |
| Commercial paper other | Yellow Purple Blue Orange Red Green No Colour | Sale T+0 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |
| Floating rate notes | Yellow Purple Blue Orange Red Green No Colour | Sale T+2 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |
| Corporate Bonds other | Yellow Purple Blue Orange Red Green No Colour | Sale T+2 | Yes | 100% | Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use | £15m |

1.6 Other

| Investment Category | Minimum Credit Criteria | Liquidity risk | Market risk | Max %/£m of total investments | Max. maturity period |
|--------------------------------------------------------|-------------------------|----------------|-------------|-------------------------------|----------------------|
| Local authority mortgage guarantee scheme. | Blue | Term | No | 50% | 5 years |
| Loans to Third Parties | n/a | Term | No | £25m | 20 years |
| Subordinated Debt Subscription to Newbattle Centre SPV | n/a | Term | No | £0.326m | 22 years |
| ESCO | n/a | Term | No | £10.2m | n/a |

5.3 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Midlothian Council Permitted Investments, Associated Controls and Limits

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits |
|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Cash type instruments | | | |
| a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk) | This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months. | Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. | As shown in Appendix 5.2. |
| b. Deposits with other local authorities or public bodies (Very low risk) | These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria. | Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria. | As shown in Appendix 5.2. |
| c. CNAV, LVNAV and VNAV Money Market Funds (MMFs) (Low to very low risk) | Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments. | Funds will only be used where the MMF has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors. | As shown in Appendix 5.2. |
| d. Ultra Short Dated Bond Funds (low risk) | Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments. | Funds will only be used where the Ultra Short Dated Bond Fund has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s. | As shown in Appendix 5.2. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| e. Call account deposit accounts with financial institutions (banks and building societies) (Low risk depending on credit rating) | These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. | <p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by MUFG Corporate Markets overlaid.</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p> | As shown in Appendix 5.2. |
| f. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating) | These tend to be low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply. | <p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by MUFG Corporate Markets overlaid.</p> <p>On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence.</p> | As shown in Appendix 5.2. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| g. Government Gilts and Treasury Bills (Very low risk) | These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity). | Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures | As shown in Appendix 5.2. |
| h. Certificates of deposits with financial institutions (Low risk) | These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | As shown in Appendix 5.2. |
| i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk depending on period & credit rating) | These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply). | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by MUFG Corporate Markets overlaid. On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence. | As shown in Appendix 5.2. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits |
|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| j. Corporate bonds (Medium to high risk depending on period & credit rating) | These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low. | <p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Corporate bonds will be restricted to those meeting the base criteria.</p> <p>Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p> | As shown in Appendix 5.2. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Other types of investments | | | |
| k. Loans to third parties | <p>Using the example of a loan to a RSL, these would be medium risk investments, exhibiting higher risks than categories (a)-(f) above.</p> <p>They are also highly illiquid and are only repaid at the end of a defined period of time (up to 20 years) or on the sale of a property, whichever is the earlier.</p> | The risk associated with such an investment would be mitigated through the application of a premium on the loan rate. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation. | £25m |
| l. Non-local authority shareholdings | These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid. | Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | Per Existing |
| m. Local Authority Mortgage Scheme (LAMS) | These are service investments at market rates of interest plus a premium. | | As shown in Appendix 5.2. |
| n. Subordinated Debt Subscription to Newbattle Centre SPV | These are investments that are exposed to the success or failure of individual projects and are highly illiquid. | The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. | As shown in Appendix 5.2. |
| o. ESCO | These are investments that are exposed to the success or failure of individual projects and are highly illiquid. | The Council is in a joint venture partnership and therefore party to the governance and controls within the project structure. As such the Council is | As shown in Appendix 5.2. |

| | | | |
|--|--|-------------------------------------------------------------------------------------|--|
| | | well placed to influence and ensure the successful completion of the project's term | |
|--|--|-------------------------------------------------------------------------------------|--|

The Monitoring of Deposit Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from MUFG Corporate Markets, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer & Section 95 Officer, and if required new counterparties which meet the criteria will be added to the list.

5.4 APPENDIX: Approved countries for investments

Based on the lowest available rating as at 30.01.2025

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- **U.K.**

5.5 APPENDIX: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing treasury management reports, the treasury management policy and procedures, and making recommendations to the responsible body.

5.6 APPENDIX: The treasury management role of the section 95 officer

The S95 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:-
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
 - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Internal Audit Work to January 2025**Report by Duncan Stainbank, Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Executive Summary of the final Internal Audit assurance report issued associated with the delivery of the approved Internal Audit Annual Plan 2024/25;
- 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 2024/25 was approved by the Audit Committee on 18 March 2024. 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 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 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 11 February 2025**Report Contact:**

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2024/25 was approved by the Audit Committee on 18 March 2024. Internal Audit has completed the following work in the period from 1 November 2024 to 31 January 2025 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 subject:
- Business Continuity
- 3.4** An Executive Summary of the final Internal Audit assurance report issued in respect of Business Continuity including audit objective conclusions, key findings and recommendations and areas of good practice, including 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 |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Substantial Assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable Assurance | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited Assurance | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- a) In its critical friend role provided an independent view and challenge at various forums including: Capital Plan and Asset Management Board, Chief Officers Risk & Resilience Group, and the Integrity 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

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

| | |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High | Recommendations relating to factors fundamental to the success of the control objectives of the system. The weaknesses may give rise to significant financial loss/misstatement or failure of business processes. |
| Medium | Recommendations which will improve the efficiency and effectiveness of the existing controls. |
| Low | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |
| Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement. | |

3.8 The table below summarises the number of Internal Audit recommendations made during 2023/24:

| Recs Rating | 2024/25 Number of Recs |
|-----------------------------------------|-------------------------------|
| High | 2 |
| Medium | 5 |
| Low | 0 |
| Not Graded | 0 |
| Sub-total reported this period | 7 |
| Previously reported | 15 |
| Total | 22 |
| Recommendations agreed with action plan | 22 |
| Not agreed; risk accepted | 0 |
| Total | 22 |

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 Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Appendix 1. Executive Summary: Business Continuity

Conclusion: Limited Assurance

A Business Continuity system was purchased in 2020 but is only used in a very limited capacity within the Place Directorate to document and monitor business continuity plans making it difficult to track the Council's overall progress in improving its resilience, there is insufficient resource within Protective Services or Business Applications to rollout the Business Continuity system to more users, Protective Services do not have an adequate process for recording and monitoring Directorate/Service compliance with the corporate policy, there are critical services within the Council that do not have adequate or up-to-date business continuity plans, plans are not tested consistently, the Business Continuity Policy requires update, the available training improved, and the written procedures available for services on business continuity require review and expansion.

Background

The Civil Contingencies Act 2004 sets out specific duties for local authorities in relation to Business Continuity (for example to maintain business continuity plans and provide generic advice and assistance in connection with business continuity, including signposting to specialist services). An approved Business Continuity Policy is in place which was last updated in 2017. A Contingency Planning Officer (CPO), which is multidisciplinary in role, is in post within Protective Services and is responsible for facilitating the provision of business continuity advice and training to services. In addition, the role supports the response to business continuity incidents and has responsibility to establish a process for recording compliance with the corporate Business Continuity Policy. The Contingency Planning Group (referenced in the 2017 Business Continuity policy) which became the Risk & Resilience Group (as distinct from the current Strategic Risk and Resilience Group responsible for monitoring the Council's strategic risks) was responsible for monitoring compliance with the corporate policy and was chaired by the previous Waste Risk and Resilience Manager. The Risk & Resilience Group has not met since 2020. As noted in the Business Continuity Policy, Senior Management are responsible for ensuring business continuity plans are prepared for their Directorate / Service, tested, reviewed, critical activities at a service level have been agreed, and employees in their Directorate have received an appropriate level of awareness and training on the business continuity management process.

Summary of findings and recommendations

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

- Although a business continuity system was procured in 2020, its implementation was impacted by the Covid Pandemic and the Council restructuring which occurred around that time, and its roll out is limited to a small number of pilot users within the Place Directorate. The business case and implementation plan were insufficiently developed post-procurement. The Health Safety and Resilience Team service review has identified there is insufficient resource within their service. *Management will review resource required to support an implementation of a business continuity system and ongoing support by **September 2025**.*
- A number of critical areas do not have adequate or up-to-date business continuity plans, or in some cases have no plans. Services with no plans or recently created plans have not undergone testing of their plans. *Chief Officers will ensure the creation of appropriate business continuity plans by **December 2025** and ensure that these are thereafter periodically reviewed, updated and tested.*
- The Health Safety and Resilience Team do not have an adequate process for recording and monitoring Directorate/Service compliance with the corporate policy, including the monitoring and review of Business Continuity Plans and the reporting of compliance to management. *Management will ensure that appropriate monitoring with the corporate policy is in place, and this will include reviewing the level of resource assigned to support this by **September 2025**.*

- There is no formal Digital Services Annual Business Continuity Testing Programme in place. *Management will implement an Annual Testing Programme by **September 2025**.*
- There is no appropriate forum/group in place for Business Continuity Leads to meet, at least annually, to discuss business continuity with other service leads and Protective Services officers. *Management will host a forum with Business Continuity Leads from each service at least annually to update knowledge on business continuity and support Contingency Planning in recording and monitoring Directorate/Service compliance with the corporate policy by **October 2025**.*
- The Business Continuity Policy is overdue for review; however a review is currently underway. This means the Council's approach has not recently been endorsed at a senior level. *Management will ensure that the policy is reviewed and updated by **June 2025**.*
- The guidance provided to services requires review and standardisation, guidance further developed for Business Continuity Leads, and the training available enhanced (e.g. through development of an e-Learning module). *Management will update the business continuity guidance and implement a business continuity e-learning module by **October 2025**.*

| Recommendations Grade | High | Medium | Low | Total |
|-----------------------|------|--------|-----|-------|
| Current Report | 2 | 5 | - | - |
| Prior Report (2022) | 2 | - | - | - |

Materiality - The recent cyber-attack on Western Isles Council is anticipated to cost the Council £1m and the cyber-attack on SEPA is reported to have cost the organisation £5.5m. The Council would be liable, at minimum, to pay the policy excess following the loss or significant damage to any Council building (e.g. following a fire or flood) and likely further recovery costs. Shortages of resources, such as fuel or power, would result in the Council not being able to deliver services as expected, likely resulting in increased costs for the Council.

Headlines

| Objectives | Conclusion | Comments |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Business critical services across the Council have been identified and processes are in place to ensure that business continuity plans for those areas remain up-to-date, aligned with service delivery requirements and continue to be fit for purpose. | Limited Assurance | <p>Critical services identified include the Contact Centre, Child Protection and Vulnerable Children's Services, Education, and the Health and Social Care Partnership. The Council's Business Continuity Policy was approved in 2017 and requires update to take into account the increased cyber security risk, the systems to be prioritised in the event of a severe cyber-attack, the learning from the Covid response and the Council's current organisational structure (update in progress).</p> <p>The Health Safety and Resilience Team do not have an adequate process for recording and monitoring Directorate/Service compliance with the corporate policy. Additionally, the guidance and training provided to services requires review and improvement. Delivering this may require additional resource within the team as identified by the service review. A system was purchased in 2020 to enable services to record their business continuity plans electronically, but it has not been implemented across the Council - current users are limited to a small number of pilot users within the Place Directorate. Therefore, it is not possible to get an accurate picture of what plans are in place or if they are up-to-date without contacting each service manager individually. The implementation of the business continuity system was not adequately resourced and the rollout of the application to other services has stalled.</p> <p>It was identified during the audit from the sample of services reviewed in the Place Directorate, Children, Young People and Partnerships, and Social Care that a number of critical areas do not have adequate or up-to-date Council business continuity plans, or in some cases have no plans.</p> |
| 2. A programme of testing has been developed to validate, over time, the effectiveness of business continuity plans and solutions. | Limited Assurance | <p>As noted above, many services do not have up-to-date business continuity plans. Some services within Place Directorate have been updating their business continuity plans this year, but as these plans have only recently been updated, they have not yet been tested.</p> <p>Digital Services have an up-to-date Cyber Response Plan, Playbooks for different types of potential cyber-attack, and undertake business continuity exercises. There is no Annual Business Continuity Testing Programme for formally testing specific aspects of systems and ensuring that all relevant system specific documentation is up-to-date.</p> |
| 3. Following testing, changes and improvements have been implemented, where required. | Limited Assurance | <p>As noted above, business continuity plans have not been appropriately developed or tested across the Council. However, Digital Services were able to provide evidence of business continuity exercises carried out and lessons learned from their exercises. The lessons learned have contributed to their Cyber Security Action Plan and updated business continuity policies.</p> |

Areas where expected controls are met/good practice

| No. | Areas of Positive Assurance |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Digital Services created a Cyber Security Action Plan in 2022 following a number of high-profile cyber-attacks on public sector organisations and have improved the Council's resilience following the completion of the majority of the identified actions. This included the implementation of a password manager, vulnerability management software, improving the Council's backup arrangements to include cloud backup, and procuring a cyber incident response retainer to support the Council in the event of a cyber-attack. |
| 2 | The Council is moving more of its applications to cloud based 'software as a service' solution each year, which improves the Council's digital resilience. |
| 3. | The importance of business continuity planning, particularly in relation to the impact of a cyber-attack, was reinforced in detail to senior management at Leadership Forum events in June and September this year and relevant guidance was issued following this event. |
| 4. | The procurement of a business continuity system has been undertaken and there is an option to extend the contract until December 2030, meaning this could be rolled out across the Council provided the project was suitably resourced. |
| 5 | <p>Following NHS Lothian processes and procedures, Council delivered Health and Social Care Partnership Services have prepared plans for their services outlining management arrangements, key suppliers, buildings, resources, and how actions should be documented if a significant event requiring invocation of the plan were to occur. It was advised that the Plans have been made available in a section of the NHS Lothian network that will still be accessible if the main network is offline due to, for example, a cyber-attack.</p> <p>Business continuity within Council Services delivered by the Health and Social Care Partnership is monitored and reviewed by local NHS resilience arrangements, including:</p> <ul style="list-style-type: none"> - Daily STAT PREP meetings to record system, service and staffing pressures. - Critical Services list to reallocate staffing to areas under increased demand. - Virtual control room and processes in place and routinely tested. - Twice annual assurance reporting on resilience and continuity. - NHS led annual exercises both tabletop and internal. - Executive level resilience support provided by Executive Business Manager. |
| 6 | The Development of Business Continuity plans are the function and responsibility of each Directorate / Service. Business Continuity is a standing item on the Children, Young People and Partnerships and HSCP DMT. Children, Young People and Partnerships have sought support from a neighbouring authority to assist in developing their business continuity processes. Whilst internal support has been sought to develop service specific business continuity plans, the Executive Director was informed there was no capacity within the Place Directorate to provide support in drafting their business continuity plans. An external consultant has been appointed to undertake this work which the Executive Director has been advised is due to be complete by end of March 2025. |

Internal Audit Mid-Term Performance Report 2024/25

Report by Duncan Stainbank, Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2024/25 to the end of January 2025; and
- b) Confirm that it is satisfied with the performance of the Internal Audit service provision.

2 Purpose of Report/Executive Summary

The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made in the first 10 months of the year to 31 January 2025, towards completing the Internal Audit Annual Plan 2024/25. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.

The Internal Audit Annual Plan 2024/25 that was approved by the Audit Committee on 18 March 2024 sets out the audit coverage for the year utilising the expected available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

The report provides details of the progress to date by Internal Audit with its programme of work and highlights changes that require approval to reflect the changes in resourcing available throughout the year.

Date 11 February 2025

Report Contact:

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3 Background

- 3.1** 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 and to do so:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 3.2** Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls, risk management and governance within the Council.
- 3.3** The Internal Audit Annual Plan 2024/25 that was approved by the Audit Committee on 18 March 2024 set out the audit coverage for the year utilising anticipated available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4** Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and a statutory annual Internal Audit opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.

4 Mid-Year Results Against Internal Audit Plan 2024/25

- 4.1** The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2** The Appendix 1 to this report provides details of the progress by Internal Audit with its programme of work. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading.
- 4.3** In addition, 2 audits: Purchase to Pay and Social Work Children's Services to Adult Services Transition (shaded in grey) have now been removed from the audit plan as this is not the appropriate time to complete these audits given systems updates or lack of progress with change processes.

- 4.4** The Internal Audit plan had, in addition to regularly required review processes, 9 audits scheduled for completion in 2024/25. 1 assignment has been substituted for another review being Property Assets and Property Strategy for a review of Education Construction Governance identified as a key risk in year. The team has completed 4 assignments (44%), 6 further assignments (46%) are scheduled with current team capacity to be substantially complete prior to the annual governance reports in June 2025. Substantial completion of the plan will allow for an appropriate assessment of the Councils governance, risk and control environment.
- 4.5** The continuous audit approach, in accordance with the Internal Audit Strategy approved by Audit Committee on 18 March 2024, enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services. For example, Capital Planning and Asset Management Board, and Information Management Group.

5 Continued Reporting on the Internal Audit Plan for 2024/25

- 5.1** The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit Committee. The Internal Audit reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter.
- 5.2** Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will be communicated within the Internal Audit Annual Assurance Report which will also provide the statutory annual Internal Audit opinion based on audit findings over the year.

6 The Local Authority Accounts (Scotland) Regulations 2014

- 6.1** The Local Authority Accounts (Scotland) Regulations 2014 which 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 authority.
- 6.2** The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices.

7 Public Sector Internal Audit Standards (PSIAS) and Quality Assurance & Improvement Plan (QAIP)

- 7.1** The Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2** The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3** An annual internal self-assessment against the PSIAS of the Internal Audit function was completed in 2023/24. The results and associated improvement actions was reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report in June 2024. This enabled 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.
- 7.4** The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that Midlothian will be reviewed by East Renfrewshire Council in 2024. This review has commenced and a further internal assessment with documentation provided to the East Renfrewshire Council team it is scheduled that a report will be provided to the Audit Committee in June 2025.

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

8.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). There is currently a staff resource of 3.22 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with East Lothian Council), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). 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.

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.

There is a commitment 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 MIJB Audit and Risk Committee to fulfil this role.

8.2 Digital

There are no digital implications arising from this report.

8.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2024/25, at the start of each audit engagement, and during the re-assessment of the plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the plan is formulated on a risk-based approach.

If Internal Audit staffing levels fall below that assumed for the remaining three-month period or if there is an unexpected and unplanned level of contingency audit work, there is a high level of risk that the remaining elements of the Annual Plan 2024/25 will not be delivered in full. This could only be mitigated by use of external resource. Regular monitoring will be undertaken to ensure that a sufficient range and breadth of assurance audit work will be carried out during 2024/25 to underpin, a 'not limited' statutory Internal Audit opinion to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.

8.4 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.

8.5 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), 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 plans.

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.

| AUDIT | DAYS | COMMENTARY | STATUS |
|-------|------|------------|--------|
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|--------------------------------------------|
| Assurance – Risk Based and Cyclical |
|--------------------------------------------|

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|----------------------------------------------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MLC Annual Assessment of Internal Control and Governance | 20 | Prepare an annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with the Local Code of Corporate Governance covering the corporate whole and individual Directorates / Services. | Continuous audit approach to follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2023/24. Annual evaluation of compliance with the Local Code of Corporate Governance scheduled 4th Qtr. Internal Audit opinion, work undertaken and compliance with PSIAS will be outlined in Internal Audit Annual Assurance Report 2024/25. |
| Midlothian Energy | 30 | Review the governance structures, ensure monitoring regimes are in place and operating to ensure long term delivery of outcomes for the Council and control over financial and operational risk. | Complete: Final Report issued November 2024. Executive Summary to Audit Committee December 2024. |
| Fostering, Kinship Care and Adoption | 30 | Review the processes in place to operate the Fostering, Kinship Care and Adoption processes and ensure that the correct funding is being allocated appropriately for each young person. | Audit Terms of Reference Agreed with Service and initial work underway report due to be submitted to June 2025 Audit Committee. |
| Education Additional Support Needs | 30 | Review of the processes in place to plan for and provide services for pupils with additional support needs across Education services, meeting the needs of young people in accordance with regulatory requirements. | Key elements of this audit were covered in the assurance review of the Bowles report to Audit Committee in September 2024. |
| Purchase to Pay | 30 | Review the control process in place around the Council's Purchase to Pay system to ensure that they are operating effectively and providing assurance that all expenditure is appropriately processed through systems and is being correctly authorised in accordance with the financial control processes of the Council. | This review has been delayed until 2025/26 plan due to systems upgrades being implemented in December 2024. |

| AUDIT | DAYS | COMMENTARY | STATUS |
|--------------------------------------------------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Social Work Children's Services to Adult Services Transition | 25 | Review the processes in place for transitions from Childrens Social Work Services to Adult Social Work Services for clients with ongoing needs, to ensure efficient and effective transitions are planned and implemented. | This review was dependent upon progress being made with funding provided for this area. As recruitment was not successful this has been suspended until changes are implemented to audit. |
| Business Continuity | 20 | Review the Business Continuity processes in place within the Council ensuring that they cover all key risks, including cybersecurity incidents, power/energy losses etc. | Complete: Final Report issued February 2025. Executive Summary to Audit Committee February 2025. |
| Budget Monitoring | 25 | Review the processes in place to ensure that services and service management are effectively monitoring and managing budgets throughout the financial year and identifying and escalating significant issues through finance and governance structures on a timely basis. | This audit has commenced the Executive Summary is scheduled to be submitted to the Audit Committee in June 2025. |
| School Funds | 25 | Review the processes in place to ensure appropriate management and controls processes are in place for school funds. | The Attainment Scotland Funding report to Audit Committee in November 2024 highlighted issues that have resulted in a working group being implemented for School Funds a full audit will be rescheduled for 2025/26 |
| SEEMIS (School Information Management System). | 20 | Review the control process in place to ensure accurate recording and use of management information within the SEEMIS System. | The draft report has been issued to management in January 2024. The Executive Summary will be reported to the Audit Committee in June 2025 |
| IT Asset Management | 20 | Review the processes in place to ensure that IT assets are recorded, managed and maintained in an effective and efficient manner. | This review is underway with reporting of the Executive Summary to the Audit Committee in June 2025. |
| Property assets and property strategy | 20 | Review the processes of developing a property asset management strategy and the governance of the implementation. | This review has been superseded by a review of Education Construction Governance with the reporting of the Executive Summary to Audit Committee in June 2025. |

| AUDIT | DAYS | COMMENTARY | STATUS |
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Consultancy

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|-------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consultancy | 20 | In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Learning Estate Strategy, Business Transformation Board, Information Management Group); and an objective assessment of self-evaluation arrangements. | In its critical friend role provided an independent view and challenge at various forums including Capital Plan and Asset Management Board, and Information Management Group. |
|-------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| AUDIT | DAYS | COMMENTARY | STATUS |
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Other

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| PSIAS External Review | 10 | Time to support the East Renfrewshire External Quality Assurance review of Internal Audit through the SLACIAG framework. | East Renfrewshire review is underway, and review documentation collected and provided for review hope to report to the June Audit Committee. |
| MLC Audit Committee Self-Assessment | 5 | Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance. | The Chair presented the Audit Committee Annual Report 2022/23 to Council in October 2023. 2023/24 self-assessment is scheduled 4th Qtr. |
| MLC Recommendation Follow Up Reviews | 30 | Undertake 2 reviews: the first includes a sample check on the adequacy of new internal controls for audit actions flagged as closed, and the second assesses performance against closing audit actions by the agreed due date. | Follow-up Review of Completed and In Progress Internal Audit Recommendations reported to Audit Committee November 2024. |
| Contingency | 30 | Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by management or Audit Committee during the year are appropriately addressed. | Contingency days are being used to support completion of Internal Audit plan due to resource constraints and investigation/reactive work. |
| Help Desk Enquiry system | 22 | Provide guidance and advice to management on internal controls. | Ongoing |

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|----------------------------------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| MLC Administration of Audit Scotland Reports | 5 | Monitor publication of Audit Scotland reports and co-ordinate submission by management of Audit Scotland reports to the relevant Committee. | Ongoing |
| Management Groups | 15 | Attend and provide support to Risk Management and Integrity Groups. | Ongoing |
| MLC Attendance at Boards / Committees | 20 | Prepare for and attend Audit Committee meetings and other Boards/Committees. | Ongoing |
| MLC Audit Planning for 2025/26 | 10 | Update the Audit Universe, check risk registers and other sources of assurance, and develop and consult on proposed coverage within the Internal Audit Annual Plan 2025/26 in accordance with GIAS. | Internal Audit Annual Plan 2025/26 is being presented to Audit Committee for approval in February 2025. |

| AUDIT | DAYS | COMMENTARY | STATUS |
|-------|------|------------|--------|
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Non MLC

| | | | |
|-----------------------------------------------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Midlothian Health and Social Care Integration Joint Board | 40 | Audit reviews and support to be determined and agreed by the MIJB Audit and Risk Committee for review of the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources. | MIJB Internal Audit Annual Plan 2024/25 approved by MIJB Audit and Risk Committee in March 2024. Audit work ongoing. Reports will be presented to MIJB Audit and Risk Committee. |
|-----------------------------------------------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Internal Audit Charter

Report by Duncan Stainbank, Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note that the Internal Audit Charter has been fully updated in accordance with the Chartered Institute of Internal Auditors model charter and in compliance with Global Internal Audit Standards in application in the UK Public sector from 1 April 2025;
- b) Approve the revised Internal Audit Charter shown at Appendix 1 for use from 1 April 2025; and
- c) Note that the Internal Audit Charter will be reviewed annually.

2 Purpose of Report/Executive Summary

This report provides the Audit Committee with the updated Internal Audit Charter, in accordance with GIAS, for approval that defines the purpose of Internal Audit and the mandate for Internal Audit within Midlothian Council. The Charter clarifies the independence, organizational Position and reporting relationships of Internal Audit and outlines the roles and responsibilities of the Audit Committee and the chief audit executive, who is the Chief Internal Auditor for Midlothian Council and Midlothian IJB.

The definition of Internal Auditing within Global Internal Audit Standards (GIAS) is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Date 10 February 2025

Report Contacts

Duncan Stainbank, Chief Internal Auditor
duncan.stainbank@midlothian.gov.uk

3 Background

- 3.1** The definition of Internal Auditing within Global Internal Audit Standards (GIAS) is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.
- 3.2** The Midlothian Council Internal Audit function will follow the professional standards as set out in the Global Internal Audit Standards (GIAS) as adjusted by the UK Public Sector Application note as they come into effect on 1st April 2025. A processes of evaluation against these standards is currently being undertaken within the Internal Audit team and further reporting to the Audit Committee on compliance will be completed during the year.
- 3.3** In accordance with GIAS, the chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:
- Purpose of Internal Auditing.
 - Commitment to adhering to the Global Internal Audit Standards.
 - Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function.
 - Organizational position and reporting relationships.
- 3.4** The Board is defined in relation to GIAS as the Midlothian Audit Committee acting on behalf of Midlothian Council.
- 3.5** Internal Audit assurance resources and services are also provided by Midlothian Council's Internal Audit team to the Midlothian Integration Joint Board (MIJB), including the appointed MIJB Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to each organisation.

4 Internal Audit Charter

- 4.1** The authority for Internal Audit to operate in Midlothian Council is contained in the Council's Local Code of Corporate Governance, Standing Orders, and Financial Regulations. This Internal Audit Charter expands upon that framework.
- 4.2** The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 4.3** The Internal Audit Charter has been annually reviewed in relation to Public Sector Internal Audit Standards and the Charter which was previously approved by the Audit Committee on 18 March 2024 will remain in place until the 1 April 2025.

- 4.4** The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2025/26. The Internal Audit Strategy sets out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions to Midlothian Council and Midlothian Integration Joint Board (MIJB). The Internal Audit Charter and Strategy are applicable to these organisations. There are separate Internal Audit Annual Plans for each organisation, which set out the range and breadth of audit activity.

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

5.1 Resource

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.

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council and the MIJB. Internal Audit resources are set out in the Internal Audit Strategy and Plan 2025/26, for the approval of the Audit Committee.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with Global Internal Audit Standards and best Corporate Governance practice.

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 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 and Global Internal Audit Standards.

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 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 purpose of the internal audit function is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain best value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

Applying the framework of the GIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

A.7 Adopting a Preventative Approach

A full review of the Internal Audit Service compliance with GIAS is currently underway to ensure that the service is compliant with legislative and regulatory requirements as well as best governance practice in the public sector.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

Internal Audit Charter for Midlothian Council

Purpose

The purpose of the internal audit function is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain best value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Midlothian Council's & Midlothian Integration Joint Board's ability:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Midlothian Council's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Audit Committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

Commitment to Adhering to the Global Internal Audit Standards

The Midlothian Council's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements, and the adjustments made through the Application Note Global Internal Audit Standards in the UK Public Sector. The chief audit executive, Chief Internal Auditor in Midlothian Council, will report annually to the Audit Committee and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Mandate

Authority

Midlothian Council's internal audit function mandate is within The Local Authority Accounts (Scotland) Regulations 2014, which states in section 7, that:

(1) A local authority must operate a professional and objective internal auditing service in accordance with recognized standards and practices in relation to internal auditing.

(2) Any officer or member of a local authority must, as required by those undertaking internal auditing—

(a) make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and

(b) supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

(3) A local authority must from time to time assess the efficiency and effectiveness of its internal auditing, in accordance with the standards and practices referred to in paragraph (1).

(4) The findings of the assessments referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(2), at the meeting referred to in regulation 5(3).

The internal audit function's authority is created by its direct reporting relationship to Midlothian Council's Audit Committee. Such authority allows for unrestricted access to the Audit Committee Chair and Members.

The Audit Committee authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of Midlothian Council and other specialized services from within or outside Midlothian Council to complete internal audit services.

Independence, Organizational Position, and Reporting Relationships

The chief audit executive, will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the Chief Executive and the Chair of the Audit Committee and administratively to the Chief Executive. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Chair of the Audit Committee or the Chief Executive as appropriate, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit executive, Audit Committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the organization.
- Significant changes in the chief audit executive, Council, Audit Committee and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Audit Committee Oversight

To establish, maintain, and ensure that Midlothian Council's internal audit function has sufficient authority to fulfill its duties, the Audit Committee will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the Audit Committee, including in private meetings without senior management present at least once a year.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter on an annual basis.
- Approve the risk-based internal audit plan.
- Provide input to the internal audit function's human resources administration and budgets.

- Review the internal audit function's expenses.
- Provide input to senior management on the appointment and removal of the chief audit executive, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input to senior management on the chief audit executive's performance.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

Chief Audit Executive Roles and Responsibilities

Ethics and Professionalism

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for Midlothian Council or its subsidiaries or associates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Midlothian Council employee that is not employed by the internal audit or counter fraud function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, Audit Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The chief audit executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Audit Committee and senior management. Discuss the plan with the Audit Committee and senior management and submit the plan to the Audit Committee for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in Midlothian Council's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Audit Committee and senior management regularly and for each engagement as appropriate.

- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact Midlothian Council and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to Midlothian Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit Committee.

Communication with the Audit Committee and Senior Management

The chief audit executive will report annually to the Audit Committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit resources/budget.
- Significant revisions to the internal audit plan and resources/budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of Midlothian Council's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond Midlothian Council's risk appetite.

Quality Assurance and Improvement Program

The chief audit executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the Audit Committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Midlothian Council; qualifications will be in accordance with the GIAS Global Internal Audit Standards in the UK Public Sector Application note.

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organization, including all of Midlothian Council's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for Midlothian Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility, and subject to the availability of internal audit resource. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of Midlothian Council's & Midlothian Integration Joint Board's strategic objectives are appropriately identified and managed.
- The actions of Midlothian Council's & Midlothian Integration Joint Board's officers, directors, management, employees, and contractors or other relevant parties comply with Midlothian Council's & Midlothian Integration Joint Board's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.

- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Midlothian Council & Midlothian Integration Joint Board.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Approved by the Audit Committee at its meeting on 24 February 2025.

Internal Audit Strategy and Annual Plan 2025/26**Report by Duncan Stainbank, Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is invited to:

- a) Note the changes to the Internal Audit Strategy outlined in section 4 of this report;
- b) Note the outline of the Internal Audit planning process outlined in section 5 of this report;
- c) Approve the Internal Audit Strategy (Appendix 1); and
- d) Approve the Internal Audit Annual Plan 2025/26 (Appendix 2).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2025/26 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Integration Joint Board (MIJB).

The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with Global Internal Audit Standards. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.

The Internal Audit Annual Plan 2025/26 at Appendix 2 has been developed by the shared Chief Internal Auditor and the Principal Internal Auditor. It sets out the proposed range and breadth of audit activity within the audit programme of work to enable the Chief Internal Auditor to prepare the independent and objective audit opinions for Midlothian Council and the MIJB. A separate Internal Audit Annual Plan 2025/26 for the MIJB will be presented to its Audit and Risk Committee. Key components of the audit planning process include a clear understanding of each organisation's functions, associated risks, and assurance framework.

Date 10 February 2025

Report Contacts

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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 Global Internal Audit Standards (GIAS) as adjusted by the UK Public Sector Application note.
- 3.2** The Midlothian Council Internal Audit function is planning to follow the professional standards as set out in the Global Internal Audit Standards (GIAS) as adjusted by the UK Public Sector Application note, from the 1 April 2025, where resources allow. In accordance with GIAS to develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes.
- 3.3** GIAS also requires that the chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board (the Audit Committee acting on behalf of the Council), senior management, and other key stakeholders, including Audit Scotland and the Midlothian Public.
- 3.4** Internal Audit resources and services are also provided by Midlothian Council's Internal Audit team to the Midlothian Health and Social Care Integration Joint Board (MIJB), including the appointed MIJB Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to each organisation.

4 Internal Audit Strategy

- 4.1** GIAS Standard 9.2 Internal Audit Strategy states, that; "the chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders."
- 4.2** The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Strategy at Appendix 1. It outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with GIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the Midlothian Health and Social Care Integration Joint Board (MIJB).
- 4.4** The Internal Audit Strategy:
- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
 - States how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual Internal Audit opinion statement;

- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and
- Describes the monitoring and reporting of Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

5 Internal Audit Annual Plan 2025/26

- 5.1** The key standards within the GIAS relating to the Internal Audit Plan is Standard 9.4 Internal Audit Plan, which states the following: The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives. The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.
- 5.2** GIAS Standard 9.4 also states that; The internal audit plan must:
- Consider the internal audit mandate and the full range of agreed-to internal audit services.
 - Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
 - Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
 - Identify the necessary human, financial, and technological resources necessary to complete the plan.
 - Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.
- 5.3** GIAS Standard 9.5 Coordination and Reliance states that, "The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers. If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board." The audit plan has been developed with coordination and reliance on the work of Audit Scotland as the appointed external auditor, specifically in relation to work on transformation covering many of the key identified Council risks. However, Coordination and reliance on other assurance providers including Education Scotland, Care Commission, health and safety inspectorate, has not been possible for the 2025/26 plan. Full compliance with this element of the standards has not been completed as Midlothian Council does not have a full assurance map.

- 5.4** The Chief Internal Auditor (CAE) and the Principal Internal Auditor have developed the Internal Audit Annual Plan 2025/26 at Appendix 2, based on the Internal Audit staff resources set out in 6.1. It sets out the proposed range and breadth of audit activity to be undertaken to provide the independent and objective audit opinions to Midlothian Council and the MIJB.
- 5.5** As part of the Internal Audit planning process, it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe which has been significantly revised and realigned by the Principal Internal Auditor to reflect the current strategic and operational management arrangements and approach to service delivery to ensure appropriate coverage;
 - The Strategic Risk Profile was checked to confirm coverage on key strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations; and
 - The chief internal Auditor completed their own service specific risk assessments where service risk registers were not mature enough to place reliance on.
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.6** It is envisaged that 2025/26 will continue to be a year of change for the Council and other partner organisations. Therefore, the Internal Audit Annual Plan 2025/26 should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities or available resources. Any amendments relating to the Council will be brought to the Corporate Management Team and the Audit Committee for approval.
- 5.7** The Non-MLC days reflect the Council's partnership working commitment to provide Internal Audit resource and services to the Midlothian Health and Social Care Integration Joint Board (MIJB). A separate Internal Audit Annual Plan 2025/26 will be presented to the MIJB Audit and Risk Committee for approval.

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

6.1 Resource

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.

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and the MIJB.

The Internal Audit staff resource totalling 3.22 FTE comprises Chief Internal Auditor (0.5 FTE), Principal Internal Auditor (0.72 FTE) and Internal Auditor (2.0 FTE). Each member of the current Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (Including knowledge of GIAS and the Seven Principles of Public Life) needed to deliver the Plan. After deduction for estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision, this equates to a total of 511 days available for Internal Audit activity (2024/25 plan 522 days).

6.2 Digital

There are no digital implications arising from this report.

6.3 Risk

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit activity for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, reference has been made to the Strategic Risk Profile and key stakeholders have been consulted to make an appropriate assessment of service level risks.

At all times, Management's responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.
- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines.)
- Engaging with Internal Audit (the third line) in a positive way to achieve shared goals for robust internal control and governance,

best value and improvement, and ensuring that Internal Audit can properly fulfil its role.

- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

6.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance with Global Internal Audit Standards.

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

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 purpose of the internal audit function is to strengthen Midlothian Council's & Midlothian Integration Joint Board's ability to create, protect, and sustain best value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

A.5 Involving Communities and Other Stakeholders

The Chief Audit Executive is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. The Audit Committee remit includes “To approve the risk-based internal audit plan, including internal audit’s resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources”.

The Council Management Team has been consulted on the Internal Audit resources, risk-based audit approach and the resultant planned Internal Audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities. External Audit plans have been taken into account in completing the planning process.

A.6 Impact on Performance and Outcomes

Applying the framework of the GIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

The delivery of the Internal Audit strategy and annual plan assists the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

A full review of the Internal Audit Service compliance with GIAS is currently underway to ensure that the service is compliant with legislative and regulatory requirements as well as best governance practice in the public sector.

Specific audits within the 2025/26 plan will include assessments on when a preventative approach can be adopted by the Council.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

1. STRATEGIC VISION

1.1. The vision of this strategy is to guide MLC Internal Audit function in delivering a high-quality internal audit service to Midlothian Council (MLC) and Midlothian Health & Social Care Integration Joint Board (MIJB), which is capable of:

- providing the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
- carrying out all other objectives contained in Internal Audit's Charter; and
- adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

2. STRATEGY OBJECTIVES

2.1. The objectives of this strategy are to:

- Outline the assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
- State how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual audit opinion statement;
- Describe the approach to the development of the risk based Internal Audit annual plan;
- Set out the relative allocation of Internal Audit resources;
- Outline how the Internal Audit programme of work will be delivered to add value and will be prioritised to ensure those areas of greatest risk are covered during the audit year; and
- Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

3. ASSURANCE FRAMEWORK

3.1. 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, 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. These are known as the first and second lines of assurance. Internal Audit, as the third line of assurance, is the review function which will provide independent assurance on the effectiveness of the first and second lines of assurance, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, thus assisting the organisation in achieving its objectives.

3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.

3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (Audit Scotland for MLC and MIJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.

3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within the relevant organisation's Annual Report and Accounts.

3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

4.1. Each organisation 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. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the organisation; 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 managing risks.

4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Financial Officer (MLC) and Chief Finance Officer (MIJB), is responsible for the proper administration of the organisation's financial affairs. Under their direction, the organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.

4.3. The continued use of and investment in technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation. Arrangements in place are underpinned by the overarching framework of the ICT security policy designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and by the ICT Strategy linked to Corporate Priorities designed to support effective and modern service delivery and to meet service objectives.

5. APPROACH TO PERIODIC PLANNING

5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2025/26 has been prepared in conformance with the Global Internal Audit Standards to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.

5.2. As part of the Internal Audit planning process, it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:

- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe, which has been significantly revised and realigned to reflect the current strategic and operational management arrangements and approach to service delivery, to ensure appropriate coverage;
- The Strategic Risk Profile was checked to confirm coverage on key strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations;
- Where service level risk management processes were not sufficiently up to date or mature to provide timely reporting on risks Internal Audit undertake there won risk assessment processes to establish levels of risk; and
- Account was taken of known external audit and inspection activities to avoid duplication of assurance work; however this may fall short of the level of co-ordination required under GIAS standard 9.5 Coordination and Reliance.

5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

6.1. The Internal Audit staff resource totalling 3.22 FTE comprises Chief Internal Auditor (0.5 FTE), Principal Internal Auditor (0.72 FTE) and Internal Auditor (2.0 FTE). 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 training on the requirements of GIAS and the Seven Principles of Public Life) needed to deliver the plan. The Available Days has been amended to reflect the Internal Audit resources after consideration of estimated annual leave, public holidays, absence, learning and development (including required professional CPD), and management and supervision.

6.2. It is estimated that around 80% of Available Days will be spent on *assurance, and legislative and other compliance* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the required annual audit opinion on the adequacy of the organisation's control environment.

6.3. An estimate of 10% of Available Days will be spent on other activities in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter.

6.4. An estimate of around 4% of Available Days will be utilised on *Consultancy* activities which support Management in delivering innovation, change and transformation. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.

6.5. It is estimated that around 6% of Available Days will be spent on the provision of Internal Audit services to Midlothian Integration Joint Board (MIJB). This reflects MLC's contribution of support resources as governance arrangements have changed in response to statutory partnership working for the provision of health and social care integration.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

7.1. To facilitate operational delivery, an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.

7.2. For each Internal Audit, in line with recognised good practice, an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Chief Officer/Head of Service and Manager prior to commencement of Internal Audit fieldwork. Within assurance work:

- The organisation's Local Code of Corporate Governance (MLC/MIJB) will be used by Internal Audit as an integrated toolkit to test the extent of compliance.
- End to end reviews of financial management and administration processes will be undertaken by Internal Audit to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), and substantive testing of transactions including data analytics will be carried out where this is possible to ensure completeness and accuracy.
- The Plans (Financial and Asset Management) to deliver the organisation's strategies, plans and priorities will be reviewed against best practice standards.
- Internal Audit will consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as risk management, performance management, community engagement, equalities, business continuity, and health and safety), highlight examples of effective internal controls, and share good practice across service areas.
- The ICT arrangements in place to protect each organisation from attack in relation to data security, integrity and availability will be tested and ICT Plans will be reviewed to confirm they support delivery of the organisation's strategies and priorities.
- National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies will be considered and applied by Internal Audit to influence and offer ways to enhance governance and internal controls.

7.3. The Legislative and Other Compliance work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework.

7.4. Within Advisory activities, Internal Audit will add value to the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to ensure adequate governance, risk management and internal controls. Internal Audit in its 'critical friend' role will provide an independent view and challenge of a sample of programmes and projects, and an objective assessment of self-evaluation arrangements and improvement that underpin the provision of Best Value, when resources allow.

7.5. *Other* work will include:

- Carrying out Follow-Up to monitor Management's progress with implementation of Audit recommendations to: ensure that improvement actions have been timeously and effectively implemented; check that these have had the desired effect to manage identified risks; and demonstrate continuous improvement in internal control and governance. To facilitate the Internal Audit follow-up activity, Audit recommendations will continue to be input to the Ideagen system, the corporate performance management system, to assist relevant Management in tracking and recording their implementation in a consistent way;
- Performing Contingency advisory reviews on specific instruction from Members or Senior Management, investigations and review of sufficiently important issues highlighted during the year where resources allow; and
- Delivering the Help Desk Facility where Internal Audit guidance and advice is given to Management on internal controls.

8. MONITORING THE WORK OF INTERNAL AUDIT

8.1. The Global Internal Audit Standards (GIAS) requires periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.

8.2. Internal Audit assurance work completed and work in progress, and consultancy and other work for the Council associated with the delivery of the Plan will be outlined within regular reports to its Audit Committee. Specifically relating to Internal Audit assurance work, this report will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Senior Management in the period.

8.3. Regular progress updates on implementation by Management of relevant Audit recommendations will be reported periodically during the year to the relevant organisation's Senior Management and Audit Committee/Board.

8.4. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against GIAS will be considered by the Chief Internal Auditor on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit Committee, through a Mid-Term Performance Report and within the Annual Assurance Report.

8.5. The Internal Audit Annual Assurance Report for each organisation (Midlothian Council and MIJB) to their respective Senior Management and Audit Committee/Board will provide the statutory annual audit opinion on the levels of assurance based on Internal Audit findings over the year to inform each organisation's Annual Governance Statement.

8.6. The GIAS requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers to assess conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have implemented a "peer review" framework, in which MLC participates, as a cost-effective means of complying with the EQA requirement. Reporting on outcomes includes a statement on conformance with GIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of the Internal Audit quality management framework and to identify opportunities for improvement.

Internal Audit Annual Plan 2025/26

Appendix 2

| Category | Activity | Days | Commentary |
|----------------------|------------------------------------------------------------------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Assurance - Cyclical | MLC Annual Assessment of Internal Control and Governance | 30 | Prepare an annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with the Local Code of Corporate Governance covering the corporate whole and individual Directorates/Services. |
| Assurance - Risk | School Funds / School Budgets (DSM) | 30 | Review the processes in place to ensure appropriate management and controls processes are in place for school budgets (DSM) and school funds. |
| Assurance - Risk | Recruitment & Use of Agencies | 30 | Review the processes in place to ensure that staff recruitment is completed effectively and protects Midlothian Council from the risk of employment of inappropriate or unqualified staff members or agency workers, whilst meeting legislative requirements. |
| Assurance - Risk | Property assets and property strategy - Midlothian House refurbishment | 30 | Review the processes of developing a property asset management strategy across the Council specifically including the refurbishment of Midlothian House. |
| Assurance - Risk | Purchase to Pay (Accounts Payable) & Electronic Payments | 30 | Review the control process in place around the Council's Purchase to Pay system to ensure that they are operating effectively and providing assurance that all expenditure is appropriately processed through systems and is being correctly authorised in accordance with the financial control processes of the Council. |
| Assurance - Risk | School Transport | 30 | Review the controls in place to ensure that the Council is meeting legislative requirements for School Transport whilst providing Best Value and that Governance processes ensure that this is appropriately monitored and adjusted as required. |
| Assurance - Risk | Fleet Management | 30 | Review of the controls, governance and compliance processes in place to ensure that Council vehicles are being adequately |

| Category | Activity | Days | Commentary |
|----------------------|-----------------------------------------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | and professionally managed in line with legislative and regulatory requirements. |
| Assurance - Risk | Mosaic | 30 | Review the case management, payment processes and social care systems resilience within and associated with the core social work Mosaic application. |
| Assurance - Risk | Council Tax Billing | 30 | Review the control processes in place to ensure accurate, timely, complete and appropriate Council Tax billing arrangements, in line with appropriate regulatory and legislative requirements. |
| Assurance - Cyclical | Direct Payments - Self Directed Support | 30 | Review that the controls in place for Direct Payment for Social Care self-directed support provide appropriate governance risk management and control to ensure best value and meet legislative and best practice requirements. |
| Assurance - Cyclical | House Rents | 30 | Review that controls in place for housing rents ensure that complete, accurate and timely charging and collection processes for housing rents in line with legislative and best practice requirements. |
| Assurance - Cyclical | Project Support | 30 | To review the Governance and internal controls in place to ensure best value in the use of resource to manage constant change to achieve council objectives. |
| Consultancy | Consultancy | 10 | In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects (including Capital Plan and Asset Management Boards, Business Transformation Board, Information Management Group); and an objective assessment of self-evaluation arrangements. |
| Other | MLC Audit Committee Self-Assessment | 5 | Provide assistance to the Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance. |
| Assurance - Cyclical | MLC Recommendation Follow Up Reviews | 25 | Undertake 2 reviews: the first includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed, and the second assesses performance against closing Audit Actions by the agreed due date. |
| Other | Contingency | 16 | Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by |

| Category | Activity | Days | Commentary |
|----------------|-----------------------------------------------------------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Management or Audit Committee during the year are appropriately addressed. |
| Other | Help Desk Enquiry system | 15 | Provide guidance and advice to Management and Staff on internal controls. |
| Other | MLC Administration of Audit Scotland Reports | 5 | Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committee. |
| Other | Risk Management & Integrity Group | 15 | Attend and provide support to the Risk Management Group, and the Integrity Group. |
| Other | MLC Attendance at Boards / Committees | 20 | Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant. |
| Other | MLC Audit Planning for 2026/27 | 10 | Update the Audit Universe, check risk registers and other sources of assurance, and develop and consult on proposed coverage within the Internal Audit Annual Plan 2024/25. |
| MIJB Assurance | Midlothian Health and Social Care Integration Joint Board | 30 | Audit reviews and support to be determined and agreed by the Midlothian Health and Social Care Integration Joint Board Audit and Risk Committee for review of the adequacy of the MIJB's arrangements for risk management, governance and internal control for delegated resources. |

| | |
|--------------------|-----|
| Total Days 2025/26 | 511 |
|--------------------|-----|

Counter Fraud Annual Plan 2025/26**Report by Duncan Stainbank, Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is invited to:

- a) Approve the Counter Fraud Annual Plan 2025/26 (Appendix 1).

2 Purpose of Report/Executive Summary

The purpose of this report is to gain approval from the Audit Committee for the proposed Counter Fraud Annual Plan 2025/26 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement.

Having robust fraud risk management 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 as specific changes associated with the Counter Fraud Strategy approved by Council in August 2020.

The Counter Fraud Annual Plan 2025/26 (Appendix 1) sets out the planned counter fraud activity to support the approach and culture of the Council in tackling fraud and corruption to deliver the Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud and reflects the Integrity Group's assessment of counter fraud controls.

Date 10 February 2025

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Background

- 3.1** A review was carried out in 2019/20 of counter fraud management arrangements in place and to make improvements in light of the significant fraud investigations that have occurred within Midlothian Council in recent years, noting that some are ongoing.
- 3.2** The conclusion of the review included a refresh to the corporate policy and strategy for tackling fraud. A revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy were approved by Midlothian Council in August 2020.

4 Counter Fraud Annual Plan 2024/25

- 4.1** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime (including cybercrime and money laundering) and ensure these are embedded preventative practices as specific changes associated with the Counter Fraud Strategy approved by Council in August 2020.
- 4.2** The Counter Fraud Annual Plan 2025/26 (Appendix 1) sets out the planned Counter Fraud activity to support the change in approach and culture for the Council for tackling fraud and corruption to deliver the approved Counter Fraud Strategy. This will enable the Council to demonstrate compliance with its Counter Fraud Policy Statement as its commitment to tackling fraud and reflects the Integrity Group's assessment of counter fraud controls (update submitted to the Audit Committee in January 2022).

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

5.1 Resource

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group and the Corporate Fraud Team.

The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). The formal establishment of the Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) enables the shift to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council.

The revised Counter Fraud Policy Statement and Counter Fraud Strategy and proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Policy and Strategy were approved by Midlothian Council in August 2020. The 2 Corporate Fraud Officers are line managed by the Principal Internal Auditor who reports to the Chief Internal Auditor.

Savings will continue to be identified arising from Corporate Fraud Team activity, which will be stated within the Counter Fraud Annual Reports presented to the Audit Committee.

5.2 Digital

None.

5.3 Risk

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

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

5.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed as part of the development of the revised Counter Fraud Policy and Strategy. The conclusion was that undertaking a Combined Impact Assessment was not necessary as the policy / proposal has little relevance to equality, negligible impact on the economy, and no impact on the environment. The revised Counter Fraud Policy and Strategy set out enhancements to internal Management arrangements though it is anticipated that there will be minimal impact on internal staff only; there is no change to the Whistleblowing external-facing arrangements.

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 (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 that were approved by Council in August 2020. The shift to the key drivers for change is an intrinsic part of the 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 in 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 approved Counter Fraud Strategy states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to continuous improvement to be evaluated, managed and evidenced demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised, as stated in the Counter Fraud Annual Report 2023/24 that reported outcomes of corporate fraud activity, some of which arose from whistleblowing received from staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve 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 approved Counter Fraud Strategy.

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 including sustainable outcomes.

| Ref | Category | Activity | Number of Days | Commentary |
|------------------------------|------------|----------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Compliance | Contract Management | 30 | Data analytics to test governance and internal controls in place over Contract Management arrangements with third parties to assess compliance with procurement rules. |
| 2. | Compliance | Corporate Fraud Enquiries | 100 | Respond to whistleblowing notifications. |
| 3. | Data Match | National Fraud Initiative | 100 | Co-ordinate the NFI exercise across Council services, investigate data matches from 2024/25 exercise, coordinate and provide update of data matches reviewed for 2024/25 exercise. |
| 4. | Compliance | Social Housing | 30 | Social Housing enquiries and investigations. |
| 5. | Compliance | Council Tax | 15 | Council Tax enquiries and investigations. |
| 6. | Other | Corporate Fraud Policy Framework | 15 | Support the Integrity Group with monitoring of policies and procedures review, update and communication. |
| 7. | Other | Fraud Risk Assessments | 100 | Develop a risk assessment process and support operational Service Managers to assess fraud risks and develop improved mitigating controls in preparation for the implementation of government guidance on the implementation of UK government guidance on the Crime of Failure to Prevent Fraud. |
| 8. | Other | Fraud Awareness Training | 10 | Develop and deliver fraud awareness training modules (face-to-face, virtual or via e-learning) to Management and Staff as required. |
| 9. | Other | Integrity Groups | 6 | Attend and provide support to the Council's Integrity Group. |
| Corporate Fraud Total | | | 406 | |

Audit Committee Recruitment of an Independent Member**Report by Duncan Stainbank, Chief Internal Auditor****Report for Decision****1 Recommendations**

Audit Committee is recommended to:

- Note the contents of the report, informed by the Audit Committee Annual/End of Term Report 2023/24; and
- Provide comments on the proposal to remunerate Independent Members to inform Council's decision on Tuesday 25 February 2025.

2 Purpose of Report/Executive Summary

2.1 The Audit Committee Annual/End of Term Report 2023/24, by the Chair of the Audit Committee as approved by the Audit Committee on the 30 September 2024 had recommended improvements for the Audit Committee. Section 4.2 of that approved report contained the following 2 recommendations:

- Schedule a recruitment, selection and appointment process for independent members of the Audit Committee within the next year.
- Move to 4 scheduled meetings of the Audit Committee each year from the 7 meetings currently scheduled, whilst retaining the capability to call further meetings when required.

2.2 The CIPFA Position Statement 2022: Audit committees in local authorities and police states, the following: *"CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise."* This is the standard that the Audit Committee annually assesses against and currently there are no independent members of the Midlothian Council Audit Committee.

2.3 A recruitment advert for an Independent Audit Committee Chair and Member was issued in May 2022, however no candidates applied for these positions, as a result agreement to rotate the Chair across the three political parties was agreed. Since May 2022 the Audit Committee has been Chaired by three separate Councillors. The CIPFA Position Statement 2022: Audit committees in local authorities and police, states under characteristics of audit committee membership:

“A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:

- promoting apolitical open discussion*
- managing meetings to cover all business and encouraging a candid approach from*
- all participants maintaining the focus of the committee on matters of greatest priority.”*

2.4 The CIPFA Position Statement 2022: Audit committees in local authorities and police provides no statement that the Chair of the Audit Committee should be an independent member. The CIPFA Publication Practical Guidance for Local Authorities and Police Guiding the Audit Committee, states the following on appointing the Chair of the Audit Committee.

“Unless there is specific legislation or guidance in place on the selection of the committee chair, authorities can determine their own approach. To try and emphasise the independence and apolitical nature of the committee, some authorities specify that the position should be occupied by an ‘opposition’ member. This approach may be appropriate for some but will not be possible for all authorities – for example, where there are few opposition members.”

2.5 It is therefore being recommended that a permanent chair is appointed following on from a recruitment exercise as early as possible in 2025. The Audit Committee should then be empowered to appoint a chair meeting the required skills from within the membership of the committee rather than appointing a chair directly from any recruitment exercise.

2.6 Given the lack of candidates applying for Independent Member positions at the last attempt in 2022 a review of other authorities and public sector bodies has been undertaken. Scottish Local Authorities have not normally provided remuneration for Independent Audit Committee Members although limited Councils have independent members in place. However, other UK Local Authorities are beginning to offer remunerated roles, for example currently the London Borough of Hounslow are offering an annual allowance of £2,000 for Independent Members of the Audit & Governance Committee, Wealden District Council offering an annual allowance of £909, Mole Valley District Council offering £530 per annum, and Oldham Council offering £446 per annum. Consideration should be given to a small allowance being offered for an appropriate independent member candidate, with a mechanism to be agreed via the Chief Officer Council Resources.

Date: 14 January 2025

Report Contact:

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3 Background/Main Body of Report

- 3.1** It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.
- 3.2** The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.
- 3.3** The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.
- 3.4** The Audit Committee Self-Assessment as approved by the Audit Committee on the 30 September 2024 identified 2 improvements that require changes to the Scheme of Administration as laid out in the recommendations in 1. Above. These are:
- Schedule a recruitment, selection and appointment process for independent members of the Audit Committee within the next year.
 - Move to 4 scheduled meetings of the Audit Committee each year from the 7 meetings currently scheduled, whilst retaining the capability to call further meetings when required.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

The report recommends following benchmarking that the two Independent Members are provided an allowance of £200 per Audit Committee, prepared for and attended. Total cost is estimated as between £1,600 and £2,000 per annum.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

There is a risk that the Audit Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The implementation of the recommendations ensure that the best practice is being adhered to.

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

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.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Report Implications

Appendix B - Revised Audit Committee Extract from the Scheme of Administration.

APPENDIX A – 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

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

Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Audit Committee in fulfilling its governance role acts as a bridge between the Council and other stakeholders. Including Independent members on the Committee should enhance this role further.

A.6 Impact on Performance and Outcomes

The members of the Audit Committee have reflected on the performance and outcomes against the remit of the Committee through the completion of annual self-assessments. The identification of improvement actions as evidenced through the Audit Committee Annual / End of Term Report are designed to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

A.7 Adopting a Preventative Approach

Assurances received by the Audit Committee from Management, Internal Audit and External Audit set out the assessment of prevention and detection internal controls and governance arrangements.

A.8 Supporting Sustainable Development

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

Appendix B: Audit Committee Scheme of Administration Extract Proposed Changes

Composition:

The Audit Committee will comprise 5 Elected Members, currently on the following basis:

- 2 Labour Members
- 2 SNP Members
- 1 Conservative Member

The Audit Committee ~~will have an Independent Chair whose appointment will be made by the Council on the submission of a report from the Chief Executive.~~

~~Pending the appointment, or in the absence, of the Independent Chair, the Committee will be chaired by an elected Member of the Audit Committee, who can be an Elected Member or a non-voting independent member or a non-Cabinet Elected Member agreed by the voting members of the Committee meeting who is a non-Cabinet member.~~

The Committee will also include ~~two~~ independent non-voting members to be appointed by the Council on a report by the Chief Executive. ~~At the invitation of the Chair, the Independent members is person~~ can comment on all aspects of the Committee's business in order to assist it in its deliberations.

Business:

Statement of purpose

1. 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.
2. 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.

Governance, risk and control

3. To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances, relating to the council's service delivery models including partnership and collaboration, to ensure that the

highest standards of probity, public accountability and ethical standards are demonstrated.

4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the council's framework of assurance, relating to the council's service delivery models including partnership and collaboration, and ensure that it adequately addresses the risk and priorities of the council.
7. To monitor the effective development and operation of risk management in the council relating to the council's service delivery models including partnership and collaboration.
8. To monitor progress in addressing risk-related issues reported to the committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud corruption.
11. To monitor the counter-fraud strategy, actions and resources.
12. To monitor controls operating over Treasury Management, through the scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, and the Council's approach to establishing ethical standards.

Internal audit

13. To approve the internal audit charter.
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
15. To approve the risk-based internal audit plan, including internal audit's

resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
17. To make appropriate enquiries of both management and the Chief Internal Auditor to determine if there are any inappropriate scope or resource limitation.
18. To consider reports from the Chief Internal Auditor on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
- b) Regular reports on the results of the Quality Assurance and Improvement Programme.
- c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

19. To consider the Chief Internal Auditor's annual report:

- a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note (including code of ethics) and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
- b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the Annual Governance Statement.

20. To consider summaries of specific internal audit reports as requested.
21. To receive reports outlining the action taken where the Chief Internal Auditor has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about

progress with the implementation of agreed actions.

22. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
23. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.
24. To support the development of effective communication with the Chief Internal Auditor.

External audit

25. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
26. To consider specific reports as agreed with the external auditor.

27. To comment on the scope and depth of external audit work and to ensure it gives value for money.
28. To commission work from internal and external audit.
29. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

30. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
31. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

32. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
33. To report to full council on a regular basis on the committee's

performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Frequency of meetings:

The Council will decide on the schedule of meetings for the Audit Committee, usually on a rolling annual basis which will be published. A minimum of 4 meetings will be held on an annual basis.

Quorum:

The quorum for meetings of the Audit Committee will be 3- Members, including at least 2 Voting Members. ~~which may include the Independent Chair (when appointed).~~

Minutes:

The Minutes of the Audit Committee will be recorded by the Officer clerking the meeting and submitted to the next ordinary meeting of the Committee for approval. They will also be submitted to the Council both for information and to allow the Council to consider any recommendations contained in them. Meetings of the Audit Committee will also be audiocast subject to the exemptions contained within the Local Government (Scotland) Act 1973.

Risk Management Update – Strategic Risk Profile Quarter 2&3, 2024-25

Report by Derek Oliver, Chief Officer Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Note the current risk landscape and organisational response to the most significant risks in Quarter 2 (Q2) 2024-25 (1st Jul to 30th Sep 2024) and in Quarter 3 (Q3) 2024-25 (1st Oct to 31st Dec 2024).

2 Purpose of Report/Executive Summary

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

- An update on the risk responses Midlothian Council has implemented during Q2 and Q3 2024/25 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current strategic risks and opportunities for the Council

7 February 2025

Report Contact:

Derek Oliver, Chief Officer Place

Derek.Oliver@midlothian.gov.uk

3 Q2 & Q3 Risk Management Overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 2 & 3, 2024-25.

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 Group and Corporate Management Team (CMT).

3.3 Audit Committee should note that there were no new risks added from the previous Quarter however, as per the request from Audit Committee, the Strategic Opportunities section was revised to include Strategic Projects. The Projects included have a Red category across their respective Risk Evaluation. Updates on actions taken are included in the full strategic risk profile (Appendix B).

3.4 Strategic Risk Profile (SRP)

The SRP is split into three sections:

- Strategic issues
- Strategic risks
- Opportunities

3.5 STRATEGIC ISSUES - SUMMARY

| Strategic issues | Likelihood | Impact | Score | Evaluation | |
|--------------------------|------------|--------|-------|------------|----------|
| | | | | Q2 | Q3 |
| The Change Programme | 5 | 5 | 25 | Critical | Critical |
| Financial Sustainability | 5 | 5 | 25 | Critical | Critical |
| National Care Service | N/A | N/A | N/A | | |

3.6 The Change Programme

The Change Programme remains evaluated at Critical. The financial challenges of the forecasted budget gap pose a significant challenge for benefits realisation. Council agreed to a Transformation Blueprint in June 2023 which is a 5-year transformation plan.















3.7 Financial Sustainability

The scale of the financial challenge continues to be reported to the Business Transformation Steering Group and Council.

3.8 National Care Service

The Scottish Government announced in January 2025 that the National Care Service proposal is now not proceeding.

3.9 STRATEGIC RISKS – SUMMARY

| Strategic Risks | Likelihood | Impact | Score | Evaluation | | |
|--------------------------------------------|------------|--------|-------|------------|---------------------------------------------------------------------------------------|----------|
| | | | | Q3 24-25 | | Q2 24-25 |
| 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 |
| Legal and Regulatory compliance | 5 | 5 | 25 | Critical |  | Critical |
| UK decision to leave the EU | 4 | 5 | 20 | High |  | High |
| Scottish Child Abuse Inquiry | 4 | 4 | 16 | High |  | High |
| Growing Council | 4 | 4 | 16 | High |  | High |
| Cost of Living Crisis | 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 |
| Employee performance | 3 | 4 | 12 | Medium |  | Medium |
| Emergency planning and business continuity | 3 | 4 | 12 | Medium |  | Medium |
| Governance and Standards | 2 | 4 | 8 | Low |  | Low |
| Internal control environment | 2 | 3 | 6 | Low |  | Low |
| Corporate policies and strategies | 2 | 3 | 6 | Low |  | Low |

3.10 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.11 Climate Change

Councillors were presented with a briefing on the Climate Action Plan in Q2 24-25 as committed to through the Transformation Blueprint. With a report presented to October Council, Councillors approved, given the challenges (particularly financial), the realignment of the target deadline of 2030 for net zero emissions from the Midlothian Council estate to 2045.

In light of this, a refresh of the Council's Climate Change Strategy, approved by Council in August 2020, is progressing.

3.12 Financial Sustainability in future years

The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council.

3.13 The Long-Term Change Programme

The Change Programme has remained at Critical for the last 2 years. The financial challenges of the underlying budget gap pose a significant challenge. Council agreed to a Transformation Blueprint in June 2023 which is a 5-year transformation plan.

3.14 Legal and Regulatory compliance

Significant resourcing pressures have impacted on risk evaluation. Work is ongoing with the Scottish Information Commissioner and National Records of Scotland to develop and deliver improvement plans.

3.15 UK decision to leave the EU

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. A new Economic Strategy was approved by Council in October. This risk evaluation remains High.

3.16 Scottish Child Abuse Inquiry (SCAI)

The SCAI risk evaluation remains High as the Inquiry continues.

3.17 Growing Council

The risk evaluation remains High in Q3 2024-25. 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
- 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.

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

3.19 STRATEGIC OPPORTUNITIES

3.20 Capital Projects - Housing

Projects impacted with 26% reduction in Affordable Housing Supply Programme grant to Midlothian and continued high build costs. Phase 5 housing programme has been reviewed to ensure affordability within the Housing Revenue Account, allowing for reduced levels of grant. Projects highlighted with specific Red Risk Evaluation(s) and detailed within the SRP are Newbyres, Gorebridge; Edmonstone Road, Shawfair and Newton Church Road, Danderhall.

3.21 Capital Projects – Transport, Net Zero & Infrastructure

Cost of delivering enabling infrastructure projects has risen, resulting in significant funding gap emerging and impacting on progress of A701 Relief Road, Sustainable Transport Corridor and Straiton Junction Improvements, which are detailed within the SRP.

3.22 Capital Projects – Children, Young People & Partnerships Estates Programme: Primary

Five specific projects identified within the SRP:

1. Mayfield/St Lukes PS New Build: Tender return from Stage 1 exceeds available budget. Programme delayed for project revision.
2. Kings Park PS Extension & Refurbishment: No available budget to undertake extension. Condition and suitability of school to be addressed.
3. Rosewell PS Extension: No available budget to undertake extension. Condition and suitability of school to be addressed.
4. Mauricewood PS Extension & Refurbishment: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions.
5. Bilston PS Extension: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions.

3.23 Capital Projects – Children, Young People & Partnerships Estates Programme: Secondary

Three specific projects identified within the SRP:

1. Beeslack HS Replacement: Contractor appointment delayed. Programme behind due to changes in scope / design.

2. Shawfair All Through: Site acquisition complete. School location fixed with design team. Remediation programme being revised. Seeking to make efficiencies in remediation programme.
3. Penicuik HS New Build: LEIP target for delivery is Dec 2026, however programme for occupation is July 2027. Cost reports tracking higher and risks identified in refurbishment works. SFT advising if additional LEIP funding available.

3.24 Capital Projects – Regeneration

Three specific projects identified within the SRP:

1. Vogrie Changing Places: contractor issues.
2. Destination Hillend: Alpine Coaster delivered with access and parking infrastructure. Project absorbed risk and contingency. Delays to delivery resulting from issues with access / water mains. Main Building tender return exceeded budget. Next Phase to be recast. Interim works on water supply and drainage required.
3. Hopefield Industrial Estate: Updated financial model required.

3.25 City Region Deal

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.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

None

4.3 Risk

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

The report provides an overview of the significant risks faced by the Council during Quarter 2 & 3 2024-25 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 2 & 3, 2024-25)

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, Q2 July - September 2024





SRP STRATEGIC RISK PROFILE

| | |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SRP | This risk register captures the main strategic issues, risks and opportunities that are corporate in nature. It identifies the nature of the risks, measures required to control the risks and their evaluation. It also details what further actions are required to reduce the likelihood and impacts of those risks to more acceptable and manageable levels with timescales. |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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>Risk cause The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p>Risk event Delayed progress or non-achievement of outcomes and benefits.</p> <p>Risk effect Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <p>1. Transformation Blueprint agreed at Council June 2023 which is a 5-year transformation plan. Revised governance for transformation agreed and revised Terms of Reference in place for the Business Transformation Board to oversee progress on change programme.</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 are given updates on the progress of the Transformation programme. 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 | Transformation Blueprint 2023-28 delivery | <p>Q2 24/25: Progress with sprints is reported to BTB at every meeting via the dashboard and also in detailed reports at some points. BTSG are provided with an updated dashboard every cycle and receive focused reports on individual sprints and also funding requests to release BT funds to support project work.</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Officer *Place; Chief Officer Corporate Solutions; Chief Finance Officer; | 30-Jun-2028 |  | 20% |
| SRP.RA-02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q2 24/25: Further update on the MTFS was presented to Council in October and a public consultation was launched on 9th October running to 20th November.</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |


SRP.IR.07 Financial Sustainability

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.IR.07 | <p>Risk cause</p> <p>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> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health | <p>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.</p> <p>2. There is an approved budget for 2024/25. Services are delivered within the totality of that budget.</p> <p>3. Enhanced monitoring arrangements have been agreed for service areas that are regularly showing overspends.</p> | 5 | 5 |  |

| | | | | | | |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
| | <p>Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Risk event Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps.</p> <p>Risk effect Inadequate government funding makes securing balanced budgets challenging. This in 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> | <p>and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>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.</p> <p>5. Strategic Boards in place and BTB focus and attention on driving transformation to support future year's financial sustainability.</p> <p>6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>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.</p> <p>8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach.</p> <p>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.</p> <p>10. Report to Council February 2024 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. Updated MTFS projections presented in June 2024.</p> <p>11. 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> | | | |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
|---------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------|---------------------------------------------------------------------------------------|------|
| SRP.RA-02.09 | Transformation Blueprint 2023 to 2028 | <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2024 |  | 20% |
| SRP.RA-02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q2 24/25: Refer to SRP.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |


STRATEGIC RISK PROFILE, Q2 July - September 2024 v3.1

| | | | | | | |
|--------------|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------|-------------------------------------------------------------------------------------|----|
| | | <p>identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | | | | |
| SRP.RA-02.10 | Capital Plan Prioritisation | <p>Q2 24/25: Work continues on Capital Plan prioritisation</p> <p>Q1 24/25: Work continues on Capital Plan prioritisation</p> <p>Q4 23/24: Work continues on Capital Plan prioritisation</p> <p>Q3 23/24: Work continues on Capital Plan prioritisation</p> | Chief Finance Officer; Executive Director – Place; Executive Director - Education | 31-Oct-2024 |  | 0% |

SRP.IR.11 National Care Service


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.IR.11 | <p>Risk cause In August 2022 the Scottish Government launched a 12-week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS.</p> <p>Risk event A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.</p> | Head of *Adult and Social Care; Chief *Executive; Director *Health and Social Care; Executive Director *Place; Chief Officer Young People and Partnerships | As of 14 November 2024, a pause has been placed on the delivery of NCS legislation by the Scottish Government. | 3 | 5 |  |




| | | | | | | |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|
| | <p>Risk effect The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be.</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> | | | | | |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
|---------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|-------------------------------------------------------------------------------------|------|
| SRP.RA.11.1 | Officer Working Group | <p>Q2 24/25: As of 14 November 2024, the Scottish Government has paused legislation on the creation of a NCS.</p> <p>Q1 24/25: The Bill is at Stage 2</p> <p>Q4 23/24: The Bill is at Stage 2.</p> <p>Q3 23/24: Further information now expected late March 2024.</p> | Chief *Executive; | 31-Dec-2024 |  | 100% |


Strategic Risks


SRP.RR.01 Financial Sustainability in future years

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|-------------------------------------------------------------------------------------|
| SRP.R R.01 | <p>Risk cause: Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's. Increasing population of 0-15 age group and at a time when there are rising customer expectations. Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements.</p> <p>Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Risk to not achieving financial sustainability is a failure to deliver cost reductions / service change embedded in the blueprint and also supplementing the blueprint.</p> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>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. Maintaining a level of reserves to deal with unforeseen or one-off cost pressures. 3. Capital and Reserves Strategies in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Transformation Blueprint. 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> | 5 | 5 |  |


| 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>Q2 24/25: Refer to SRP.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |
| SRP.RA.02.04 | Transformation Blueprint 2023 to 2028 | <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |
| SRP.RA.02.06 | Capital Plan prioritisation | <p>Q2 24/25: Work continues on Capital Plan prioritisation</p> <p>Q1 24/25: Work continues on Capital Plan prioritisation</p> <p>Q4 23/24: Work continues on Capital Plan prioritisation.</p> <p>Q3 23/24: Work continues on Capital Plan prioritisation.</p> | Head of *Development; Executive Director *Place; Chief Finance Officer; | 31-Oct-2024 |  | 0% |

SRP.RR.02 The Long-Term Change Programme


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation | |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|-------------------------------------------------------------------------------------|--|
| SRP.RR.02 | <p>Risk cause: A MTFS that does not 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</p> <p>Risk event: Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings. Cuts in service provision rather than service transformation</p> <p>Risk effect: Objectives of change not actually met or progress too slow. 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</p> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>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 specific risk for NCS Bill). 7. High level priority is given to blueprint work.</p> | 5 | 5 |  | |






| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q2 24/25: Refer to SPR.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |

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| | | and to allow the setting of a balanced budget for 2025/26. Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024. Q3 23/24: As Q1. Preparations for MTFS at February Council. | | | | |
| SRP.RA .02.04 | Transformation Blueprint 2023 to 2028 | Q2 24/25: Refer to SRP.RA-02.08 Q1 24/25: As Q4 23/24 Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item. Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated. | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |


SRP.RR.03 Legal and Regulatory Compliance

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.03 | <p>Risk cause Current or new legislation applying to Midlothian Council. Lack of capacity to resource statutory obligations around GDPR, data protection, records management, information requests and statutory regulatory functions.</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p> | Head of *Adult and Social Care; Legal *and Governance Manager; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 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. Annual Assurance Statement. Internal Audit testing of internal controls as part of risk-based audit plan. External Audit. Range of external inspection. BTSG oversight of new legislation Central repository of applicable legislation. | 5 | 5 |  |


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.03.02 | Rights of the Child Bill | <p>Q4 23/24: Q4 Council wide group established and developing a plan that ensures we are all aware and adhering to UNCRC.</p> <p>Q3 23/24: Bill now adopted. Policy to be presented to Council May/June 2024.</p> | Chief *Social Work Officer; | 31-Dec-2024 |  | 0% |
| SRP.RA.03.03 | National Care Service | <p>Q2 24/25: As of 14 November 2024, the Scottish Government has paused legislation on the creation of a NCS.</p> <p>Q1 24/25: The Bill is at Stage 2.</p> <p>Q4 23/24: Q4 National Care Service is at stage 2 and we await decisions around what next.</p> <p>Q3 23/24: National Care Service Bill has been delayed for any further decision until the 1st March 2024.</p> | Chief *Executive; | 31-Dec-2024 |  | 0% |
| SRP.RA.03.05 | Review of Standing Orders, Scheme of Administration and Scheme of Delegation | <p>Q4 23/24: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024 (this is technically Q1 2024/25 update).</p> | Legal & Governance Manager; Executive Director *Place; Chief Officer Corporate Solutions; | 31-Dec-2024 |  | 40% |
| SRP.RA.03.07 | Review of policy and creation of a policy register | <p>Q4 23/24: work to develop policy register ongoing.</p> <p>Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed.</p> | Chief Officer Corporate Solutions | 31-Dec-2024 |  | 10% |
| NEW | Compliance with statutory duties | <p>Q1 24/25: Records Management Officer in post and reviewing the Records Management Plan, Corporate Retention Policy and Schedule and supporting the development of retention framework for M365 rollout.</p> <p>Q4 23/24: Work is ongoing with the Scottish Information Commissioner and National Records of Scotland to develop and deliver improvement plans. Ongoing recruitment for Records Manager. Rationale report for resourcing in development. Significant resourcing pressures contribute to the increase in</p> | Chief Officer Corporate Solutions, Legal and Governance Manager | 31-Dec-2024 |  | 10% |

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| | | scoring for Q4. | | | | |
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SRP.RR.04 Employee performance

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.04 | <p>Risk cause Employees not suitably trained/developed for the roles required of them. Limited availability of qualified practitioners in certain sectors. Change program not informed by all key stakeholders. Ageing work force. Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice. Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance. Salaries in some functional areas lower compared to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff.</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation. Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce. Unacceptable behaviours demonstrated by employees. Stated organisational culture not consistently reinforced by managers. Poor employee performance will stifle transformational change.</p> <p>Risk effect Difficulties recruiting the right staff.</p> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; HR Strategic Lead; Chief Officer Young People and Partnerships</p> | <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>Attendance / Wellbeing 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers.</p> <p>Performance 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g., turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>Conduct 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme.</p> <p>Communication 1. A range of initiatives to keep staff informed of change (Chief</p> | 3 | 4 |  |


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| | Challenges retaining quality staff. Low skill levels. Low morale, especially during change. High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect, collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge. | | Executive's weekly email, Connect, All staff emails, tailored team briefings etc. | | | |
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| SRP.RA.02.04 | Development and Delivery of the Council's Workforce Strategy 2024-29 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting. | <p>Q1 24/25: Workforce Strategy in development and expected to be presented to December Council with Action Plan for approval. Audit Scotland external audit on workforce and digital to be presented to Audit Committee September 2024.</p> <p>Q4 23/24: Ongoing work nationally to review workforce planning which Midlothian is contributing to. Best Value focus this year is on workforce planning – awaiting outcome of external audit to identify improvement plan for 24/25.</p> <p>Q3 23/24: Service plans were presented to June 2023 council. Supporting workforce plans are due to be fully in place for June 2024. The workforce planning process, guidance and documentation has been developed and approved for use by managers across the council. The HR team is available to support managers who wish help and guidance in the development of these workforce plans.</p> | Chief Officer Corporate Solutions | 31 Dec 2024 |  | 25% |


SRP.RR.07 Care at Home

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

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| | Risk event Capacity of Community Support outstripped by demand. Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled. | | 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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| SRP.RA.07.01 | Independent review of adult and social care | Q2 24/25: The Scottish Government has initiated a pause on the development of the NCS. Q1 23/24: Pause remains in place. | Head of *Adult and Social Care; Chief *Executive; | 31-Jan-2024 |  | 100% |


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 |
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| SRP.RR.08 | Risk cause Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g., roads - normal wear and tear, streetlights and vehicles & buildings used to deliver services. Risk event Many assets will deteriorate under normal conditions although buildings, roads and streetlights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance. Risk effect | Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer | 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 6. Capital programme - 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 | 3 | 5 |  |

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| | 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. | Young People and Partnerships | | | | |
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| SRP.RA.08.02 | Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset. | <p>Q1 24/25: Condition Surveys continue, with Learning Estate (excl PPP) expected to be concluded by end December 2024 to inform capital investment proposal.</p> <p>Q4 23/24: Backlog maintenance repairs being undertaken across the estate on a prioritised basis.</p> <p>Q3 23/24: Surveyors have now completed the first phase of surveys that were due to have been completed by March 2024. A further phase will begin in April and run through until April 2025.</p> | Chief Officer *Place; | 30-Apr-2025 |  | 33% |
| SRP.RA.08.05 | Learning Estate Strategy | <p>Q4 23/24: All Priority 1 and 2 projects are progressing. In terms of all of the capacity breaches that were detailed in Priority 2 of the LES, investment was made to provide a solution.</p> <p>Q3 23/24: All Priority 1 projects as detailed in the Learning Estate Strategy have been approved by Council in June 2023, this includes Beeslack HS replacement and Penicuik HS refurbishment & extension. A number of Projects in the priority 2 tranche have been progressed to ensure schools do not experience capacity breaches.</p> | Head of *Development; | 30-Apr-2025 |  | 50% |
| SRP.RA.08.06 | Asset Management systems | <p>Q4 23/24: As Q3.</p> <p>Q3 23/24: Identified for implementation through Transformation Blueprint and The Change Programme.</p> | Chief Officer *Place; | 31-Mar-2025 |  | 0% |

SRP.RR.09 Emergency Planning and Business Continuity Management

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.09 | <p>Risk cause The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g., Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g., secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p> | Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships | <p>1. 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.</p> <p>2. Establishment based incident response plans in place and maintained locally.</p> <p>3. Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>4. 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: Afghan, Ukrainian and UASC support programmes</p> | 3 | 4 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.09.02 | Development of Emergency Plans | <p>Q2 24/25: Service review for the Health, Safety and Resilience Team Service, which includes Contingency Planning, is still in progress.</p> <p>Plans/plan updates include:</p> <ul style="list-style-type: none"> Midlothian Pipelines Emergency Plan (required under the Pipelines Safety Regulations 1996). Emergency Contacts Directory (reflecting staff changes) Provision of Business Continuity guidance notes to service managers. <p>Plan updates/procedures in progress:</p> <ul style="list-style-type: none"> Midlothian Council Emergency Plan (generic). This document outlines | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Dec-2024 |  | 75% |

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| | | <p>internal emergency management arrangements and multi-agency partnership relationships.</p> <ul style="list-style-type: none"> • Operation UNICORN (and associated arrangements). Scottish Government have advised that national planning arrangements are underway, and we will tie in with those. Meantime, we have the basics in place, based on previous experience. • Corporate Business Continuity (BC) Plan. An update to the Corporate Business Continuity Policy was provided to Corporate Management Team members in Q4 23/24. However, learning from a Cyber Security event facilitated by Scottish Government in June 2024 and September 2024 and the experiences of other organisations will be incorporated into an expanded document, which will also link in with the work being done by Digital Services on the technical response to a cyber-attack. • Draft action plan in relation to the revised Prevent Duty Guidance to measure our compliance. (In support of the Prevent SPOC.) • Support to the Executive PA Place with the Festive Period Service Arrangements document. <p>Multi-agency Exercises, Training, Presentations, Work streams:</p> <ul style="list-style-type: none"> • Debrief for the multi-agency Exercise Puma (Torness related exercise) held in June 2024. • Supporting School Business Managers in the development of their School Incident Plans, in collaboration with Police Scotland colleagues. • Familiarisation training exercise using Airwave handsets (held by Police Scotland for partner use in emergencies). These short sessions are organised by the Scottish resilience community on a regular basis throughout the year. • A number of national presentations relating to Prevent (extremism) <p>Q1 24/25: Exercise (simulated cyber attack) took place at the Leadership Forum June 2024 with the session facilitated by Scottish Government and LRP Colleagues. The session was designed to remind services managers of the importance of having , maintaining and exercising their Business Continuity Planning arrangements.</p> <p>Plans/plan updates include:</p> <ul style="list-style-type: none"> • Midlothian Council generic Emergency Plan. This document outlines internal emergency management arrangements and multi-agency partnership relationships. • Operation UNICORN (and associated arrangements). Scottish Government have advised that national planning arrangements are underway. Meantime, we have the basics in place, based on previous experience. | | | | |
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| | | <ul style="list-style-type: none"> Corporate Business Continuity (BC) Plan. An update to the Corporate Business Continuity Policy was provided to Corporate Management Team members in Q4 23/24. However, learning from a Cyber Security event facilitated by Scottish Government in June 2024 and the experiences of other organisations will now be incorporated into an expanded document, which will also link in with the work being done by Digital Services on the technical response to a cyber attack. <p>Multi-agency Exercises, Training, Presentations, Work streams: Team Members also participated in the following where appropriate to their areas of work, invitations were extended to colleagues in other services and partners:</p> <ul style="list-style-type: none"> Planning for and participation in a Torness related exercise in June 2024. Lothian and Borders Local Resilience Partnership non-routine inputs including Met Office Extreme Heat Awareness <p>Q4 23/24: Work on flooding across the county and its risks has commenced, with a report to Council scheduled for post-recess. CMT desktop exercise undertaken.</p> <p>Q3 23/24: A service review of the Health, Safety & Resilience team has commenced.</p> | | | | |
| SRP.RA.09.03 | Business Continuity Software System | <p>Q1 24/25: The Health, Safety & Resilience Service review is progressing and has identified staffing shortages to meet obligations.</p> <p>Q4 23/24: Report in early draft, to be completed once Health, Safety & Resilience service review completed (SRPO.RA.09.02). BCPs in the event of power outage to be incorporated.</p> <p>Q3 23/24: System review/upgrade has been considered and it is planned to present a report to CMT in Q4.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Dec-2024 |  | 25% |

SRP.RR.10 Governance and Standards in Public Life


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.10 | Risk cause Code of conduct for Members and employees' actions falling short of | Legal *and Governance Manager; Chief | 01 Annual Assurance Statement. 02 Standing Orders 03 Scheme of Administration | 2 | 4 |  |

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| | International Standards. Risk event Failure in openness, accountability, clarity. Risk effect Service, partnerships and project outcomes not achieved. Non-compliance with conduct standards and reduction in standards in public life. | *Executive; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions | 04 Scheme of Delegation 05 Elected Member Code of Conduct 06 Induction programme for new members and ongoing learning and development programme 07 Employee Code of Conduct | | | |
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| SRP.RA.03.05 | Review of Standing Orders, Scheme of Administration and Scheme of Delegation | Q1 24/25: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024. Q3 23/24: Workplan being developed by officer working group and will be presented to SOWG in March 2024 for approval. | Legal *and Governance Manager; Chief Officer Corporate Solutions; | 31-Dec-2024 |  | 20% |
| SRP.RA.10.03 | Review of the employee onboarding and induction programme | Q3 2023/24: CMT agreed to a refresh of the staff induction programme which include a compliance section. It is anticipated that the new programme will be fully completed by end Dec 2024, with a phasing of improvement actions being delivered throughout 2024. | HR Strategic Lead | 31-Dec-2024 |  | 5% |

SRP.RR.11 Corporate Policies and Strategies

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


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| | result in non-compliance with legislation Policies not aligned to strategic priorities will inhibit rather than support implementation of strategic priorities. | Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | | | | |
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| SRP.RA.02.04 | Transformation Blueprint 2023 to 2028 | <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |
| SRP.RA.03.07 | Review of policy and creation of a policy register | <p>Q4 23/24: work to develop policy register ongoing.</p> <p>Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed.</p> | Chief Officer Corporate Solutions | 31-Dec-2024 |  | 10% |
| SRP.RA.11.05 | Antisocial Behaviour Policy | <p>Q1 24/25: Member Briefing on Housing and Antisocial Behaviour to be prepared and presented during Q2, with report to Council to follow.</p> <p>Q4 23/24: Midlothian Community Action Team SLA 2024-25 contains tackling ASB as a strategic objective.</p> | Chief Officer *Place; | 31-Dec-2024 |  | 0% |

SRP.RR.12 Internal Control Environment

| Risk | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.12 | <p>Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information.</p> <p>Risk event Persons exploiting opportunities to commit fraud. Waste and errors Changing risk landscape associated with remote working solutions.</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance.</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <p>1. Services have been prompted to consider fraud and waste within Service Risk Registers.</p> <p>2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls.</p> <p>3. Internal Audit examine internal control arrangements based largely on the risk registers.</p> <p>4. Corporate Fraud team in place who assist managers to undertake fraud risk assessments in their areas (focused on priority areas) and provide advice and guidance on fraud related matters. Active participation in the National Fraud Initiative to investigate matches.</p> <p>5. Whistleblowing Policy and Counter Fraud Policy in place (subject to review) with whistleblowing channels available to report concerns (anonymously if required).</p> <p>6. Internal and external assurance. Annual Governance Statement which involves obtaining assurance from Management over controls in their Service.</p> <p>7. E-learning for staff to complete mandatory training for fraud awareness.</p> <p>8. Regular updates to Audit committee on progress with recommendations made by Internal Audit.</p> <p>9. Remind staff to declare secondary employment/outside interests and gifts & hospitality</p> <p>10. Induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation.</p> <p>11. 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.</p> | 2 | 3 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA .12.04 | Review of Serious Organised Crime (SOC) group | <p>Q1 24/25: Initial meeting with Police is planned to discuss strategy.</p> <p>Q4 23/24: Chief Officer Place on national SOC working groups and utilising forums to inform strategy.</p> <p>Q3 23/24: Work underway to refresh SOC Strategy, working with Police</p> | Chief Officer *Place; Health, Safety & Resilience Manager | 31-Mar-2025 |  | 50% |

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| | | Scotland and neighbouring authorities. Draft report expected Q4. | | | | |
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SRP.RR.13 Climate Change

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.13 | <p>Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act.</p> <p>Risk event Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars</p> | 5 | 5 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.13.04 | Delivery of the BTB Board Carbon Neutral by 2030 | <p>Q1 24/25: Member Briefing on Climate Action Plan being prepared for presentation in Q2/3.</p> <p>Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25.</p> | Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place; | 31-Mar-2030 |  | 0% |
| SRP.RA.13.05 | Development of the Strategic Plan 2023-27 | Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25. | Planning, Sustainable | 31-Mar-2025 |  | 50% |


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| | | Q4 22/23: Carbon Neutral by 2030 is a strategic priority. | Growth and Investment *Manager; Chief Officer *Place; | | | |
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SRP.RR.14.1 Scottish Child Abuse Inquiry

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.14.1 | <p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential that 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>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and</p> | Chief *Executive; Chief *Social Work Officer | <p>The Council initially set up an Inquiry Project Team, however this is no longer required as we have an experienced worker overseeing all requests for the Scottish Child Abuse Inquiry Team.</p> <p>Work is ongoing and we have the additional tasks of supporting and responding to enquiries from the redress team.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SARs in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings | 4 | 4 |  |

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| | subsequent claims of abuse. We have requested an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system. | | from the file read. | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.14.03 | Foster Care and Residential Care File Review | Q4 23/24: Foster care enquiry completed. Q3 23/24: Inquiry has heard all the evidence for the Sect 21. | Childrens Services Management Team; Chief *Social Work Officer; Chief Officer Young People and Partnerships | 31-Mar-2024 |  | 100% |

SRP.RR.16 Growing Council


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.16 | <p>Risk cause Population growth in Midlothian over the next 10 to 15 years will see Midlothian become the fastest growing Council in Scotland. Between 2014 and 2039, ages 0-15yrs, population is projected to increase by 20% and for ages 75+ population projected to increase by 100%.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect Inadequate capacity within the</p> | Head of *Adult and Social Care; Chief *Executive; Executive Director *Place; Fiona *Robertson; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Plan Prioritisation 6. Strategic Housing Investment Strategy 7. Rent Review Strategy 8. Joint needs assessment used to develop - IJB Strategic Plan 9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 10. City Deal provides the opportunity to support inclusive growth. | 4 | 4 |  |

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| | 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. | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.02.06 | Capital Plan prioritisation | Q2 24/25: Work continues on Capital Plan prioritisation. Q1 24/25: Work continues on Capital Plan prioritisation. Q4 23/24: Work continues on Capital Plan prioritisation. Q3 23/24: Work continues on Capital Plan prioritisation. | Head of *Development; Executive Director *Place; Chief Finance Officer; | 31-Oct-2024 |  | 75% |

SRP.RR.17 UK Decision to leave the EU

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.RR.17 | Risk cause UK vote to leave the European Union Risk event UK leaving the European Union Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief | 1. Risk and Resilience Group 2. Taking a risk management approach to identifying and assessing anticipated impacts 3. Working with a range of national and local bodies to inform preparatory arrangements. 4. EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme. | 4 | 5 |  |




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| | 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. | Finance Officer; Chief Officer Young People and Partnerships | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.17.01 | Refresh of Economic Strategy | Q2 24/25: Member Briefing delivered on Midlothian Strategy for Inclusive Economic Growth, with report prepared for Council in November. Q1 24/25: Member Briefing scheduled for 3rd October 2024. Q3 23/24: Draft Economic Strategy prepared; to be presented to Council in Q1 24/25. | Chief Officer *Place; | 30-Jun-2024 |  | 60% |

SRP.RR.19 Health & Safety

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.RR.19 | Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations. Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive | 1. Health Safety and Wellbeing Strategy & Service Plan 2. Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 3. Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4. Use of Health & Safety Management Information System (SPHERA) to enhance information transfer and organisational efficiency 5. Comprehensive training programme in place to support those with responsibility for managing health and safety. 6. Use of comprehensive audit programme to confirm the application of | 3 | 5 |  |


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| | <p>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>Risk effect Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. 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.</p> | <p>Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships</p> | agreed management Arrangements and Council Policy. | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| NEW | Health, Safety & Resilience Service Review | <p>Q2 24/25: Service Review progressing and developing.</p> <p>Q1 24/25: The Health, Safety & Resilience Service review is progressing and has identified staffing shortages to meet obligations. The report will be submitted in Q2 for consideration.</p> <p>Q4 23/24: Service review in progress.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31/07/2024 |  | 100% |
| SRP.RA.19.01 | Delivery of Health, Safety and Wellbeing Service Plan | <p>Q2 24/25: Awaiting outcome of service review before reviewing service plan.</p> <p>Q1 24/25: Implementation of the Protective Services Health, Safety & Resilience Service Plan continues. The plan will be reviewed at conclusion of the service review.</p> <p>Q3 23/23: Implementation of the Protective Services Health, Safety & Resilience Service Plan continues.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Mar-2025 |  | 50% |
| SRP.RA.19.07 | H&S audit across all Council estate | Q2 25/25: As Q1 24/25. | Chief Officer *Place; Senior | 31-Mar-2025 |  | 33% |

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| | | <p>Q1 24/25: Fire Risk Assessments/Audits progressing. A number of Zurich Insurance audits have also taken place.</p> <p>Q4 23/24: Fire Risk Assessments/Audits are currently priority.</p> <p>Q3 23/24: Work on audit report continues. Change to SFRS response incorporated into Fire Action Plans and Management Arrangements.</p> | Manager Protective Services; David Robertson | | | |
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SRP.RR.21 Cyber Security


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.21 | <p>Risk Cause Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices.</p> <p>Risk Event The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p>Risk Effect Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p> | Head of *Adult and Social Care; Cyber Security Information Governance and *Compliance Manager; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Having adequate skills and knowledge in the organisation 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme | 3 | 5 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status |
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| SRP.RA | Appropriate Technical and Organisational | Q1 24/25 - Action/mitigation includes: - | Cyber Security | 31-Mar-2025 |  75% |



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| .21.1 | Measures | <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Achieved PSN Certification from the Cabinet Office 3. Organised and facilitated a leadership forum exercise on cyber resilience 4. Successfully responded to 15 significant cyber security events 5. Provided significant Information Governance and Security advice for the continued deployment of M365 and Google Workspace <p>Q4 23/24: Ongoing review of cyber incident response plans. Information Governance and Security processes for M365 deployment ongoing and a number of milestones achieved to progress further rollout of applications within M365 environment. Leadership Forum tabletop session scheduled June 2024.</p> <p>Q3 23/24: Action/mitigation includes: -</p> <ol style="list-style-type: none"> 1. Updated cyber incident response plans. 2. Cyber security presentations to Elected Members and Place directorate. 3. Conducted phishing exercises. 4. Successfully responded to 13 cyber security events. <p>Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace</p> <p>Q1 23/24: Action/mitigation includes:-</p> <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Preparations completed for Q2 2023/2024 PSN Certification, including submission to Cabinet Office. 3. Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace 4. Responded to numerous threat alerts to ensure the security of the Council's network 5. Engaged with Cyber Incident Response company to review the Council's Cyber Incident response capability in Q2 | Information Governance and *Compliance Manager; Chief *Digital Officer; | | | |
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SRP.RR.22 Cost of Living Crisis

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.22 | Risk cause The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40-year high inflation | Chief *Executive; Director *Health and Social Care; Executive | <ol style="list-style-type: none"> 1. Council Cost of Living Task Force to oversee the Council's response to the crisis 2. Allocation of LACER funding to support those most affected 3. Strategic Evaluation Partner appointed to create poverty profile | 3 | 5 |  |

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| <p>rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.</p> <p>Risk event Rapid ongoing rise of energy prices as well as food and drink prices.</p> <p>Risk effect The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (<u>Office for National Statistics; Francis-Devine et al, 2022</u>). 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> | Director *Place | <p>4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health</p> <p>5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships)</p> <p>6. Child Poverty self-evaluation underway with Improvement Service</p> | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.22.1 | Cost of Living Task Force | Q1 23/24: Meetings continuing. | Chief *Executive; | 31-Mar-2024 |  | 100% |
| SRP.RA.22.2 | LACER funding | Q2 22/23: Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish reheatable food initiatives. | Lifelong Learning and Employability; | 31-Mar-2023 |  | 100% |

Strategic Opportunities

SRP.OP.08 Capital Projects - Housing

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.08 | 26% reduction in Affordable Housing Supply Programme grant to Midlothian and continued high build costs will affect ability to deliver housing programme. Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Head of Development | <p>1. Newbyres, Gorebridge: Timeline impacted with potential ground conditions and delay with peer review process. This has since been addressed and now on site.</p> <p>2. Edmonstone Road, Shawfair – Timeline, Budget and Risk impacted with Stewart Milne entering administration. Developer now in process of being appointed to take this forward.</p> <p>3. Newton Church Road, Danderhall – Timeline impacted with delays to tender process as contractors requested extensions and in delivering tender report. Tender report now approved and works to start before end of 2024.</p> <p>Phase 5 housing programme has been reviewed to ensure affordability within the Housing Revenue Account, allowing for reduced levels of grant.</p> | R | G | G | G |
| | | | | R | A | A | G |
| | | | | R | A | A | G |
| | | | | | | | |

SRP.OP.09 Capital Projects – Transport, Net Zero & Infrastructure

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.09 | Cost of delivering enabling infrastructure projects has risen, resulting in significant funding gap emerging. Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Head of Development | <p>1. A701 Relief Road</p> <p>2. A701 Sustainable Transport Corridor</p> <p>3. A701 Straiton Junction Improvements</p> <p>For all highlighted projects, estimated cost significantly exceeds budget available to deliver project.</p> <p>For all highlighted projects, addressing requirement for investment in A701 corridor in phases with prioritisation applied. Bush Loan Junction progressing ahead of remaining programme fully funded by ESESCRD funding.</p> | A | R | R | G |
| | | | | A | R | R | G |
| | | | | A | R | R | G |
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SRP.OP.10 Capital Projects – Children, Young People & Partnerships Estates Programme: Primary

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.10 | Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Executive Director CYPP; Head of Development | <ol style="list-style-type: none"> Mayfield/St Lukes PS New Build: Tender return from Stage 1 exceeds available budget. Programme delayed for project revision. Existing school remains safe while operational. Mauricewood PS Extension & Refurbishment: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. Bilston PS Extension: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. Relocation of Mount Esk Nursery / Hawthorden Extension: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. | R | R | R | A |
| | | | | R | A | A | A |
| | | | | R | A | A | A |
| | | | | A | A | A | A |
| | | | | | | | |

SRP.OP.09 Capital Projects – Children, Young People & Partnerships Estates Programme: Secondary

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.09 | Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Executive Director CYPP; Head of Development | <ol style="list-style-type: none"> Beeslack HS Replacement: Site acquisition being progressed, however dependent on planning being achieved (expected Dec 24). Contractor appointment delayed. Programme behind due to changes in scope / design. Shawfair All Through: Site acquisition complete. School location fixed with design team. Remediation programme being revised. School target date of 2027 likely to be missed. Outcome of design process to determine cost of project and budget position. Design outcome to be to adhere to available budget. Smaller school will reduce build programme. Seeking to make efficiencies in remediation programme. Penicuik HS New Build: LEIP target for delivery is Dec 2026, | A | A | A | G |
| | | | | R | A | A | A |
| | | | | A | A | A | G |

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| | | | however programme for occupation is July 2027. Cost reports tracking higher and risks identified in refurbishment works. Removing requirement for modular units and minimising enabling works will assist minimising impact on GSCP. Design review can bring project into budget. SFT advising if additional LEIP funding available to address abnormal costs. | |
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SRP.OP.09 Capital Projects – Regeneration

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.10 | Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Head of Development | <ol style="list-style-type: none"> Vogrie Changing Places: issues with contractor. Destination Hillend: Alpine Coaster delivered with access and parking infrastructure. Project absorbed risk and contingency. Delays to delivery resulting from issues with access / water mains. Main Building tender return exceeded budget. Next Phase to be recast. Interim works on water supply and drainage required. Hopefield Industrial Estate: Updated financial model required. Extension to Waste Transfer Shed – Stobhill Depot Dalkeith Asset Rationalisation Programme: Budget now approved by Council. Appointments/procurement strategy being updated and stakeholder consultation to commence. | R | A | R | A |
| | | | | R | R | R | A |
| | | | | R | A | A | G |
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SRP.OP.04 City Deal

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.O P.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. | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer | <ol style="list-style-type: none"> City Deal signed in August 2018. Maintain strong Midlothian involvement through the City Deal governance structure. Midlothian City Deal Key Officer (Internal) Group. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases. | 4 | 5 |  |

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| | | *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; 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.O P.04.02 | Realisation of outcomes of respective workstreams | Q1 24/25: Work continues on the relevant programmes. | Executive Director *Place | 31-Mar-2025 |  | 10% |

STRATEGIC RISK PROFILE, Q3 October-December 2024



SRP STRATEGIC RISK PROFILE

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| SRP | This risk register captures the main strategic issues, risks and opportunities that are corporate in nature. It identifies the nature of the risks, measures required to control the risks and their evaluation. It also details what further actions are required to reduce the likelihood and impacts of those risks to more acceptable and manageable levels with timescales. |
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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>Risk cause The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p>Risk event Delayed progress or non-achievement of outcomes and benefits.</p> <p>Risk effect Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <p>1. Transformation Blueprint agreed at Council June 2023 which is a 5-year transformation plan. Revised governance for transformation agreed and revised Terms of Reference in place for the Business Transformation Board to oversee progress on change programme.</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 are given updates on the progress of the Transformation programme. 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 | |




STRATEGIC RISK PROFILE, Q3 Oct-Dec 2024 v1.0

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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SPR.R A-02.08 | Transformation Blueprint 2023-28 delivery | <p>Q3 24/25: As Q2 24/25.</p> <p>Q2 24/25: Progress with sprints is reported to BTB at every meeting via the dashboard and also in detailed reports at some points. BTSG are provided with an updated dashboard every cycle and receive focused reports on individual sprints and also funding requests to release BT funds to support project work.</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Officer *Place; Chief Officer Corporate Solutions; Chief Finance Officer; | 30-Jun-2028 |  | 20% |
| SRP.R A.02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q3 24/25: An update on the MTFS was presented to Council in December along with outcomes from the public consultation. Detailed analysis of emerging national budget positions for 2025/26 was presented and discussed at the Business Transformation Group.</p> <p>Q2 24/25: Further update on the MTFS was presented to Council in October and a public consultation was launched on 9th October running to 20th November.</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |

SRP.IR.07 Financial Sustainability

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.IR.07 | <p>Risk cause Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's.</p> <p>Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Risk event Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps.</p> <p>Risk effect Inadequate government funding makes securing balanced budgets challenging. This in 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> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <ol style="list-style-type: none"> 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. 2. There is an approved budget for 2024/25. Services are delivered within the totality of that budget. 3. Enhanced monitoring arrangements have been agreed for service areas that are regularly showing overspends. 4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services. 5. Strategic Boards in place and BTB focus and attention on driving transformation to support future year's financial sustainability. 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach. 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. 10. Report to Council February 2024 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. Updated MTFS projections presented in June 2024 with a further update due in February 2025. 11. 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. | 5 | 5 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SPR.R A-02.09 | Transformation Blueprint 2023 to 2028 | <p>Q3 24/25: Refer to SRP.RA-02.08</p> <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2024 |  | 20% |
| SRP.R A.02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q3 24/25: Refer to SPR.RA-02.03</p> <p>Q2 24/25: Refer to SPR.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |
| SRP.R A-02.10 | Capital Plan Prioritisation | <p>Q3 24/25: Work continues on Capital Plan Prioritisation</p> <p>Q2 24/25: Work continues on Capital Plan prioritisation</p> <p>Q1 24/25: Work continues on Capital Plan prioritisation</p> <p>Q4 23/24: Work continues on Capital Plan prioritisation</p> <p>Q3 23/24: Work continues on Capital Plan prioritisation</p> | Chief Finance Officer; Executive Director – Place; Executive Director - Education | 31-Oct-2024 |  | 0% |

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.IR.11 | <p>Risk cause In August 2022 the Scottish Government launched a 12-week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS.</p> <p>Risk event A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.</p> <p>Risk effect The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be.</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> | Head of *Adult and Social Care; Chief *Executive; Director *Health and Social Care; Executive Director *Place; Chief Officer Young People and Partnerships | <p>As of 14 November 2024, a pause has been placed on the delivery of NCS legislation by the Scottish Government.</p> <p>NOTE: As of Jan 2025, the National Care Service proposal is now not proceeding.</p> | N/A | N/A | N/A |



| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.11.1 | Officer Working Group | <p>Q3 24/25: Scottish Government announced in January 2025 that they will not be proceeding with the National Care Service.</p> <p>Q2 24/25: As of 14 November 2024, the Scottish Government has paused legislation on the creation of a NCS.</p> <p>Q1 24/25: The Bill is at Stage 2</p> <p>Q4 23/24: The Bill is at Stage 2.</p> <p>Q3 23/24: Further information now expected late March 2024.</p> | Chief *Executive; | 31-Dec-2024 |  | 100% |


Strategic Risks

SRP.RR.01 Financial Sustainability in Future Years


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.01 | <p>Risk cause: Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's.</p> <p>Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service.</p> | <p>Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer</p> | <p>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.</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 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> | 5 | 5 |  |

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| | <p>Future year pay award settlements.</p> <p>Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Risk to not achieving financial sustainability is a failure to deliver cost reductions / service change embedded in the blueprint and also supplementing the blueprint.</p> | Young People and Partnerships | 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). | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q3 24/25: Refer to SRP.RA-02.03</p> <p>Q2 24/25: Refer to SRP.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |
| SRP.RA.02.04 | Transformation Blueprint 2023 to 2028 | <p>Q3 24/25: Refer to SRP.RA-02.08</p> <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |



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| | | <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | | | | |
| SRP.RA.02.06 | Capital Plan prioritisation | <p>Q3 24/25: Work continues on Capital Plan Prioritisation</p> <p>Q2 24/25: Work continues on Capital Plan prioritisation</p> <p>Q1 24/25: Work continues on Capital Plan prioritisation</p> <p>Q4 23/24: Work continues on Capital Plan prioritisation.</p> <p>Q3 23/24: Work continues on Capital Plan prioritisation.</p> | Head of *Development; Executive Director *Place; Chief Finance Officer; | 31-Oct-2024 |  | 0% |

SRP.RR.02 The Long-Term Change Programme

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.02 | <p>Risk cause: A MTFS that does not 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</p> <p>Risk event: Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 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 specific risk for NCS Bill). 7. High level priority is given to blueprint work. | 5 | 5 |  |


STRATEGIC RISK PROFILE, Q3 Oct-Dec 2024 v1.0



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| | <p>Slow benefits realisation and budget savings. Cuts in service provision rather than service transformation</p> <p>Risk effect: Objectives of change not actually met or progress too slow. 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</p> | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.02.03 | Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability. | <p>Q3 24/25: Refer to SPR.RA-02.03</p> <p>Q2 24/25: Refer to SPR.RA-02.03</p> <p>Q1 24/25: An update on the MTFS was presented to Council in June 2024. This identifies immediate actions required, in addition to those in the Transformation Blueprint, to bridge the gap between recurring expenditure and recurring income and to allow the setting of a balanced budget for 2025/26.</p> <p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p> | Chief *Executive; Chief Finance Officer; | 30-June-2024 |  | 100% |
| SRP.R A.02.04 | Transformation Blueprint 2023 to 2028 | <p>Q3 24/25: Refer to SRP.RA-02.08</p> <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |

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| | | Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated. | | | | |
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SRP.RR.03 Legal and Regulatory Compliance

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.03 | <p>Risk cause Current or new legislation applying to Midlothian Council. Lack of capacity to resource statutory obligations around GDPR, data protection, records management, information requests and statutory regulatory functions.</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p> | Head of *Adult and Social Care; Legal *and Governance Manager; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 1. Executive Directors, Chief Officer(s) and Head(s) of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk-based audit plan. 4. External Audit. 5. Range of external inspection. 6. BTSG oversight of new legislation 7. Central repository of applicable legislation. | 5 | 5 |  |


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.03.02 | Rights of the Child Bill | <p>Q4 23/24: Q4 Council wide group established and developing a plan that ensures we are all aware and adhering to UNCRC.</p> <p>Q3 23/24: Bill now adopted. Policy to be presented to Council May/June 2024.</p> | Executive Director – People | 31-Dec-2024 |  | 0% |
| SRP.R A.03.03 | National Care Service | Q3 24/25: Scottish Government announced in January 2025 that they will not be proceeding with the National Care Service. | Chief *Executive; | 31-Dec-2024 |  | 0% |

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| | | <p>Q2 24/25: As of 14 November 2024, the Scottish Government has paused legislation on the creation of a NCS.</p> <p>Q1 24/25: The Bill is at Stage 2.</p> <p>Q4 23/24: Q4 National Care Service is at stage 2 and we await decisions around what next.</p> <p>Q3 23/24: National Care Service Bill has been delayed for any further decision until the 1st March 2024.</p> | | | | |
| SRP.R A.03.05 | Review of Standing Orders, Scheme of Administration and Scheme of Delegation | <p>Q4 23/24: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024 (this is technically Q1 2024/25 update).</p> | Legal & Governance Manager; Executive Director *Place; Chief Officer Corporate Solutions; | 31-Dec-2024 |  | 40% |
| SRP.R A.03.07 | Review of policy and creation of a policy register | <p>Q4 23/24: work to develop policy register ongoing.</p> <p>Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed.</p> | Chief Officer Corporate Solutions | 31-Dec-2024 |  | 10% |
| NEW | Compliance with statutory duties | <p>Q1 24/25: Records Management Officer in post and reviewing the Records Management Plan, Corporate Retention Policy and Schedule and supporting the development of retention framework for M365 rollout.</p> <p>Q4 23/24: Work is ongoing with the Scottish Information Commissioner and National Records of Scotland to develop and deliver improvement plans. Ongoing recruitment for Records Manager. Rationale report for resourcing in development. Significant resourcing pressures contribute to the increase in scoring for Q4.</p> | Chief Officer Corporate Solutions, Legal and Governance Manager | 31-Dec-2024 |  | 10% |


SRP.RR.04 Employee performance

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.04 | <p>Risk cause Employees not suitably trained/developed for the roles required of them. Limited availability of qualified practitioners in certain sectors. Change program not informed by all key stakeholders. Ageing work force. Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice. Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance. Salaries in some functional areas lower compared to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff.</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation. Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce. Unacceptable behaviours demonstrated by employees. Stated organisational culture not consistently reinforced by managers. Poor employee performance will stifle transformational change.</p> <p>Risk effect Difficulties recruiting the right staff. Challenges retaining quality staff. Low skill levels. Low morale, especially during change. High absence rates, loss of experience in service areas.</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; HR Strategic Lead; Chief Officer Young People and Partnerships | <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>Attendance / Wellbeing 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers.</p> <p>Performance 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g., turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>Conduct 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme.</p> <p>Communication 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p> | 3 | 4 |  |


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| | '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. | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.02.04 | Development and Delivery of the Council's Workforce Strategy 2024-29 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting. | <p>Q1 24/25: Workforce Strategy in development and expected to be presented to December Council with Action Plan for approval. Audit Scotland external audit on workforce and digital to be presented to Audit Committee September 2024.</p> <p>Q4 23/24: Ongoing work nationally to review workforce planning which Midlothian is contributing to. Best Value focus this year is on workforce planning – awaiting outcome of external audit to identify improvement plan for 24/25.</p> <p>Q3 23/24: Service plans were presented to June 2023 council. Supporting workforce plans are due to be fully in place for June 2024. The workforce planning process, guidance and documentation has been developed and approved for use by managers across the council. The HR team is available to support managers who wish help and guidance in the development of these workforce plans.</p> | Chief Officer Corporate Solutions | 31 Dec 2024 |  | 25% |


SRP.RR.07 Care at Home

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.RR.07 | <p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Risk event</p> | Head of *Adult and Social Care; Director *Health and Social Care | <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 in place</p> <p>4. External provider audits complete</p> | 3 | 4 |  |



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| | Capacity of Community Support outstripped by demand. Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled. | | 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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| SRP.R A.07.01 | Independent review of adult and social care | Q3 24/25: Scottish Government announced in January 2025 that they will not be proceeding with the National Care Service. Q2 24/25: The Scottish Government has initiated a pause on the development of the NCS. Q1 23/24: Pause remains in place. | Head of *Adult and Social Care; Chief *Executive; | 31-Jan-2024 |  | 100% |

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.R R.08 | Risk cause Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g., roads - normal wear and tear, streetlights and vehicles & buildings used to deliver services. Risk event | Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health 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 | 3 | 5 |  |


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| | <p>Many assets will deteriorate under normal conditions although buildings, roads and streetlights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p> | <p>Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>. Digital Service hardware 6. Capital programme - 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</p> | | | |
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| SRP.R A.08.02 | Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset. | <p>Q3 24/25: Condition Surveys of Learning Estate (excl PPP) has concluded. Q4 presentation to Elected Members. Backlog repairs continue.</p> <p>Q1 24/25: Condition Surveys continue, with Learning Estate (excl PPP) expected to be concluded by end December 2024 to inform capital investment proposal.</p> <p>Q4 23/24: Backlog maintenance repairs being undertaken across the estate on a prioritised basis.</p> <p>Q3 23/24: Surveyors have now completed the first phase of surveys that were due to have been completed by March 2024. A further phase will begin in April and run through until April 2025.</p> | Chief Officer *Place; | 30-Apr-2025 |  | 33% |
| SRP.R A.08.05 | Learning Estate Strategy | Q4 23/24: All Priority 1 and 2 projects are progressing. In terms of all of the capacity breaches that were detailed in Priority 2 of the LES, investment was made to provide a solution. | Head of *Development; | 30-Apr-2025 |  | 50% |


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| | | <p>Q3 23/24: All Priority 1 projects as detailed in the Learning Estate Strategy have been approved by Council in June 2023, this includes Beeslack HS replacement and Penicuik HS refurbishment & extension. A number of Projects in the priority 2 tranche have been progressed to ensure schools do not experience capacity breaches.</p> <p>Q3 24/25 Learning Estate Strategy Update paper due to go February Council, this includes a progress report on status of all approved and 'approved in principle' projects. Edge analytics have also completed their validation of the School Roll Projections.</p> | | | | |
| SRP.R A.08.06 | Asset Management systems | <p>Q4 23/24: As Q3.</p> <p>Q3 23/24: Identified for implementation through Transformation Blueprint and The Change Programme.</p> | Chief Officer *Place; | 31-Mar-2025 |  | 0% |

SRP.RR.09 Emergency Planning and Business Continuity Management


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.09 | <p>Risk cause The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g., Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g., secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p> | Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships | <p>1. 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.</p> <p>2. Establishment based incident response plans in place and maintained locally.</p> <p>3. Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>4. 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: Afghan, Ukrainian and UASC support programmes</p> | 3 | 4 |  |



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| SRP.R A.09.02 | Development of Emergency Plans | <p>Q3 24/25: The service review for the Health, Safety and Resilience Team Service, which includes Contingency Planning, has not yet concluded. This means ongoing challenges continue, preventing notable progress.</p> <p>Plans and Procedures updated this quarter:</p> <ul style="list-style-type: none"> • Midlothian Council Severe Weather Plan • Emergency Contacts Directory (reflecting staff changes) • Support to the Executive PA Place with the Festive Period Service Arrangements document. <p>Plan updates/procedures in progress:</p> <ul style="list-style-type: none"> • Midlothian Council Emergency Plan (generic). This document outlines internal emergency management arrangements and multi-agency partnership relationships. • Operation UNICORN (and associated arrangements). Scottish Government have advised that national planning arrangements are underway and where relevant to Midlothian, will be incorporated in the Midlothian Council guidance document. • Corporate Business Continuity (BC) Plan has been drafted. <p>Multi-agency Exercises, Training, Presentations, Work streams:</p> <ul style="list-style-type: none"> • Participated in a Cyber Security training exercise organised by Digital Services in liaison with an external partner. This is a further example of collaborative working with Digital Services in order to improve Business Continuity Planning across the organisation. • Supporting School Business Managers in the development of their School Incident Plans, in collaboration with Police Scotland colleagues. <p>Q2 24/25: Service review for the Health, Safety and Resilience Team Service, which includes Contingency Planning, is still in progress.</p> <p>Plans/plan updates include:</p> <ul style="list-style-type: none"> • Midlothian Pipelines Emergency Plan (required under the Pipelines Safety Regulations 1996). • Emergency Contacts Directory (reflecting staff changes) • Provision of Business Continuity guidance notes to service managers. <p>Plan updates/procedures in progress:</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Mar-2025 |  | 75% |

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| | | <ul style="list-style-type: none"> • Midlothian Council Emergency Plan (generic). This document outlines internal emergency management arrangements and multi-agency partnership relationships. • Operation UNICORN (and associated arrangements). Scottish Government have advised that national planning arrangements are underway, and we will tie in with those. Meantime, we have the basics in place, based on previous experience. • Corporate Business Continuity (BC) Plan. An update to the Corporate Business Continuity Policy was provided to Corporate Management Team members in Q4 23/24. However, learning from a Cyber Security event facilitated by Scottish Government in June 2024 and September 2024 and the experiences of other organisations will be incorporated into an expanded document, which will also link in with the work being done by Digital Services on the technical response to a cyber-attack. • Draft action plan in relation to the revised Prevent Duty Guidance to measure our compliance. (In support of the Prevent SPOC.) • Support to the Executive PA Place with the Festive Period Service Arrangements document. <p>Multi-agency Exercises, Training, Presentations, Work streams:</p> <ul style="list-style-type: none"> • Debrief for the multi-agency Exercise Puma (Torness related exercise) held in June 2024. • Supporting School Business Managers in the development of their School Incident Plans, in collaboration with Police Scotland colleagues. • Familiarisation training exercise using Airwave handsets (held by Police Scotland for partner use in emergencies). These short sessions are organised by the Scottish resilience community on a regular basis throughout the year. • A number of national presentations relating to Prevent (extremism) <p>Q1 24/25: Exercise (simulated cyber attack) took place at the Leadership Forum June 2024 with the session facilitated by Scottish Government and LRP Colleagues. The session was designed to remind services managers of the importance of having , maintaining and exercising their Business Continuity Planning arrangements.</p> <p>Plans/plan updates include:</p> <ul style="list-style-type: none"> • Midlothian Council generic Emergency Plan. This document outlines internal emergency management arrangements and multi-agency partnership relationships. • Operation UNICORN (and associated arrangements). Scottish Government have advised that national planning arrangements are | | | | |
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| | | <p>underway. Meantime, we have the basics in place, based on previous experience.</p> <ul style="list-style-type: none"> Corporate Business Continuity (BC) Plan. An update to the Corporate Business Continuity Policy was provided to Corporate Management Team members in Q4 23/24. However, learning from a Cyber Security event facilitated by Scottish Government in June 2024 and the experiences of other organisations will now be incorporated into an expanded document, which will also link in with the work being done by Digital Services on the technical response to a cyber attack. <p>Multi-agency Exercises, Training, Presentations, Work streams: Team Members also participated in the following where appropriate to their areas of work, invitations were extended to colleagues in other services and partners:</p> <ul style="list-style-type: none"> Planning for and participation in a Torness related exercise in June 2024. Lothian and Borders Local Resilience Partnership non-routine inputs including Met Office Extreme Heat Awareness <p>Q4 23/24: Work on flooding across the county and its risks has commenced, with a report to Council scheduled for post-recess. CMT desktop exercise undertaken.</p> <p>Q3 23/24: A service review of the Health, Safety & Resilience team has commenced.</p> | | | | |
| SRP.R A.09.03 | Business Continuity Software System | <p>Q3 24/25: System requires resource to roll out across the organisation. Resource identified, with progress expected through Q1/Q2 25/26. Practical demonstration of Business Continuity tested in recent storm event (Jan 25).</p> <p>Q1 24/25: The Health, Safety & Resilience Service review is progressing and has identified staffing shortages to meet obligations.</p> <p>Q4 23/24: Report in early draft, to be completed once Health, Safety & Resilience service review completed (SRPO.RA.09.02). BCPs in the event of power outage to be incorporated.</p> <p>Q3 23/24: System review/upgrade has been considered and it is planned to present a report to CMT in Q4.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Dec-2024 |  | 25% |



SRP.RR.10 Governance and Standards in Public Life

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.10 | <p>Risk cause Code of conduct for Members and employees' actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p> <p>Risk effect Service, partnerships and project outcomes not achieved. Non-compliance with conduct standards and reduction in standards in public life.</p> | Legal *and Governance Manager; Chief *Executive; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions | 01 Annual Assurance Statement. 02 Standing Orders 03 Scheme of Administration 04 Scheme of Delegation 05 Elected Member Code of Conduct 06 Induction programme for new members and ongoing learning and development programme 07 Employee Code of Conduct | 2 | 4 |  |


| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.03.05 | Review of Standing Orders, Scheme of Administration and Scheme of Delegation | <p>Q1 24/25: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024.</p> <p>Q3 23/24: Workplan being developed by officer working group and will be presented to SOWG in March 2024 for approval.</p> | Legal *and Governance Manager; Chief Officer Corporate Solutions; | 31-Dec-2024 |  | 20% |
| SRP.RA.10.03 | Review of the employee onboarding and induction programme | Q3 2023/24: CMT agreed to a refresh of the staff induction programme which include a compliance section. It is anticipated that the new programme will be fully completed by end Dec 2024, with a phasing of improvement actions being delivered throughout 2024. | HR Strategic Lead | 31-Dec-2024 |  | 5% |

SRP.RR.11 Corporate Policies and Strategies


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.11 | <p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date. Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect Policies not monitored could result in non-compliance with legislation Policies not aligned to strategic priorities will inhibit rather than support implementation of strategic priorities.</p> | <p>Head of *Adult and Social Care; Chief Operating Officer</p> <p>*Education; Chief *Executive; Director *Health and Social Care; Chief Officer</p> <p>*Place; Executive Director *Place; Chief Officer</p> <p>Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p> | <p>1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government. 5. Capital Strategy 6. Integrated Joint Board (IJB) Plan 7. IJB Strategic needs assessment 8. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.</p> | 2 | 3 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA .02.04 | Transformation Blueprint 2023 to 2028 | <p>Q3 24/25: Refer to SRP.RA-02.08</p> <p>Q2 24/25: Refer to SRP.RA-02.08</p> <p>Q1 24/25: As Q4 23/24.</p> <p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p> | Chief *Executive; Chief Finance Officer; | 30-Jun-2028 |  | 20% |
| SRP.RA .03.07 | Review of policy and creation of a policy register | <p>Q4 23/24: work to develop policy register ongoing.</p> <p>Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an</p> | Chief Officer Corporate Solutions | 31-Dec-2024 |  | 10% |


STRATEGIC RISK PROFILE, Q3 Oct-Dec 2024 v1.0

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| | | action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed. | | | | |
| SRP.RA.11.05 | Antisocial Behaviour Policy | <p>Q1 24/25: Member Briefing on Housing and Antisocial Behaviour to be prepared and presented during Q2, with report to Council to follow.</p> <p>Q4 23/24: Midlothian Community Action Team SLA 2024-25 contains tackling ASB as a strategic objective.</p> | Chief Officer *Place; | 31-Dec-2024 |  | 0% |


SRP.RR.12 Internal Control Environment

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.12 | <p>Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information.</p> <p>Risk event Persons exploiting opportunities to commit fraud. Waste and errors Changing risk landscape associated with remote working solutions.</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance.</p> | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | <p>1. Services have been prompted to consider fraud and waste within Service Risk Registers.</p> <p>2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls.</p> <p>3. Internal Audit examine internal control arrangements based largely on the risk registers.</p> <p>4. Corporate Fraud team in place who assist managers to undertake fraud risk assessments in their areas (focused on priority areas) and provide advice and guidance on fraud related matters. Active participation in the National Fraud Initiative to investigate matches.</p> <p>5. Whistleblowing Policy and Counter Fraud Policy in place (subject to review) with whistleblowing channels available to report concerns (anonymously if required).</p> <p>6. Internal and external assurance. Annual Governance Statement which involves obtaining assurance from Management over controls in their Service.</p> <p>7. E-learning for staff to complete mandatory training for fraud awareness.</p> <p>8. Regular updates to Audit committee on progress with recommendations made by Internal Audit.</p> <p>9. Remind staff to declare secondary employment/outside interests and gifts & hospitality</p> <p>10. Induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation.</p> <p>11. The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime),</p> | 2 | 3 |  |

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| | | | 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. | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.12.04 | Review of Serious Organised Crime (SOC) group | <p>Q3 24/25: Draft Strategy devised. Regulatory safeguards/actions progressing through Licensing.</p> <p>Q1 24/25: Initial meeting with Police is planned to discuss strategy.</p> <p>Q4 23/24: Chief Officer Place on national SOC working groups and utilising forums to inform strategy.</p> <p>Q3 23/24: Work underway to refresh SOC Strategy, working with Police Scotland and neighbouring authorities. Draft report expected Q4.</p> | Chief Officer *Place; Health, Safety & Resilience Manager | 31-Mar-2025 |  | 50% |

SRP.RR.13 Climate Change


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


STRATEGIC RISK PROFILE, Q3 Oct-Dec 2024 v1.0

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| | | Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | | | | |
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| SRP.RA .13.04 | Delivery of the BTB Board Carbon Neutral by 2030 | <p>Q3 24/25: Council approved realignment of Net Zero target from 2030 to 2045.</p> <p>Q2 24/25: Member Briefing delivered.</p> <p>Q1 24/25: Member Briefing on Climate Action Plan being prepared for presentation in Q2/3.</p> <p>Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25.</p> | Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place; | 31-Mar-2030 |  | 0% |
| SRP.RA .13.05 | Development of the Strategic Plan 2023-27 | <p>Q3 24/25: Council approved realignment of Net Zero target from 2030 to 2045. Climate Action Strategy refresh to follow.</p> <p>Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25.</p> <p>Q4 22/23: Carbon Neutral by 2030 is a strategic priority.</p> | Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place; | 31-Mar-2025 |  | 90% |

SRP.RR.14.1 Scottish Child Abuse Inquiry


| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.14.1 | <p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential that 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>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have requested an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.</p> | Chief *Executive; Chief *Social Work Officer | <p>The Council initially set up an Inquiry Project Team, however this is no longer required as we have an experienced worker overseeing all requests for the Scottish Child Abuse Inquiry Team.</p> <p>Work is ongoing and we have the additional tasks of supporting and responding to enquiries from the redress team.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SARs in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. <p>The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings from the file read.</p> | 4 | 4 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.14.03 | Foster Care and Residential Care File Review | <p>Q3 24/25: Phase 10 is now in progress with investigation of residential care homes run by local authorities. We will comply with all s21 requests.</p> <p>Q4 23/24: Foster care enquiry completed.</p> <p>Q3 23/24: Inquiry has heard all the evidence for the Sect 21.</p> | Childrens Services Management Team; Chief *Social Work Officer; Chief Officer Young People and Partnerships | 31-Mar-2024 |  | 100% |


SRP.RR.16 Growing Council

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.R R.16 | <p>Risk cause Population growth in Midlothian over the next 10 to 15 years will see Midlothian become the fastest growing Council in Scotland. Between 2014 and 2039, ages 0-15yrs, population is projected to increase by 20% and for ages 75+ population projected to increase by 100%.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect 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</p> | Head of *Adult and Social Care; Chief *Executive; Executive Director *Place; Fiona *Robertson; Chief Officer Young People and Partnerships | <ol style="list-style-type: none"> 1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Plan Prioritisation 6. Strategic Housing Investment Strategy 7. Rent Review Strategy 8. Joint needs assessment used to develop - IJB Strategic Plan 9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 10. City Deal provides the opportunity to support inclusive growth. | 4 | 4 |  |

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| | infrastructure including GP services. Increased pressure on infrastructure, services e.g., waste collection and growth of road network as new development roads are adopted. | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.RA.02.06 | Capital Plan prioritisation | Q3 24/25: Work continues on Capital Plan prioritisation. Q2 24/25: Work continues on Capital Plan prioritisation. Q1 24/25: Work continues on Capital Plan prioritisation. Q4 23/24: Work continues on Capital Plan prioritisation. Q3 23/24: Work continues on Capital Plan prioritisation. | Head of *Development; Executive Director *Place; Chief Finance Officer; | 31-Oct-2024 |  | 75% |

SRP.RR.17 UK Decision to leave the EU

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.RR.17 | Risk cause UK vote to leave the European Union Risk event UK leaving the European Union Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; | 1. Risk and Resilience Group 2. Taking a risk management approach to identifying and assessing anticipated impacts 3. Working with a range of national and local bodies to inform preparatory arrangements. 4. EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme. | 4 | 5 |  |

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| | 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. | Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | | | | |
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| SRP.R A.17.01 | Refresh of Economic Strategy | <p>Q3 24/25: Council approved new Midlothian Strategy for Inclusive Economic Growth 2025-2030.</p> <p>Q2 24/25: Member Briefing delivered on Midlothian Strategy for Inclusive Economic Growth, with report prepared for Council in November.</p> <p>Q1 24/25: Member Briefing scheduled for 3rd October 2024.</p> <p>Q3 23/24: Draft Economic Strategy prepared; to be presented to Council in Q1 24/25.</p> | Chief Officer *Place; | 30-Jun-2024 |  | 100% |



SRP.RR.19 Health & Safety

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|---------------|---------------------|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.R R.19 | Risk cause | Head of *Adult and Social Care; Chief Operating | 1. Health Safety and Wellbeing Strategy & Service Plan 2. Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations | 3 | 5 |  |


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| | <p>Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. 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.</p> | <p>Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships</p> | <p>3. Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4. Use of Health & Safety Management Information System (SPHERA) to enhance information transfer and organisational efficiency 5. Comprehensive training programme in place to support those with responsibility for managing health and safety. 6. Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy.</p> | | | |
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| NEW | Health, Safety & Resilience Service Review | <p>Q3 24/25: Position unchanged from Q2.</p> <p>Q2 24/25: Service Review progressing and developing.</p> <p>Q1 24/25: The Health, Safety & Resilience Service review is progressing and has identified staffing shortages to meet obligations. The report will be submitted in Q2 for consideration.</p> <p>Q4 23/24: Service review in progress.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31/10/2024 |  | 100% |


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| SRP.R A.19.01 | Delivery of Health, Safety and Wellbeing Service Plan | <p>Q3 24/25: Position unchanged from Q2.</p> <p>Q2 24/25: Awaiting outcome of service review before reviewing service plan.</p> <p>Q1 24/25: Implementation of the Protective Services Health, Safety & Resilience Service Plan continues. The plan will be reviewed at conclusion of the service review.</p> <p>Q3 23/23: Implementation of the Protective Services Health, Safety & Resilience Service Plan continues.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Mar-2025 |  | 50% |
| SRP.R A.19.07 | H&S fire safety audit across all Council estate | <p>Q3 24/25: Departure of Fire Safety Adviser in Nov 2024 has adversely affected implementation of audit programme and reactive responses. Another member of staff is temporarily dealing with priority work until a replacement is recruited.</p> <p>Q2 25/25: As Q1 24/25.</p> <p>Q1 24/25: Fire Risk Assessments/Audits progressing. A number of Zurich Insurance audits have also taken place.</p> <p>Q4 23/24: Fire Risk Assessments/Audits are currently priority.</p> <p>Q3 23/24: Work on audit report continues. Change to SFRS response incorporated into Fire Action Plans and Management Arrangements.</p> | Chief Officer *Place; Senior Manager Protective Services; David Robertson | 31-Mar-2025 |  | 33% |

SRP.RR.21 Cyber Security

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|---------------------------------------------------------------------------------------|
| SRP.R R.21 | <p>Risk Cause Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices.</p> <p>Risk Event The cyber threat is severe and advancing quickly. The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats</p> | Head of *Adult and Social Care; Cyber Security Information Governance and *Compliance Manager; Head of *Development; Chief Operating Officer | <ol style="list-style-type: none"> 1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Regular Audits and Inspections 5. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 6. Having adequate skills and knowledge in the organisation 7. Implementing Scottish Government Cyber Security Action Plan | 3 | 5 |  |


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| | <p>(APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p>Risk Effect Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p> | <p>*Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; David Robertson; Chief Officer Young People and Partnerships</p> | <p>8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme 9. Technology upgrades 10. Incident Response plans and exercises</p> | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.21.1 | Appropriate Technical and Organisational Measures | <p>Q3 24/25 - Action/mitigation includes: -</p> <ol style="list-style-type: none"> 1. Quorum cyber security table top exercise completed 2. Successfully defended the organisation from several cyber incidents 3. Provided significant Information Governance and Security advice for the continued deployment of M365 and Google Workspace 4. Audit on business continuity 5. Ran successful phishing exercises <p>Q1 24/25 - Action/mitigation includes: -</p> <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Achieved PSN Certification from the Cabinet Office 3. Organised and facilitated a leadership forum exercise on cyber resilience 4. Successfully responded to 15 significant cyber security events 5. Provided significant Information Governance and Security advice for the continued deployment of M365 and Google Workspace <p>Q4 23/24: Ongoing review of cyber incident response plans. Information Governance and Security processes for M365 deployment ongoing and a number</p> | Cyber Security Information Governance and *Compliance Manager; Chief *Digital Officer; | 31-Mar-2025 |  | 75% |

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| | | <p>of milestones achieved to progress further rollout of applications within M365 environment. Leadership Forum tabletop session scheduled June 2024.</p> <p>Q3 23/24: Action/mitigation includes: -</p> <ol style="list-style-type: none"> 1. Updated cyber incident response plans. 2. Cyber security presentations to Elected Members and Place directorate. 3. Conducted phishing exercises. 4. Successfully responded to 13 cyber security events. <p>Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace</p> <p>Q1 23/24: Action/mitigation includes:-</p> <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Preparations completed for Q2 2023/2024 PSN Certification, including submission to Cabinet Office. 3. Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace 4. Responded to numerous threat alerts to ensure the security of the Council's network 5. Engaged with Cyber Incident Response company to review the Council's Cyber Incident response capability in Q2 | | | | |
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SRP.RR.22 Cost of Living Crisis

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
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| SRP.RR.22 | <p>Risk cause The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40-year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.</p> <p>Risk event Rapid ongoing rise of energy prices as well as food and drink prices.</p> | Chief *Executive; Director *Health and Social Care; Executive Director *Place | <ol style="list-style-type: none"> 1. Council Cost of Living Task Force to oversee the Council's response to the crisis 2. Allocation of LACER funding to support those most affected 3. Strategic Evaluation Partner appointed to create poverty profile 4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health 5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships) 6. Child Poverty self-evaluation underway with Improvement Service | 3 | 5 |  |

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| | Risk effect The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics: Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children. | | | | | |
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| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
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| SRP.R A.22.1 | Cost of Living Task Force | Q1 23/24: Meetings continuing. | Chief *Executive; | 31-Mar-2024 |  | 100% |
| SRP.R A.22.2 | LACER funding | Q2 22/23: Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish reheatable food initiatives. | Lifelong Learning and Employability; | 31-Mar-2023 |  | 100% |

Strategic Opportunities

SRP.OP.08 Capital Projects - Housing

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.08 | 26% reduction in Affordable Housing Supply Programme grant to Midlothian and continued high build costs will affect ability to deliver housing programme. Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Head of Development | <p>1. Newbyres, Gorebridge: Timeline impacted with potential ground conditions and delay with peer review process. This has since been addressed and now on site.</p> <p>2. Edmonstone Road, Shawfair – Timeline, Budget and Risk impacted with Stewart Milne entering administration. Developer now in process of being appointed to take this forward.</p> <p>3. Newton Church Road, Danderhall – Timeline impacted with delays to tender process as contractors requested extensions and in delivering tender report. Tender report now approved and works to start before end of 2024.</p> <p>Phase 5 housing programme has been reviewed to ensure affordability within the Housing Revenue Account, allowing for reduced levels of grant.</p> | R | G | G | G |
| | | | | R | A | A | G |
| | | | | R | A | A | G |
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SRP.OP.09 Capital Projects – Transport, Net Zero & Infrastructure

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.09 | <p>Cost of delivering enabling infrastructure projects has risen, resulting in significant funding gap emerging.</p> <p>Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported.</p> | Executive Director *Place; Head of Development | <p>1. A701 Relief Road</p> <p>2. A701 Sustainable Transport Corridor</p> <p>3. A701 Straiton Junction Improvements</p> <p>For all highlighted projects, estimated cost significantly exceeds budget available to deliver project.</p> <p>For all highlighted projects, addressing requirement for investment in A701 corridor in phases with prioritisation applied. Bush Loan Junction progressing ahead of remaining programme fully funded by ESESCRD funding.</p> | A | R | R | G |
| | | | | A | R | R | G |
| | | | | A | R | R | G |
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SRP.OP.10 Capital Projects – Children, Young People & Partnerships Estates Programme: Primary

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
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| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.10 | Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Executive Director CYPP; Head of Development | <ol style="list-style-type: none"> Mayfield/St Lukes PS New Build: Tender return from Stage 1 exceeds available budget. Programme delayed for project revision. Existing school remains safe while operational. Mayfield School pupils were decanted to the new Easthouses PS in December. Budget gap has lowered due to intensive cost reduction exercise, budget gap whilst lower still remains. Mauricewood PS Extension & Refurbishment: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. Funding insufficient as some contributions were withdrawn for pay for costs of previous extension Bilston PS Extension: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. Approval to proceed with Stage to go to February council. Relocation of Mount Esk Nursery / Hawthorden Extension: Rising roll and catchment review requires investment in school to address capacity and suitability. Limited budget available. Design team appointed to develop investment in school that aligns with budget available from Developer Contributions. Stage 2 design and costs complete. | R | R | R | A |
| | | | | R | A | A | A |
| | | | | R | A | A | A |
| | | | | A | A | A | A |

SRP.OP.09 Capital Projects – Children, Young People & Partnerships Estates Programme: Secondary

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|------------|----------------------------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.O P.09 | Projects progressing, with Timeline, Budget, Risk and Resource categorised | Executive Director *Place; Executive | <ol style="list-style-type: none"> Beeslack HS Replacement: Site acquisition being progressed, however dependent on planning being achieved (expected | | | | |


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| | as parameters on a RAG status, with any Red classifications identified and reported. | Director CYPP; Head of Development | <div>2. Dec 24). Preferred contractor to be brought to Council for approval Shawfair All Through: Site acquisition complete. School location fixed with design team. Remediation programme being revised. School target date of 2027 likely to be missed. Outcome of design process to determine cost of project and budget position. Design outcome to be to adhere to available budget. Smaller school will reduce build programme. Seeking to make efficiencies in remediation programme. Stage 2 Design complete, awaiting completion of cost analysis exercise.</div> <div>3. Penicuik HS New Build: LEIP target for delivery is Dec 2026, however programme for occupation is July 2027. Cost reports tracking higher and risks identified in refurbishment works. Removing requirement for modular units and minimising enabling works will assist minimising impact on GSCP. Design review can bring project into budget. SFT advising if additional LEIP funding available to address abnormal costs. Contractor, Morrison Construction appointed Jan'25.</div> | <table><tr><td>A</td><td>A</td><td>A</td><td>G</td></tr><tr><td>R</td><td>A</td><td>A</td><td>A</td></tr><tr><td>A</td><td>A</td><td>A</td><td>G</td></tr></table> | A | A | A | G | R | A | A | A | A | A | A | G |
| A | A | A | G | | | | | | | | | | | | | |
| R | A | A | A | | | | | | | | | | | | | |
| A | A | A | G | | | | | | | | | | | | | |

SRP.OP.09 Capital Projects – Regeneration

| Risk Code | Risk Identification | Managed by | Risk Commentary | Risk Evaluation | | | |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------|------|----------|
| | | | | Timeline | Budget | Risk | Resource |
| SRP.OP.10 | Projects progressing, with Timeline, Budget, Risk and Resource categorised as parameters on a RAG status, with any Red classifications identified and reported. | Executive Director *Place; Head of Development | <p>1. Vogrie Changing Places: issues with contractor.</p> <p>2. Destination Hillend: Alpine Coaster delivered with access and parking infrastructure. Project absorbed risk and contingency. Delays to delivery resulting from issues with access / water mains. Main Building tender return exceeded budget. Next Phase to be recast. Interim works on water supply and drainage required.</p> <p>3. Hopefield Industrial Estate: Updated financial model required.</p> <p>4. Extension to Waste Transfer Shed – Stobhill Depot</p> <p>5. Dalkeith Asset Rationalisation Programme: Budget now approved by Council. Appointments/procurement strategy being updated and stakeholder consultation to commence.</p> | R | A | R | A |
| | | | | R | R | R | A |
| | | | | R | A | A | G |
| | | | | G | A | A | G |
| | | | | A | G | A | G |
| | | | | | | | |

SRP.OP.04 City Deal

| Risk Code | Risk Identification | Managed by | Risk Control Measures | Likelihood | Impact | Risk Evaluation |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|-------------------------------------------------------------------------------------|
| SRP.O P.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. | Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships | 1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases. | 4 | 5 |  |

| Related Action Code | Related Action | Related action latest note | Managed By | Due Date | Status | |
|---------------------|---------------------------------------------------|-------------------------------------------------------------|------------------------------|-------------|-------------------------------------------------------------------------------------|-----|
| SRP.O P.04.02 | Realisation of outcomes of respective workstreams | Q1 24/25: Work continues on the relevant programmes. | Executive Director *Place | 31-Mar-2025 |  | 10% |

