

# Midlothian Council

## Annual Audit Report 2012-13

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October 2013

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# 1. Executive Summary

## Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Midlothian Council (the Council) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the second year of our appointment.

This report summarises the findings from our external audit work for the year ended 31 March 2013.

## Overall conclusions

We use the table on page 3 to highlight the key findings emerging from each aspect of our work during 2012-13. The Council has a history of managing budgets effectively, although notable overspends were incurred in Adult & Community Care and Commercial Operations. The overspend in Adult & Community Care related to short term additional pressures arising from service modernisation in older people's services, and increased demand for care at home services for older people and intensive care packages for adults with complex needs. We are, however, increasingly concerned that the Council does not have a fully developed and agreed plan in place to bridge a significant budget gap, which is estimated to reach £13.5 million by 2016-17.

The Council overspent its revenue budget by £1.25 million (0.6% of budget) during the year but managed to maintain levels of uncommitted reserves, which, at £6.4 million and 3.3% of net expenditure, currently exceed the target level of £4 million. This outcome has been achieved by utilising the Capital Fund to finance £2 million of principal loan repayments, rather than the General Fund as originally planned. This approach has impacted on the Council's ability to fund its future capital programme and reduces the level of overall usable reserves available.

We are concerned that the Council is reporting a revenue budget overspend during a period of financial austerity where there has been an overriding requirement for financial discipline and a need to achieve budget savings. Given the scale of budget

savings required to be achieved by the Council over the next 3 years, the Council must now regard delivering savings as a key and urgent priority, and ensure that the Revenue Budget is not overspent in 2013-14 and future years.

Although the Council's uncommitted reserves currently exceed their target of £4 million, any reliance on reserves will be unsustainable in future years.

The Council Transformation Programme was developed both to deliver savings, and to improve performance across a range of services. We have continued to see improvements across statutory performance indicators, but significant progress is still required in a number of outcome areas, including promoting positive destinations for Midlothian's school leavers, economic development, and educational attainment. The programme has been unable to deliver the scale of savings expected or required, and a revised programme is now being developed to deliver alternative saving options.

Strong political and managerial leadership will therefore be required to deliver savings while protecting core priorities for the local area.

## Meeting future challenges

Financial discipline will also be critical during the period to 2016-17 and beyond. The Finance Team work well with services and have a good understanding of costs and variances against budget. We do, however, believe there is scope for a greater role for the finance function, in challenging plans to be more ambitious where required, and in policing and monitoring the achievement of each project.

The Council's Future Models of Service Delivery recognises that the scale of the challenge ahead is too large for the Council alone. Community planning arrangements remain a point of focus as a mechanism to improve economy, efficiency and effectiveness in service delivery. We were pleased to note the Council is making good progress across a number of community planning initiatives.

The Council has acknowledged that there is scope to revise and improve the performance management framework which underpins the delivery of the Single Midlothian Plan. Transparent and robust data about the

performance and risks associated with services, and the achievement of savings, will be critical to inform elected member decision-making.

## Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> <li>■ The Council currently has a general fund balance of £14.083m, a decrease of £0.137m from the prior year. The uncommitted element of the General Fund is £6.402m, which exceeds the Council's £4m minimum target for reserves balances.</li> <li>■ The Council delivered a net overspend of £1.3m, or 0.6%, against the revenue budget in 2012-13. This was due to slippage in planned business transformation savings, as well as spend above budget in a number of services.</li> <li>■ The Council has identified a budget gap of £13.5m by 2016-17, equating to over 7% of the Council's net cost of services. The lack of a robust and agreed plan for bridging the budget shortfall, and uncertainty over the impact of welfare reform, present a significant risk to the Council's financial sustainability.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>■ The Council has worked well with its partners to agree a shared vision for the area, supported by shared priorities for future improvement within the Single Outcome Agreement.</li> <li>■ The Council has responded quickly, and effectively, to key areas of structural reform, including the integration of health and social care, and Police and Fire &amp; Rescue Service reform.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>■ The Council can demonstrate improvements in performance against a number of service areas, but outcome indicators within the Single Outcome Agreement continue to present a challenge to the Council and its partners. Significant progress is required to improve positive destinations for school leavers, further improve aspects of housing services, economic development and educational attainment.</li> <li>■ We support the Council's plans to revise the Planning and Performance Management Framework. We would also encourage the Council to consider its approach to self-evaluation and learning from others, to ensure that it continues to meet best value requirements.</li> </ul>

## 2. Introduction

### Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Midlothian Council under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2015-16. This is therefore the second year of our appointment.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and Midlothian Council (the Council).

### The Council's responsibilities

It is the statutory responsibility of the Council and the Head of Finance and HR to prepare the financial statements in accordance with the Code of Practice on Local Authority Accounts in the United Kingdom 2012-13 (the Code).

This means that the Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2013
- to prepare group financial statements where there are material interests in subsidiaries, associates or joint ventures
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

Under the Local Government in Scotland Act 2003, the Council also has a duty to make arrangements which secure best value. Best value is defined as continuous improvement in the performance of the authority's functions.

### Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by the Accounts Commission and the Auditor General for Scotland. The most recent Code was

published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on the achievement of best value, the use of resources and performance.

### Our Annual Report

This report summarises the findings from our 2012-13 audit of Midlothian Council. The scope of our work was set out in our Audit Plan, which was issued in March 2013.

The main elements of our audit work in 2012-13 have been:

- participation in the shared risk assessment and publication of Assurance and Improvement Plan as part of our work on the Local Area Network
- the audit of the financial statements, including a review of the Annual Governance Statement and framework of internal control
- a review of corporate governance arrangements, internal financial controls and financial systems
- a review of arrangements for statutory performance indicators and public performance reporting; and
- a review of the Council's response to national reports published by Audit Scotland.

The key issues arising from these outputs are summarised in this annual report.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by elected members and officers of the Council during our audit.

## 3. Financial Position

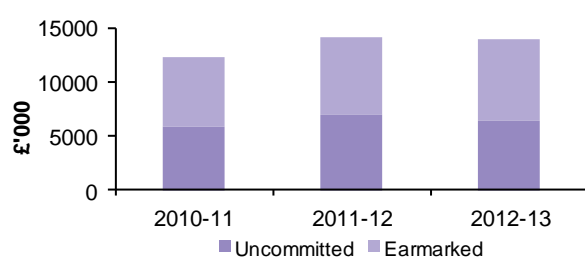
The Council did not meet its revenue budget in 2012-13, and recorded an overspend against the net cost of services of £1.25m, partly as a result of underachieving business transformation savings. The Council used £2m from the Capital Fund to pay principal loan payments originally budgeted to be met from the General Fund.

This has reduced the Council's ability to fund future capital projects, but meant that General Fund balances were maintained at £14.1m, with £6.4m available for new expenditure or to meet unforeseen costs. The uncommitted reserves therefore exceed the Council's £4m minimum target.

### Financial Position

All Councils hold reserves to meet unforeseen expenditure. The Council's General Fund now stands at £14.1 million, of which £7.68 million is earmarked for specific purposes, leaving £6.4 million as a contingency (2011-12: contingency of £6.9 million). A prudent level of reserves is generally considered to be between 2-4% of the net cost of services, which equates to between £3.8 million and £7.7 million in Midlothian.

**Figure 1: Uncommitted reserves have fallen from £6.93m in 2011-12 to £6.4m in 2012-13, but remain above the Council's target**



Source: Midlothian Council Statement of Accounts

During 2012-13, the Council recorded an overspend against budget of £1.25 million, principally as a result of a demand-led overspend of £1.1 million within Adult and Community Care services. Commercial Operations also recorded an overspend of £0.9 million as a result of additional costs for winter maintenance, waste disposal tonnages and waste staffing and transport costs.

We also note that lower than anticipated savings from the Business Transformation programme led to an overspend of £0.741 million.

These overspends were in part offset by service underspends, the largest of these being in education, which reported a £1.2 million underspend, chiefly due to lower than expected teacher staff costs.

The Council managed the overspend and met additional equal pay liabilities by approving a transfer from the Capital Fund to pay principal loan repayments that had previously been budgeted to be met from the General Fund.

This transfer effectively reduces the Council's ability to fund future capital projects, but meant that the General Fund balance was maintained and the level of unearmarked reserves continues to exceed the Council's target.

We do, however, note that the most recent financial monitoring report to Council (November 2013) highlights a small underspend is anticipated in 2013-14 although further one-off costs are likely to be incurred as part of the Business Transformation programme.

### Bridging the Budget Gap

The Council has received early projections of future years budget shortfalls. Progress in addressing the projected shortfalls is reported to the Council on a regular basis.

In the most recent financial update paper to the Council, the Head of Finance and HR reported that there remained a £1.095m shortfall for 2014-15 and

that by 2016-17 the budget shortfall was projected to be £13.5m, equating to over 7% of the Council's net cost of services.

To date, the principal means that the Council has used to meet the challenging financial forecasts has been the Council Transformation Programme.

Since its inception in February 2010 to 31 March 2013, the Council has spent over £1.5 million developing a programme designed to deliver significant savings through transformative change. Future commitments of £1.36 million are planned and as a result the council has earmarked a further £0.87 million in reserves to meet future costs associated with the programme.

In 2009-10, a Management Review to restructure the Councils' senior management delivered recurring budget savings of £3.2 million. Since then, business transformation savings have not met their target.

In November 2012, the Council agreed a policy of no compulsory redundancies. Staff costs account for over half of all service costs so in response to this significant challenge the Council has developed a redeployment scheme to ensure that any staff resource released as a result of an efficiency review will be redeployed elsewhere in the Council. We understand that the Council is reviewing the use of agency and fixed term staff and voluntary severance and early retirement schemes remain as options to facilitate the necessary turnover.

Transformation savings in procurement and business services of £324k were delivered in 2012-13. This was £369k short of target but the balance was covered through financial discipline savings.

The Business Transformation Programme has been charged with delivering both improved services, and significant savings. The Council's internal auditors will shortly review the success of the programme to date. We would recommend that the Business Transformation Steering Group use the audit findings to inform a review of the costs and benefits of the programme in its current form.

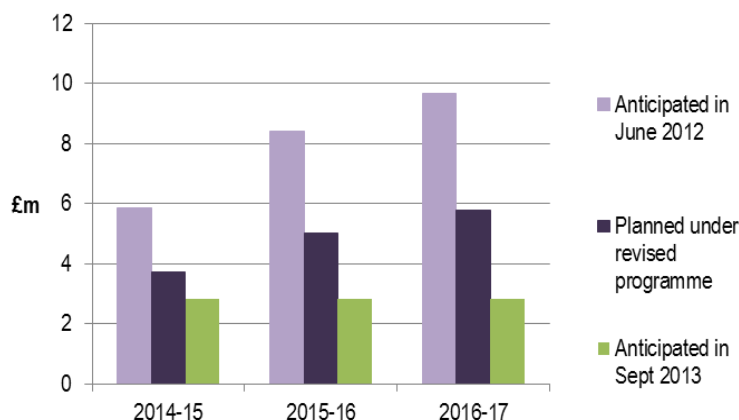
**Recommendation 1**

In May 2013, the Council identified that the savings within the existing Council Transformation programme would not be sufficient to bridge the budget gap. As Figure 2 highlights, the savings expected to be delivered

from the Transformation Programme have been significantly revised downwards following key revisions to the programme including:

- The revision of the service review programme means that a series of reviews with planned savings of £3.9 million will not be delivered
- Shared services, with projected savings of £1.98 million, did not progress as planned
- The timetable for delivery of Integrated Support Services savings has changed, so savings are now projected to be £0.74 million less by 2016-17 than originally planned.
- Procurement savings are anticipated to be £0.3 million more than planned.

**Figure 2: The indicative savings to be achieved through the Business Transformation Programme have fallen significantly since the date of the Best Value report**



Source: Midlothian Council Revenue Budget Papers

We reviewed the Council's plans for meeting the financial challenge within our *Scotland's Public Finances Follow Up Report*, issued in October 2013. Within the report we identified a number areas for improvement, including a clear and realistic plan for delivering savings that meet the current budget gap, and any future demands emerging from welfare reform or demographic change.

The Strategic Leadership group have outlined a revised transformational plan with options for savings, which were presented in a paper to the Council in September 2013. In addition to ongoing work on procurement and integrated service support, areas for consultation include:

- energy reduction measures
- changes to customer service arrangements
- income maximisation/collection, including review of fees and charges and promoting up-front payments
- school clusters
- services to communities
- externalisation and insourcing - consideration of alternative service delivery models, and review of contracts for best value.

The Strategic Leadership Group is currently reviewing each of these options and determining the value and timing of savings going forward as part of the development of a robust delivery plan for business transformation.

## Comprehensive Income and Expenditure Statement

There were some significant movements in the Comprehensive Income and Expenditure Statement during the year, principally as a result of pension accounting movements. As Table 1 highlights, the Council reported total net comprehensive expenditure in year of £21.825 million (2011-12: income of £13.5 million).

**Table 1: Financial Results for 2012 and 2013**

	2011-12	2012-13
	£'000	£'000
Net Cost of Services	176,641	191,944
Other operating (income)/ expenditure	303	(216)
Financing and investment income	12,143	12,187
Taxation & non-specific grant income	(189,512)	(190,772)
<b>(Surplus)/ Deficit on the provision of services</b>	<b>(415)</b>	<b>13,143</b>
(Surplus)/ Deficit on revaluation of non current assets	(6,157)	(2,454)
Actuarial (Gains) / Losses on Pension Fund and Injury Benefits	(6,072)	11,986
Other (Gains)/ Losses	(856)	(850)
<b>Total comprehensive income and expenditure</b>	<b>(13,500)</b>	<b>21,825</b>

### Source: Midlothian Council Statement of Accounts

Due to annual variations in the assumptions used by actuaries, there was an actuarial gain on pension assets recognised in 2011-12 of £6.072m. The corresponding figure in 2012-13 was a loss of £11.986m.

The Council also reported a significant change in the net cost of services, from £177m in 2011-12 to £192m in 2012-13. This can be partly explained by the Council delivering a budget overspend of £1.2 million in 2012-13, following an underspend of £1.6 million in 2011-12. There were also a number of year on year contributing factors, including:

- Additional costs of £1.6 million relating to increases in staff pay as part of the Competency Framework
- Inflationary pressures totalling £0.98 million
- Local cost pressures such as changing demographics and increasing nursery rolls.
- Borrowing costs associated with the capital programme
- The Council's contribution to the Change Fund for Early Year/Early Intervention
- The impact of Budget Provisions

## Capital Expenditure

The Council incurred capital expenditure amounting to £47.248 million, against an approved budget of £58.337 million. Revised budgets were agreed for General Services and the Housing Revenue Account following slippage in the programme and a total of £6.7 million will therefore be carried forward to 2013-14. During a period of economic recession, capital expenditure can act as a significant stimulus to economic development, therefore, this level of underspend represents an element of opportunity cost for the Council in investing in its asset base. We do, however, note that the Council has been successful in managing the interest rates it pays on its Loans Fund. In 2012-13, the Council had the lowest pool rate across mainland Scottish local authorities. This minimises the impact of new borrowing on the Council's General Fund and Housing Revenue Account.

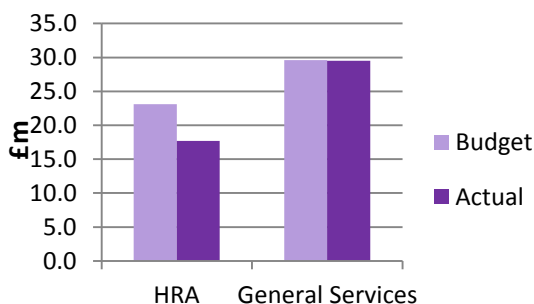


Figure 3 highlights that there was a small net underspend against the revised general services capital budget of £0.03 million.

The Council also recorded an underspend of £5.403 million in the Housing Revenue Account capital plan, partly as a result of completing the kitchen replacement programme £2 million under budget.

The Council's latest Capital Plan was approved by Council on 25<sup>th</sup> June 2013. The Plan allows for investment of £14.249 million in 2013-14.

**Figure 3: There was increased general services capital expenditure in 2012-13, but spend was in line with the final approved budget**



Source: Midlothian Council Statement of Accounts

## Equal Pay

The Council has continued to recognise a provision for the payment of equal pay compensation claims, based on the number of claims and the likely outcome. The provision has decreased from a balance of £2.2 million in 2011-12 to £0.8 million in 2012-13. The Council has also recognised a short term creditor of £1.8 million relating to outstanding claims with Unison members, where there is likely to be a settlement made in 2013-14. The Council had settled a total of £9.82 million of claims at 31 March 2013.

The Council has also disclosed a contingent liability relating to future claims because, until claims are resolved, there remains an element of unquantifiable liability.

The equal pay liabilities have had a significant impact on the Council's financial position. Capital reserves have required to be redirected to ensure financial stability for General Fund services.

## Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure account reported a surplus for the year of £2.96 million (2011-12 £29k). The Council now has HRA reserves of £14.7 million. Plans for future investment are outlined in the Council's Strategic Housing Investment Plan, which was approved by the Council in August 2013.

During 2012-13, the Council spent £17.7 million on its housing capital programme. Over £5.5 million was spent completing Phase 1 of the New Council Housing Programme, and as a result 143 new homes were completed in 2012-13 giving a total of 864 new homes build by the Council since April 2006 at a cost of £109m. The Council spent an additional £4.8 million on Phase 2 of the programme, in Dalkeith and Penicuik. Another £4.6 million was spent to meet the Scottish Housing Quality Standard on existing housing, including a kitchen and bathroom replacement programme, and upgrading central heating systems.

As a result of this expenditure, the Council has the 4<sup>th</sup> highest proportion of dwellings that meet the Scottish Housing Quality Standard, at 86.4%. The national average is 76.6%. We also note that £1.15 million of the underspend on the Housing Revenue Account can be attributed to a reduced requirement for reactive repairs as a result of the investment in existing stock.

We do, however, note that Welfare Reform will present a significant risk to the future financial health of the Housing Revenue Account. At 31 March 2013, we noted that tenant rent arrears had increased from 6.4% in 2011-12, to 6.9% in 2012-13. In April 2013, the underoccupancy charge was introduced as part of a package of welfare reform.

We understand, as anticipated and in line with national trends, that rent arrears have increased as a result, to 7.5% in the first quarter of 2013-14, and we will therefore continue to monitor this position. We do, however, note that the Council has tried to mitigate the impact of the welfare changes on the local population by holding some council rent and service charges at 2012-13 levels. The national government has also provided mitigating measures in recent budget announcements.

## Looking Forward

### Financial Reporting

The Statement of Accounts is the key method the Council uses to report to elected members and the public on the financial performance of the Council and the effectiveness of its stewardship of public funds. However, local authorities are large and complex organisations, and the nature of the regulatory framework means that the large accounting adjustments made to accounts can be difficult to explain or understand.

During 2013-14, we would like to engage with the Council to review the content of the financial statements. We will work with the Finance Team, by drawing on key messages from the Audit Commission report '*Cutting the Clutter*' and our own report '*Clear and Concise*', to improve the quality of corporate reporting and ensure that disclosures are relevant and targeted to meet the needs of users.

The Council's Group Accounts and group financial position in 2013-14 will be significantly different due to the change in structure of the Police and Fire & Rescue service. A share of the reserves of these bodies will no longer be included in the Council's Group Accounts in 2013-14, which will significantly reduce the Group's liabilities.

We will also work with the Council to review whether group reporting in future years would result in sufficiently material changes to the single entity accounts to warrant the production of Group Accounts.

### Audit of registered charities

From 2013-14, the Accounts Commission has extended our appointment as auditors of the Council to audit all registered charities where the Council is the sole Trustee. The Council is currently reforming the governance of these charities, working to reduce the number of charities that will be subject to audit in 2013-14.

There are three registered charities in Midlothian that may require audit. The total balances held by all three charities as at 31 March 2013 was £6k. Due to their very small size, the Council is considering potential options for these charities.

If the charities remain at 31 March 2014, we will be required to complete a full audit of the charities in line with International Auditing Standards, and will perform our work on the charities alongside our work on the Council's financial statements. We will have regard to the small size of the charities and the simplicity of its transactions when planning our work.

### Welfare Reform

The UK government's Welfare Reform Act received Royal Assent on 8 March 2012. This represents the largest reform of the UK welfare system for 60 years and will have a significant impact on millions of households by creating a new Universal Credit for working age claimants. The government's aim is to deliver savings of £28 billion through welfare reform by 2015-16.

The Act signals a number of changes to how local authorities deliver services. Universal Credit means that housing benefit will not be administered locally by Councils. From April 2013, council tax benefit was replaced by a Scottish council tax reduction scheme.

The Council has also had to meet the additional costs associated with the administration of the Scottish Welfare Fund for Community Care Grants and Crisis Grants. This effectively replaces the Social Fund, which was previously administered by the Department for Work and Pensions.

In the future, the role that Councils will play in the delivery of welfare reforms is not yet clear, although there is an expectation that they will provide additional face to face support to benefit claimants.

As we noted during our interim visit, the Council has established a working group to consider and develop strategies to address the impact of these reforms. The group has made good progress in the year to ensure that the Council has appropriate arrangements in place to mitigate against the impact of welfare reform. The Council must continue to monitor the potential impact of welfare reforms on the local population to ensure that financial plans and strategies remain realistic and up to date. The Council's internal auditors will shortly review the progress made to address the impact of welfare reform, and we will therefore draw on their work when forming conclusions in 2013-14.

## 4. Governance

The Council has adopted an Annual Governance Statement, which is supported by a well-developed Code of Governance and Assurance Framework.

The Council has responded positively to structural change within the public sector, and has used these opportunities to strengthen its approach to partnership working. Community planning arrangements are well established, but performance management and demonstrating effectiveness remains a key challenge for all Community Planning Partnerships.

### Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records the governance ethos of the Council, and assurances around the achievement of the vision and strategic objectives of the Council. The AGS summarises the local code of governance, including the internal control framework, arrangements for risk management, financial governance and accountability.

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with our knowledge of the Council. The Council has developed a Code of Corporate Governance based on the CIPFA/SOLACE framework.

An Assurance Framework has been developed to support the Statement and monitor the level of compliance with the Code. The Framework requires each Head of Service to complete an annual self-assessment. The Council's internal audit team sample check key Financial and Non-Financial elements of governance to test the robustness of the self-assessment and adequacy against the Code.

### Internal Audit

The Internal Audit team changed significantly during 2012-13 following the retirement of the Audit and Risk Manager in March 2013.

We reported during 2011-12 that the internal audit team retained aspects of operational management, including responsibility for insurance and risk management arrangements. The Council has therefore taken the

opportunity to rearrange services and ensure that internal audit are operationally independent.

Within 2012-13, the Internal Audit Strategy focused resources on:

- the Council's main IT and financial systems
- high risk areas of exposure, as identified in the corporate risk register
- consultancy exercises requested by management; investigations, where required; and
- the provision of an Internal Control Help Desk service.

The audit plan covers a variety of audit types including, compliance reviews, regularity audits, financial system reviews and risk-based reviews.

The Internal Audit Manager concluded within her annual report that adequate internal controls have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

We are also able to take comfort from internal audit's work on following up audit recommendations relating to weaknesses in internal control. The Council's Covalent performance management software allows services to track and report on the progress of audit recommendations. During 2012-13, internal audit sample checked 55 recommendations that were marked as completed to ensure that the actions taken mitigated the risk identified. In six cases, they highlighted that

additional action was required. Three of these recommendations related to the Income Control review.

## Public Sector Internal Audit Standards

In April 2013, relevant Internal Audit Standard Setters adopted a common set of Public Sector Internal Audit Standards (PSIAS), with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The new standards, interpreted for the UK public sector, encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework and replace the existing standards. They apply to all internal audit service providers, whether in-house, shared service or outsourced.

### Specific requirements of the PSIAS

#### ■ An internal audit charter

The charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if the internal audit provider performs non-audit activities.

#### ■ A quality assurance and improvement programme

The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. This should include:

- on-going internal quality monitoring and self-assessment
- a five-yearly, independent, external assessment of the internal audit function
- effective communication.

In this context effective communication refers to the engagement of the committee's membership – and of the chair, in particular – in discussions with the chief audit executive about:

- the Council's risks and assurance requirements
- the level of assurance provided
- issues of concern raised by audit work undertaken
- the implementation of agreed recommendations and the enhanced assurance arising.

The Council's internal audit team has reviewed the new standards to identify and bridge gaps between the previous Code of Practice for Internal Audit in Local

Government, and the PSIAS. As a result, the Council has adopted a revised Audit Charter arrangements.

## Risk management

During the year, the Council refreshed its approach to risk management in line with the change in structure following the retirement of the Audit and Risk Manager. In February 2013, the Cabinet approved a new Risk Management policy and monitored the Risk Control Programme for 2012-13.

A guide on risk management for elected members was developed to support the revised Policy, and a series of improvement actions were agreed to ensure that the arrangements are robust and timely.

The Council's Corporate Management Team reviews and updates the corporate risk register on a quarterly basis. The Audit Committee has responsibility for monitoring the Council's risk management arrangements. In June 2013, the Audit Committee received a report on the headline corporate risks facing the Council. The key risks identified relate to:

- the impact of Welfare Reform
- corporate change and transition; and
- balancing budgets.

We are aware that all new arrangements require a period of time to evolve and embed across the organisation. We would, however, make an early observation that committee reports on corporate risks could be improved by ordering risks by current score, and therefore highlighting critical risks to the organisation.

### Recommendation 2

We regard effective risk management as critical to the Council delivering strong services at a time when significant savings are necessary. The Council's Audit Committee has a key role to play to review risk management procedures and resourcing to continue to satisfy itself that adequate arrangements are in place. We understand that the Council's internal auditors will review risk management arrangements in 2013-14. This

will support the Committee in forming a view of current arrangements.

## Internal control

As part of our financial statements audit work, we took assurance from our internal control work on the Council's key financial systems. We assessed the following systems as part of our work throughout the year:

- Budgetary control
- Employee remuneration
- Capital accounting
- Accounts receivable
- Operating expenses
- Housing rents
- Housing and Council Tax Benefits

We reported on our findings and agreed action plans within our Interim Report and ISA 260 Report on the Annual Accounts.

No significant matters were highlighted during this work, although we will follow up progress on actions agreed during our work in 2013-14.

Like management, we place significant reliance on the Council's IT systems. Each year we therefore ask our Technology Risk Services team to review key IT controls to ensure that effective arrangements are in place. During 2012-13, we identified 7 low risk recommendations relating to:

- Disaster recovery
- IT security
- Administrator arrangements
- Payment Card Industry: Data Security Standards
- Regular review of access rights
- Approving amendments to access rights
- Review of the network security log.

The Council's Business Services Manager agreed an improvement action plan, and progress will be monitored by the Contingency Planning Group and the

Digital Strategy Group. We will also follow-up progress against the action plan as part of our 2013-14 interim audit fieldwork.

## Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements within the financial statements resulting from fraud and irregularity.

As part of our governance work we reviewed the Council's arrangements to prevent and detect fraud and irregularity. Following consultation with internal audit, we agreed to place reliance on their findings to ensure that we did not duplicate work.

The Council's Anti-Fraud Policy was updated during 2012-13 to meet the requirements of the Bribery Act 2010, and the Local Government Fraud Strategy. A Whistle-Blowing policy was established to clarify lines of reporting for any suspected fraud. The Council's website was updated in January 2013 to ensure that any concerns can be raised anonymously and reported to internal audit. Both policies and the methods available for raising concerns are available on the Council's intranet and external website.

We have concluded that the Council's internal controls and financial procedures are adequate to prevent and detect material fraud and irregularity. Internal audit has made us aware of a small number of reported frauds and allegations, but these are at a low level.

## Community Planning

In March 2013, Audit Scotland published a report on *Improving Community Planning in Scotland*. The report draws upon findings from initial Community Planning Partnership (CPP) audits at Aberdeen, North Ayrshire and Scottish Borders Councils. Audit Scotland found that CPPs have not yet achieved the ambitious goals set for them, although there are many examples of good joint working and delivering improvements at a local level.

The Scottish Government and COSLA Statement of Ambition provides a renewed focus on community planning at a national level. The Statement sets out a challenging improvement agenda for community planning. Audit Scotland's report highlights five key areas for CPPs to work on, to ensure that they achieve their goals in the future:

- creating stronger shared leadership
- improving governance and accountability
- establishing clear priorities for improvement and using resources more effectively
- putting communities at the heart of community planning and public service reform
- supporting CPPs to improve their skills and performance.

Midlothian's Community Planning Partnership, *Midlothian: Moving Forward* has taken a number of key steps to build capacity in each of these areas. The Council's Future Model of Service Delivery strategy is being developed to support the community planning partnership respond to financial challenges.

The future model adopts three main principles, which were endorsed during public consultation:

- Access to services: considering the best ways to meet demands for services by taking a partnership approach to community assets, and more effective use of technology.
- Embedding a preventative approach: Moving resources from services that respond to current problems towards services that prevent problems from arising in the future.
- Community capacity building and co- production: The Council has adopted a principle of working with communities and individuals to design services with communities and users, rather than for them.

The Partnership adopted Neighbourhood Planning in 2009, and has a programme in place to roll out the model to each area of Midlothian by 2014-15. The Partnership's Community Planning Research and Information Group (CPRIG) also produces an annual

summary of research information at area level, which is used to inform the Single Midlothian Plan. This approach ensures that the partnership understands local needs and priorities. In common with other Community Planning Partnerships, a key challenge for the future will be demonstrating how public money and other resources are influenced by community planning, and targeted at neighbourhood level.

### Recommendation 3

#### Health and Social Care Integration

In May 2012, the Scottish Government launched consultation on the integration of health and social care services. Plans were subsequently announced to legislate for the requirement to establish Health and Social Care Partnerships across between the NHS and local authority. The legislation is intended to improve outcomes for users by providing consistency in the quality of services, ensuring people are not unnecessarily delayed in hospital and maintaining independence by creating services that allow people to stay safely at home for longer.

The Council and its NHS partners responded quickly to the proposals, and in January 2013 agreed to establish a Midlothian Health and Social Care Partnership, including a Shadow Board from 1 April 2013. The Council appointed a Joint Director of Health and Social Work with NHS Lothian on 1 August 2013.

We will review the governance arrangements for the Partnership in 2013-14, but we have been pleased to note that a range of workstreams have been established to improve joint working in areas such as the use of financial resources; organisational development; risk management and information systems.

#### Local Governance Arrangements for Police and Fire

The Police and Fire Reform (Scotland) Act 2012 created revised local scrutiny and engagement arrangements for local authorities. A collaborative statement has been issued by COSLA, the Scottish Government and the Improvement Service to provide guidance on good scrutiny and engagement.

The guidance identified five principles for good scrutiny and engagement which were based on good practice and promoting the 'pillars' of public service reform:

- Focus on outcomes
- Understand local conditions and reflect the community voice
- Promote joint working to secure better outcomes and Best Value
- Provide strategic leadership in order to influence service delivery
- Support continuous improvement by providing constructive challenge.

During 2011-12, we were pleased to note that the Council had agreed to become a pathfinder for the development of local accountability arrangements for the new Scottish Police and Fire & Rescue Authorities.

A Midlothian Police and Fire & Rescue Board was established to operate as a shadow board until 31st March 2013. The Board was in place to oversee the delivery of the Council's Single Outcome Agreement, and approve the Midlothian Policing Plan for 2013-14, and the Local Fire and Rescue Service Plan.

In April 2013, following analysis of the CPP's 2012-13 Strategic Assessment, the Shadow Board was replaced by the Midlothian Safer Communities Board. This Board encompasses the strategic remit of the

Community Safety Partnership, as well as the statutory obligations for the Police and Fire & Rescue Services.

We will continue to review the governance and accountability arrangements for the Police and the Fire & Rescue services in 2013-14.

## Looking Forward

The Council has made substantial changes to arrangements to its internal audit and risk management services during 2012-13. These arrangements may be subject to additional change as the Council continues to explore opportunities for shared services, and internal management structures.

These arrangements are critical to the Council's governance framework, and to the level of assurance that the Audit Committee receives around the Council's performance, internal controls and delivery of strategic priorities.

Plans are in place to complete a self-assessment of the role and effectiveness of the Audit Committee early in 2014. We would encourage the Council to use this review to consider the role of the Committee within the Council's increasingly complex partnership arrangements, and whether current agendas give sufficient focus to risk management and the delivery of savings plans.

# 5. Performance

The Council can demonstrate improvements in performance against a number of service areas, but outcome indicators within the Single Outcome Agreement continue to present a challenge to the Council and its partners.

We support the Council's plans to revise the Planning and Performance Management Framework. We would also encourage the Council to consider its approach to self-evaluation and learning from others, to ensure that it continues to meet best value requirements.

## Assurance and Improvement Plan

Midlothian Council's Assurance and Improvement Plan (AIP), was updated and developed by the Local Area Network of external scrutiny bodies, and published in May 2013.

The update draws upon the significant levels of work carried out by local scrutiny partners in year 1 to 3 of the AIP, to reflect the risk assessment carried out by the LAN. The update sets out the scrutiny activity proposed for the council for the period to March 2016

The Best Value 2 audit report in June 2012 recognised that there were a number of areas that required further improvement. In the May 2013 update, the LAN concluded that continued support and scrutiny was required especially in aspects of Communities and Wellbeing, Housing, Education and Children's Services as well as aspects of financial performance.

We do, however, note that a planned re-inspection of Housing Services in May 2013 was not considered necessary as the Council was able to provide assurance to the Scottish Housing Regulator of progress and improvement.

This underlines the value that scrutiny bodies place on robust and honest self-evaluation and performance management.

## Best Value Improvement Plan

The Council received a Best Value 2 audit report in June 2012, which concluded that the Council had good

prospects for future improvement, based on strengths at the time, including:

- Effective political and managerial leadership, supported by good governance arrangements
- Strong arrangements for partnership working, with plans for increasing community involvement through neighbourhood planning
- the Business Transformation Strategy provided a clear focus and direction for efficiency and improvement, and the Council had a robust approach to the review of services.

The Best Value report also pointed to a number of key areas for improvement including service performance, systematic customer consultation, and learning from other authorities.

The Council reported on progress against its Best Value Improvement Plan in May 2013. The improvement plan is used to report on the specific actions agreed at the time of the report, but has not been refreshed to consider the wider implications of best value emerging from significant changes between the report fieldwork, and the date of follow up.

For example, at the time of Audit Scotland's work, the Council had adopted the Midlothian Excellence Framework. The Council's MEF was based on the Public Service Improvement Framework (PSIF). PSIF requires councils to set out a framework for undertaking self-assessments across all services, enabling services to identify strengths and areas for improvement.



We highlighted in *our Scotland's Public Finances Follow Up Report* that the Council has not rolled out the MEF across services, in the way envisaged at the time of the Best Value report. We understand that MEF will now be incorporated into service planning reviews. We would, however, urge the Council to consider how it best demonstrates that services are subject to robust, and consistent self-evaluation as part of its development of the Planning and Performance Management Framework.

Audit Scotland noted within the 2011-12 Local Government Overview report that there is scope for councils to improve self-evaluation by comparing performance with other councils by benchmarking, using the work developed by the Society of Local Authority Chief Executives and Senior Managers (SOLACE), and by making better use of service users' views.

We are also concerned that the progress report refers to the Best Value work endorsing the Council's Business Transformation Strategy. Audit Scotland used the report to highlight the key risks associated with delivering the Business Transformation Strategy to planned timescales. Since then, as we highlight in the *Financial Position* Section, the Council Transformation Programme has not delivered the planned savings, and indicative savings for future years have been substantially reduced. This position, and options for future savings are being reviewed by the Strategic Leadership Group.

We noted above that there are real opportunities for the Council to reduce the level of external scrutiny within services if a robust, balanced and thorough system of self-evaluation and performance management is in place. The Council must also ensure that all performance reports and improvement plans are comprehensive, transparent and reflect the full scale of challenges to ensure that they remain credible, and give elected members the assurance they need.

#### **Refer to Recommendation 4**

### **Performance management arrangements**

Midlothian Council has a Planning and Performance Management Framework in place. Each service reports

on their performance to the Performance Review and Scrutiny Committee on a quarterly basis.

The Council has adopted a range of standard indicators to allow comparisons and corporate results to be reported. During 2011-12, we noted that there is scope for the indicators to be more outcome-focused and linked to key priorities. The current reporting process also includes text on achievements and challenges, but it is difficult to assess how balanced the reporting is, and there is no direct link to risk management arrangements.

The Business Transformation team commenced work to overhaul the Council's approach to performance management to ensure it supports transformational improvement in service performance. We understand that this review will seek to ensure that the Council can demonstrate the golden thread from the vision within the Corporate Strategy to delivery within service and financial reporting. We will review progress against performance management reporting within 2013-14.

### **Statutory Performance Indicators**

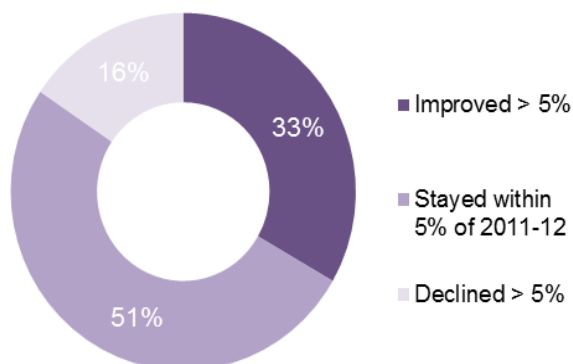
In its 2012 Direction on the Statutory Performance Indicators, published in December 2012, the Accounts Commission confirmed that the 25 specified Statutory Performance Indicators have been removed from the SPI Direction 2012 and will be replaced by the SOLACE Benchmarking indicators from 2014 onwards.

The Accounts Commission 2011 SPI Direction remained in place for 2012-13 and required that councils report:

- a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
- a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

As Figure 4 highlights, our review of SPI data submitted to Audit Scotland found that performance was maintained or improved for the majority of the specified indicators.

**Figure 4: The Council improved or maintained performance in 84% of the 45 specified indicators**



**Source: Midlothian Council Statutory Performance Indicators 2012-13**

Key areas of improved performance include the Council's progress against the Scottish Housing Quality Standard, linked to the significant housing capital programme.

There were also improvements in the condition of the Council's roads. The gross cost of administering council tax benefit also fell almost 16%, to £33.03 per case. This is significantly below the national average, at £41.70.

Only 7 indicators declined in 2012-13, with 4 of those indicators within the Housing Service. The Housing Service has been subject to a Whole Systems thinking assessment. We understand that this review has identified cross-service improvement opportunities in homelessness, housing allocations, estate management and in rent recovery, arrears management, housing benefit, house repairs and void properties. As a result, the Housing Service is making significant changes to service delivery and working practices. We, and our LAN partners, will therefore continue to review Housing performance in 2013-14.

The Council lost 1.6% of rent due during the year due to voids, which is an increase of 26% on the prior year. The national average for Scottish councils is 1.2%.

The Council also took 6 days longer on average to re-let houses (other than those assessed as low demand). The average number of days to re-let a property was 47 in 2012-13, compared to a national average of 33 days. However it is understood that this is in part due to

undertaking investment works i.e. heating installations, kitchen upgrades to some properties when they are empty to minimise disruption to incoming tenant.

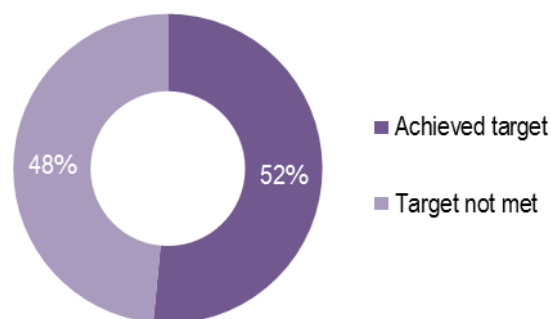
Current tenant arrears also increased, from 6.4% of net rent due in 2011-12, to 6.9% in 2012-13. The percentage of current tenants owing more than 13 weeks rent also increased from 6.3% to 6.7%, against a national average of 4.9%. We note that this trend of increasing rent arrears has continued in the first quarter of 2013-14, and current tenant arrears now stand at 7.33%.

As we note in Section 3, rent arrears will be a significant challenge in 2013-14 and beyond, as the full impact of welfare reform changes, including under occupancy charges take effect. The Council continues to be particularly impacted on the "13 weeks" arrears statistic in Q2, as those tenants who have never previously been liable for a charge, and who have not made payment, will now accrue debt. Proactive work is ongoing to maximise benefit entitlement, including Discretionary Housing Payments and the Council is making best use of the additional funding available to target those in most need.

### Single Outcome Agreement

The Partnership reported on progress against the 2012-13 SOA in October 2013. As Figure 5 highlights, the outcome measures adopted by the partnership under the national performance framework have been more challenging to deliver.

**Figure 5: The Midlothian Community Planning Partnership achieved just over half of the outcome targets for 2012-13**



**Source: 2012-13 Community Planning Performance Report**

Key areas for development include raising educational attainment, and improving the levels of school leavers achieving positive destinations. The latest school

leavers destinations follow-up report 2011-12, was published by Skills Development Scotland in June 2013. This reported that 85.4% of Midlothian's school leavers in 2011-12 were in a positive destination in October 2012. This was a slight increase on 2010-11, but placed Midlothian as the lowest performer in Scotland for the percentage of leavers entering a positive destination.

The Council and its partners have agreed a range of actions to address positive destinations, including the use of Modern Apprenticeships within the Council itself. We will therefore continue to monitor progress in this area.

Educational attainment remains a key focus for the Council, in particular in numeracy in primary 4-7 and in increasing attainment at Levels 5 and 6 in Secondary levels 4-6.

The Council has recently received a Joint Inspection of Services for Children and Young People. The inspection was led by the Care Inspectorate, but included support from Education Scotland and Healthcare Improvement Scotland. The results of this scrutiny will be used to inform the LAN's shared risk assessment and Assurance and Improvement Plan for 2014.

## National Studies

Audit Scotland require us to provide core information on how the Council has responded to national performance reports.

To promote impact at a local level, selected national performance reports are subject to more targeted follow up each year. For 2012-13, we were asked to follow up the *Scotland's Public Finances: Addressing the Challenges* report, which was published in August 2011.

## Scotland's Public Finances: Addressing the Challenges

The aim of the follow up work is to assess the progress that the Council has made in developing sustainable financial plans to meet the scale of budget cuts expected to be faced by the Scottish public sector in the period to 2014-15.

*Scotland's public finances: Addressing the challenges* was published in August 2011. The report provided an overview of the scale of budget cuts expected to be

faced by the Scottish public sector in the period 2010-11 to 2014-15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.

Our follow up work has been based on two questions based on the key issues for councils identified within the report:

does the Council have sustainable financial plans which reflects a strategic approach to cost reduction?

- Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?
- Our work was performed by interviewing officers and reviewing documentation including minutes, plans and performance reports. We also completed a questionnaire provided by Audit Scotland, to ensure consistency of approach across councils.

We issued our follow up report to the Council in October 2013. Our report outlined a number of concerns regarding the financial sustainability of the Council, which are set out in section 3 of this report. As a result of our follow up work, we have recommended that the Council:

- Ensure detailed, reliable plans are in place to bridge the budget gap as soon as possible
- Develop a medium term financial strategy which articulates the links between Council priorities and resource management
- Improves the transparency of reporting against business transformation savings to Council
- Ensures that a systematic approach is in place to benchmark costs and learn from other authorities.

## Managing Performance: Are you getting it Right

Audit Scotland's, *Managing Performance: are you getting it right?* was published in October 2012. The report stresses the critical role of self-evaluation and

good quality performance information in allowing councils to demonstrate that they are delivering efficient and effective services.

The report highlights the role of elected members in setting priorities and ensuring that useful, high-level indicators are in place to help members assess performance at a corporate level.

The report was presented to Midlothian Council in October 2012, together with a summary of current performance management arrangements. There is scope to conduct a self-assessment against the recommendations in the report as part of the Council's review of the Planning and Performance Management Framework, including:

- The role of Councillors in managing performance and driving improvement
- Developing a performance management culture
- Developing an effective performance management framework
- Developing good performance measures
- Using performance information effectively
- Developing self-evaluation and improvement activity
- Partnership working

## Major Capital Investment in Councils

Councils invest large sums of money every year on property and other assets that they will use over many years to provide public services. Councils spent £27 billion between 2000/01 and 2011/12 on capital projects. Of this figure, £4 billion of investment was procured through the use of Private Finance Initiative and Public Private Partnerships (PPP) contracts.

In March 2013, Audit Scotland published Major Capital Investments in Councils. The report reviewed a number of major capital projects over £5 million each, including three projects in Midlothian, the Woodburn and Cuiken Primary Schools, and Eskdale Road housing development.

The report found that Councils completed only two-fifths of projects within the initial cost estimates, and less than half within the value of contract award. Both

of Midlothian Council's school projects subject to review significantly exceeded the original cost estimate due to changes to the original specification. The Eskdale Road housing project was delivered for 21% less than the original estimate. All projects were, however, delivered within 5% of the contract award value.

Many councils do not have established processes for developing and using business cases, which means key performance information on aims, cost, time, scope and risk may not be clearly defined. Audit Scotland highlighted the business case for Midlothian Council's Cuiken Primary School within the report. The business case included only an options appraisal with associated costs. It did not consider other important aspects such as an assessment of risk, a procurement strategy or details of stakeholder consultation plans.

The business case for the school estimated it would cost £6.2 million but its final cost of £7.6 million was 23% higher. They noted that without detailed, accurate and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This could make it more difficult to hold decision-makers to account if problems arise later in the project.

While Councils are clear about the broad goals for their investment projects, they rarely specify benefits expected or how these will be measured. Audit Scotland also noted that councils do not often proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes, although in Midlothian the recently completed Lasswade Centre was procured in collaboration with the Scotland's Futures Trust and East Renfrewshire Council.

## An Overview of Local Government in Scotland 2013

In March 2013, Audit Scotland published the *Local Government Overview Report: Responding to Challenges and Change*, which is an annual report based on the findings from annual audit reports on the 2011/12 accounts, and Best Value and performance audit work.

The report highlights that pressures on resources and demands on services mean that councils may now have

to consider decisions, which they had previously ruled out, to balance their budgets. Most councils predict substantial funding gaps over the next three years.

Pressures on finances and changes in the workforce give greater impetus for councils to be active and ambitious in considering alternative options for services. The report points to the importance of elected members in identifying priorities and in decision making. However, fully evaluating service options can be complex and councilors therefore need good-quality evidence from officers to support decisions.

The Council's Audit Committee received a copy of the national report at its meeting in June 2013. There is scope to improve the local impact of national reports by providing the Committee with a self-assessment against Audit Scotland's findings.

#### **Refer to Recommendation 5**

## Looking Forward

The SOLACE Benchmarking Project 'Improving Local Government' was developed in order to:

- Support SOLACE to drive improvement in local government benchmarking
- To develop a comparative performance support framework for Scottish local government
- To support councils in targeting transformational change in terms of areas of greatest impact – efficiency, costs, productivity and outcomes
- Focus on the 'big ticket' areas of spend plus corporate services

From 2013-14, the Council will have to report on 149 SPIs and KPIs (50 SOLACE Benchmarking and 99 key performance indicators). A review of the key performance indicators is planned for the autumn with the aim of streamlining this process, removing any duplication with the SOLACE indicators and to ensure that the KPIs continue to be a meaningful measure of Best Value.

# Appendix A: Action Plan

	Issue and risk	Recommendation	Management response
1	<p>Since its inception in February 2010 to 31 March 2013, the Council has invested over £1.5 million on the Transformation Programme, with future commitments of a further £1.36 million.</p> <p>Since the initial success of the Management Review, the programme has not achieved the level of savings anticipated. Transparency about the level and sustainability of savings delivered could be improved.</p>	<p>The Business Transformation Steering Group should consider the costs and benefits of the business transformation programme in its current form.</p>	<p>A revised transformation programme is being finalised and will be presented to the Business Transformation Steering Group for consideration together with a comprehensive update on investment and delivery to date.</p> <p>A) A financial strategy setting out the challenge ahead and incorporating revised Council Transformation Programme targets is being prepared and will be presented through the Business Transformation Steering Group to Council on 04/02/2014.</p> <p>B) BTSG on 02/12/2013 will receive a report setting out investment on the Council Transformation Programme to date and savings achieved across the programme strands.</p>
2	<p>The Council has recently established revised arrangements for risk management. We will continue to work with internal audit to review the effectiveness of risk management throughout 2013-14, but noted that presentational changes could improve the understanding and impact of risk.</p>	<p>We note that committee reports on corporate risks could be improved by ordering risks by current score, and therefore highlighting critical risks to the organisation.</p>	<p>A revised reporting format is being adopted as part of a comprehensive review of Risk Management and will be presented to Audit Committee in January 2014.</p>

	Issue and risk	Recommendation	Management response
3	<p>In common with many Scottish Community Planning Partnerships, the Midlothian CPP faces a key challenge in demonstrating how public money and other resources are influenced by community planning, and targeted at neighbourhood level.</p> <p>There is scope to improve the Planning and Performance Management Framework to ensure that performance reports are clear, focused on outcomes and linked to risk.</p>	<p>The Council should ensure that any improvements made to the Planning and Performance Management Framework are extended to community planning partnership arrangements.</p>	<p>A Council wide review of Planning and Performance Management is underway. Arising from this a revised Planning and Performance Management framework will be adopted during 2014 improving the 2014/15 performance monitoring arrangements and shaping the 2015/16 later years Single Midlothian and service plans.</p> <p>The proposed new leadership structure will shift responsibility for Planning and Performance Management to the Head of Community and Economy. The Planning and Performance Management Review and revised structure will bring a more cohesive approach within the wider Community Planning arrangement.</p>
4	<p>During 2012-13, the Council received reports on progress against the Best Value Improvement Plan. The action plan was developed with Audit Scotland in response to the June 2012 Best Value 2 findings.</p> <p>A number of significant changes have been made to the Council's arrangements for best value since the development of the audit plan, including the level of savings anticipated to be delivered from the Business Transformation Programme. The Midlothian Excellence Framework has also not been rolled out across services in the way anticipated at the time of the review.</p> <p>There is a risk that if the Council does not update and refresh improvement plans to consider key assumptions made at the time of the original audit, delivering the improvement plan will not be sufficient to deliver best value.</p>	<p>The Council must ensure that all performance reports and improvement plans are transparent and reflect the full scale of challenges to ensure that they remain credible, and give elected members the assurance they need.</p> <p>The Best Value Improvement Plan needs to be refreshed to consider how the Council demonstrates its plans for financial sustainability, and the competitiveness and cost effectiveness of all services.</p>	<p>In addition to the review of Planning and Performance Management outlined in item 3, a comprehensive review of the current Best Value Improvement Plan is being undertaken with the outcome to be presented as an updated Best Value Improvement Plan to Council on 04/02/2014. This will complement the financial strategy and updated Council Transformation Programme which will be presented to the same meeting.</p>

	Issue and risk	Recommendation	Management response
5	<p>Audit Scotland's report Managing Major Capital Investments made a number key findings which relate to Midlothian Council's management of its capital projects.</p> <p>The Council's Audit Committee received a copy of the national report at its meeting in June 2013 but the paper did not reflect on the local impact of the report or any self-assessment against Audit Scotland's findings.</p>	<p>The Council should ensure that, where relevant, national reports presented to the Audit Committee include a self-assessment against recommendations and plans for improvement.</p>	<p>Internal Audit is reviewing the way that national reports are currently presented to the Audit Committee. This review will ensure that an identified lead officer will be responsible for submitting a report to the Audit Committee detailing Midlothian's response to any self assessment/recommendations made in national reports</p>





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