

# Notice of meeting and agenda



## Audit Committee

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

**Date:** Tuesday, 13 December 2016

**Time:** 11:00

**John Blair**  
Director, Resources

**Contact:**

Clerk Name: Janet Ritchie  
Clerk Telephone: 0131 271 3158  
Clerk Email: [janet.ritchie@midlothian.gov.uk](mailto:janet.ritchie@midlothian.gov.uk)

**Further Information:**

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

**Audio Recording Notice:** Please note that this meeting will be recorded. The recording will be publicly available following the meeting. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

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

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## **2 Order of Business**

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

## **3 Declarations of Interest**

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

## **4 Minutes of Previous Meeting**

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| <b>4.1</b> | Minute of Meeting of 20 September 2016 submitted for approval | <b>5 - 10</b> |
|------------|---|---------------|

## **5 Public Reports**

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|------------|--|------------------|
| <b>5.1</b> | Midlothian Council External Audit Framework overview – Report by External Auditors                         | <b>11 - 32</b>   |
| <b>5.2</b> | Risk Management Update 1 April - 30 June 2016 - Report by Risk Manager                                     | <b>33 - 56</b>   |
| <b>5.3</b> | Risk Management Update 1 July - 30 September 2016 - Report by Risk Manager                                 | <b>57 - 78</b>   |
| <b>5.4</b> | Maintaining Midlothian's Roads Update Report - Report by Head of Commercial Operations                     | <b>79 - 84</b>   |
| <b>5.5</b> | Anti Fraud and Corruption, Anti Bribery and Whistleblowing Policies - Report by the Internal Audit Manager | <b>85 - 112</b>  |
| <b>5.6</b> | Audit Scotland Report - National Fraud Initiative 2014/15 - Report by Internal Audit Manager               | <b>113 - 120</b> |
| <b>5.7</b> | Corporate Fraud Annual Report - Report by the Internal Audit Manager                                       | <b>121 - 126</b> |
| <b>5.8</b> | Internal Audit Progress Report - Report by the Internal Audit Manager                                      | <b>127 - 134</b> |
| <b>5.9</b> | Internal Audit Recommendations - Report by Internal Audit Manager  | <b>135 - 146</b> |

<b>5.10</b>	Internal Audit Report - Welfare Reform Universal Credits - Report by Internal Audit Manager	<b>147 - 160</b>
<b>5.11</b>	Internal Audit Report –Tyne Esk LEADER - Report by Internal Audit Manager	<b>161 - 176</b>
<b>5.12</b>	Financial Monitoring 2016/17 and Financial Strategy 2017/18 to 2021/22 - Report by Director Resources	<b>177 - 238</b>

## **6 Private Reports**

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No private business submitted for discussion

The next meeting of the Audit Committee will be held on Tuesday 21 March 2016



# Minute of Meeting



Audit Committee  
Tuesday 13 December 2016  
Item No 4.1

## Audit Committee

Date	Time	Venue
Tuesday 20 September 2016	11.00am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

### Present:

Peter Smaill (Independent Chair)	Michael Thomas (Independent Member)
Councillor Baxter	Councillor Bryant
Councillor de Vink	Councillor Muirhead
Councillor Parry	

### In attendance:

Paul Dossett	Grant Thornton UK LLP
Paul Jacklin	Grant Thornton UK LLP
Steven Reid	Ernst & Young LLP
Peter Perkins	Ernst & Young LLP
Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Eibhlin McHugh	Joint Director Health and Social Care
Gary Fairley	Head of Finance and Integrated Service Support
Chris Lawson	Risk Manager
Graham Herbert	Internal Audit Manager
Elaine Greaves	Internal Audit Manager
James Polanski	Auditor
Amber Ahmed	Auditor
Mike Broadway	Democratic Services Officer

## 1. Apologies

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Apologies were received from Councillor Milligan.

## 2. Order of Business

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The order of business was confirmed as outlined in the agenda that had been previously circulated.

## 3. Declarations of interest

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No declarations of interest were received.

## 4. Minutes of Previous Meetings

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The minutes of the Audit Committee meeting of 21 June 2016 were submitted and approved as a correct record.

## 5. Reports

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Report No.	Report Title	Presented by:
5.1	Annual Report to Members and the Controller of Audit for the Financial Year ended 31 March 2016	Paul Dossett/Paul Jacklin

### Outline of Report

There was submitted the Annual Report to Members and the Controller of Audit for the Financial Year ended 31 March 2016, prepared by the External Auditors, Grant Thornton. The report advised, inter alia, that the external auditors intended to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2016. In addition, the report provided detailed information on Financial Management; Financial sustainability; Governance and Transparency; and Best Value and Value for money.

### Summary of Discussion

The Committee, having heard from the External Auditors in amplification of their report, discussed a number of issues arising therefrom, viz:- the level of useable reserves; debt recovery and bad debt; PPP commitments; and IT control environment.

### Decision

- (a) To note and approve the Annual Report;
- (b) To note that it was intended to report on reserves to Council and that this report could then be brought forward to the Committee for its interest;
- (c) To note the position in relation to bad debt and that debt recovery provisions were in place;
- (d) To note that the Council's PPP commitments were being examined as part of the work being undertaken to address the ongoing financial challenges faced by the Council;

- (e) To record the Committee's appreciation of the work undertaken by the Finance Team in assisting the Auditors in the preparation of the report; and
- (f) To record the Committee's thanks to Grant Thornton, whose period of tenure as the Council's External Auditors had now come to an end.

Report No.	Report Title	Presented by:
5.2	Letter of representation to Grant Thornton UK LLP - Financial Statements for the year ended 31 March 2016	Gary Fairley

#### Outline of Report and Summary of Discussion

There was submitted a draft letter of representation to the External Auditors, in respect of the Statements, prepared by the Head of Finance and Integrated Service Support.

#### Decision

To approved the draft letter of representation.

Report No.	Report Title	Presented by:
5.3	Midlothian Council – Introduction to Ernst & Young LLP	Stephen Reid/Peter Perkins

#### Outline of Report

There was submitted an introduction to the Council's new External Auditors, Ernst & Young LLP, who had been appointed by the Accounts Commission for the period 2016/17 to 2020/21.

#### Summary of Discussion

Having heard from Stephen Reid, who responded to Members questions, the Committee discussed Ernst & Young's appointment as the Council's new External Auditors.

#### Decision

To note the report and welcome Ernst & Young's appointment.

Report No.	Report Title	Presented by:
5.4	Risk Management, Update for 1 April 2016 – 30 June 2016	Chris Lawson

#### Outline of Report

There was a report submitted to the Audit Committee from the Risk Manager dated 24 August 2016 providing the Committee with the 2016/17 quarter 1 strategic risk management update, covering the period 1 April to 30 June 2016.

**Decision**

The Committee agreed that in view of the late circulation of the report which some Members' indicated that they had not received to continue consideration of the quarter 1 2016/17 Strategic Risk Profile report and considered it along with the quarter 2 report at the next meeting.

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Report No.	Report Title	Presented by:
5.5	Annual Governance Statement	Kenneth Lawrie

**Outline of report and summary of discussion**

With reference to paragraph 5.3 of the Minutes of 10 May 2016, there was submitted report, dated 7 September 2016, by the Chief Executive, advising the Committee of a small number of additions to the Annual Governance Statement recommended by the Council's External Auditors, Grant Thornton. The report therefore incorporated a final draft of the Governance Statement which contained the recommended changes.

**Decision**

To approve, subject to any final changes, the final draft Annual Governance Statement for its interest.

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Report No.	Report Title	Presented by:
5.6	Internal Audit Report – Self Directed Support	James Polanski

**Outline of Report**

There was submitted report, dated August 2016, by the Internal Audit Manager, in respect of a review of the arrangements surrounding Midlothian Council's implementation of Self-Directed Support. The objective of the audit was to assess the adequacy of the controls in place regarding the implementation of Self-Directed Support (SDS). This included evaluating the operational arrangements and control environment. The review had concluded that management had made good progress in implementing systems, internal controls, and procedures for the delivery of self-directed support. A number of weaknesses had however been identified in the controls where improvements were possible. The report therefore contained a management action plan to address these weaknesses and thus reduce risk and this was incorporated into the report. The management action plan had been accepted by management.

**Decision**

- (a) To note the strengths and weaknesses that had been identified;
- (b) To approve the management action plan; and
- (c) To authorise release of this report for information to the Integration Joint Board Audit and Risk Committee.



Report No.	Report Title	Presented by:
5.7	Internal Audit Report – Transformation Programme, Follow-up Review	Graham Herbert

#### Outline of Report

With reference to paragraph 5 of the Minutes of 28 October 2014, there was submitted report, dated September 2016, by the Internal Audit Manager on a follow-up audit undertaken in respect of the Council Transformation Programme.

#### Summary of Discussion

The Internal Audit Manager presented this report to the Committee highlighting that the purpose of the report was to follow up on the issues raised in the Transformation Programme Audit. It was noted that Transformation was now only one strand of the Finance Strategy and that a further review was to be undertaken in 2016/17 encompassing these additional areas. The majority of Audit actions were identified as having been completed satisfactorily however some issues had been identified where further work was required to fully implement the original audit recommendations. The report therefore contained a management action plan to address these issues and this was incorporated into the report. The management action plan had been accepted by management.

#### Decision

- (a) To note the follow-up report; and
- (b) To approve the management action plan.

Report No.	Report Title	Presented by:
5.8	Internal Audit Report – Review of Controls Operating Over Petty Cash, Follow-up Review	Elaine Greaves

#### Outline of Report

With reference to paragraph 8 of the Minutes of 17 March 2015, there was submitted report, dated September 2016, by the Internal Audit Manager on a follow-up audit undertaken in respect of the Controls Operating over Petty Cash.

#### Summary of Discussion

The Internal Audit Manager presented this report to the Committee highlighting that the purpose of the report was to determine whether the recommendations made in the 2014/15 Audit of Petty Cash had been implemented. Additionally, the audit had also assessed the level of compliance with the Council's updated Petty Cash Guidelines for a sample of petty cash imprest accounts. Although it was recognised that a number of improvements had been made since the last review to comply with the recommendations and subsequent revised procedures, further recommendations were considered appropriate to bring the Council up to full compliance with the revised Petty Cash Guidelines. The report therefore contained a management action plan to address these issues and this was incorporated into the report. The management action plan had been accepted by management.

Decision
(a) To note the follow-up report; and (b) To approve the management action plan.



## 6. Private Reports

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In view of the nature of the business to be transacted, the Committee agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraphs 1, 6 and 9 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Internal Audit Report – Review of Controls Operating over Care at Home – To note the report and to approve the management action plan.

## 7. Date of Next Meeting

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The next meeting of the Audit Committee would be held on Tuesday 13 December 2016 at 11.00 am.

The meeting terminated at 12.25 pm.

# Midlothian Council

2016 - 2021

External Audit Framework

December 2016



Building a better  
working world



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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

In May 2016, the Accounts Commission appointed EY as your external auditor for the five year period 2016/17 to 2020/21 in accordance with the Local Government (Scotland) Act 1973. The appointment comes at a period of significant challenge and opportunity for local authorities across Scotland. Over the next five years, the public sector landscape in Scotland will continue to change. Greater powers and responsibilities are being devolved to the Scottish Parliament for taxation and social security. Locally, financial pressures and increasing demand for services represent significant challenge to authorities. The introduction of Integration Joint Boards is one of the new ways in which services are being delivered. To manage these challenges, it is essential that entities have a strong and effective system of financial control, accountability and transparency that supports the best use of public money in the public interest.

As auditor of Midlothian Council ("the Council"), we will provide independent assurance that public money is being appropriately used and that the Council is delivering value for money to the taxpayer. We provide insight and challenge to ensure the effective use of resources and how services are delivered.

Under the terms of the appointment, we are required to conduct our audit in accordance with Audit Scotland's Code of Audit Practice ("the Code"). The Code was revised in May 2016 and now puts greater responsibility on auditors to consider and conclude on the four dimensions of the wider scope of public sector audit: **financial sustainability; financial management; governance and transparency; and value for money**. This builds upon our responsibilities to provide an opinion on the Council's financial statements.

This document summarises the audit framework. It provides details of the evolving focus of public sector external audit, our approach over the term of our appointment and initial areas of focus for the Council. We will present our annual audit plan to the Audit Committee in March 2017 upon completion of our initial planning process.

The rest of this document sets out how we will take forward our audit appointment with the Council.

## Public sector audit framework

We provide an overview of the framework for public sector audit within which we operate.

## Audit strategy and approach

We provide a summary of our overall approach to delivering on our audit responsibilities over the five year term of our appointment.

## Financial statements

We detail our risk based audit approach and areas of initial audit focus as part of our statutory audit of the financial statements.

## Wider scope audit dimensions

We fulfil the requirements of the Code in respect of the four wider scope dimensions applicable to public sector audit.

## Other responsibilities

As your appointed auditor, we undertake and participate in a broad range of intelligence gathering, information returns and grant claim certification as part of our responsibilities under the Code.

# **1. Public sector audit framework**

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as your external auditor for the five year period 2016/17 to 2020/21. We will undertake our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016) and the requirements of International Standards on Auditing (UK and Ireland) (ISA). The Code outlines the principles and standards to be followed by auditors and their responsibilities. Our responsibilities extend beyond the statutory audit of the financial statements. We have responsibilities to review, conclude and report on the four wider scope dimensions of public sector audit as well as other responsibilities under the terms of our appointment.

## Financial statements audit

We are responsible for conducting an audit of the financial statements of the Council. Our audit work will be planned and undertaken in accordance with International Standards on Auditing (UK and Ireland). Our responsibilities in relation to the audit of the financial statements are defined within the Code and statute. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

## Wider scope audit dimensions

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide conclusions on the four dimensions of wider-scope public audit: **financial sustainability; financial management; governance and transparency; and value for money.**

There is a requirement on appointed auditors to report and conclude on the arrangements across the Council. Our audit work over the four wider scope audit dimensions is aligned with and compliments our financial statements audit.

## Best Value

Under the Local Government (Scotland) Act 1973, councils have a statutory responsibility to make arrangements to secure best value through the continuous improving in the performance of their functions. With considerable pressures on available finances, difficult choices are being faced by councils both in respect of scope of local services and delivery of those services.

As part of our annual audit we will consider the Council's Best Value arrangements through our wider scope audit work. Over a five year cyclical period, the Council will receive at least one report on Best Value concluding on its performance relating to Best Value characteristics and improvements. Our annual work around the wider-scope audit dimensions will help inform and develop our assessment of the Council's Best Value arrangements. We will work in partnership with Audit Scotland Performance Audit and Best Value staff in delivering this work, in line with the Accounts Commission's new model for Best Value audits.

## Other responsibilities

Under the terms of our appointment, our role and responsibilities extend beyond the audit of the financial statements. There a number of further areas of audit activity that we will cover over the term of our appointment. These include our responsibilities in relation to following the public pound, statutory performance information and audit activity across the National Fraud Initiative and grant claims.

## Adding value

In line with the general principles outlined in The Code, we aim to add value through our audit work by providing clear judgements and conclusions from our audit work and providing constructive, appropriate and proportionate recommendations for improvement where significant risks are identified.



# 1. Public Sector Audit Framework

We review the adequacy of governance arrangements. In particular, we consider and report on; whether these are appropriate and operating effectively and that there is effective scrutiny, challenge and transparency on decision-making.



We consider the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

We conclude on the effectiveness of financial management arrangements. This includes considering whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

We consider whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

## **2. Audit strategy and approach**

## 2. Audit strategy and approach

We perform our audit in accordance with International Standards on Auditing (UK and Ireland), the International Standard on Quality Control (UK and Ireland), ethical standards and applicable Practice Notes and other guidance issued by the Auditing Practice Board.

Our audit strategy and planning follows a risk based approach. This reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the highest areas of risk.

### Planning methodology

Our detailed audit plan will be presented to the Audit committee in March 2017, following finalisation of the Audit Scotland planning guidance and completion of our audit planning processes. We adopt a risk based planning approach, analysing the risks inherent in your external influences, the key strategic, operational and financial risks for the Council and our knowledge of other factors that may impact the financial statements. Our planning considers the following key areas:

- Review of Audit Scotland planning and technical guidance.
- Review of the Council's corporate strategies and plans.
- Review of the Council's risk register.
- Consideration of recent reviews including external audit reports and self assessments.
- Engagement with internal audit.
- Discussion with senior officers.
- Engagement with Audit Scotland.
- Participation in the Shared Risk Assessment process.
- Consideration of the work of other inspection bodies.
- Detailed understanding of the Council's key financial systems and processes and control environment.

### Wider scope audit assurance

Our audit planning process extends our risk assessment beyond the standard scope of an audit of the financial statements.

Under the requirements of the Code, our planning process will consider the four dimensions of **financial sustainability; financial management; governance and transparency; and value for money** when undertaking our annual risk assessment and audit planning.

This will enable us to develop a rounded, risk based audit plan to allow us to both identify, assess and report on the Council's Best Value arrangements.

### Joined up assurance planning

As your external auditor we participate in the Local Area Network (LAN). LAN's bring together representatives from across local government scrutiny bodies to agree a Shared Risk Assessment (SRA). The SRA informs the local scrutiny plan ensuring that for risks identified there is sufficient scrutiny activity.

Our audit planning activity will both inform and build upon the SRA ensuring that there is a co-ordinated approach to assurance activity. We also work in partnership with Audit Scotland to develop a joined up approach to Best Value audit.

### **3. Financial statements audit**

# 3. Financial statements audit



Financial statements are an essential part of demonstrating stewardship of public resources and the financial performance in the use of those resources. A core element of our role as your external auditor is undertaking a robust audit to allow us to express an opinion on the Council and group financial statements. We perform our audit in accordance with International Standards on Auditing (UK and Ireland), the International Standard on Quality Control (UK and Ireland), ethical standards and applicable Practice Notes and other guidance issued by the Auditing Practice Board. Our audit strategy and planning follows a risk based approach. This reflects our overall assessment of the relevant risks that apply to the Council.

## Financial statements audit

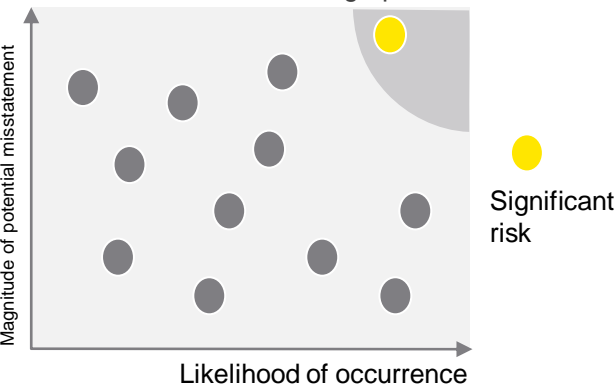
Our responsibilities in relation to the audit of the financial statements are defined within the Code and statute. We provide an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local authority Accounting of the state of the affairs of the council and its group as at 31 March and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code of Practice, and have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.

We are also required to provide an opinion on other prescribed matters, in particular, whether the part of the Annual Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014 and the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Significant risks

Auditing standards require us to consider whether any of the risks identified are ‘significant’ risks to our audit of the Council and the group. Financial statement significant risks are defined as those with a higher likelihood of occurrence and, if they were to occur, could result in a material misstatement of the consolidated financial statements, as set out in the graphic below:



We are required to identify financial statements significant risks in the audit, and perform specific procedures over those risks, including identification and testing of the design and implementation of key controls designed to address the risks.

We are required to specifically highlight these significant risks to ‘those charged with governance’ i.e. the Audit Committee.

The outcome from our risk assessment will be included in our annual audit plan.

## Controls based approach and coordinated assurance

We work with management and internal audit to develop our understanding of the Council’s control environment to reduce the level of reliance on substantive procedures.

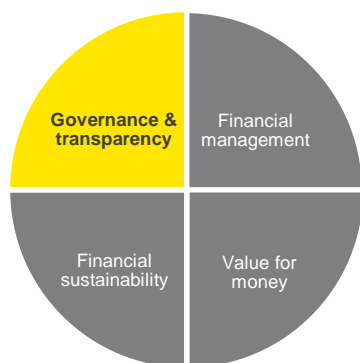
We will look to work with internal audit and other assurance providers to ensure a co-ordinated assurance approach. In our first year we will undertake a detailed review of the work performed by internal audit to satisfy ourselves that this meets relevant guidance and standards and to determine the extent of reliance we can place on work performed.

## Value through use of our analytical tools

We utilise our data analytics tools to provide enhanced assurance over key transaction data sets. This enables us to assess complete account balances and reduce the use of sample testing of transactions to gain assurance.

## **4. Wider scope audit dimensions**

## 4. Wider scope audit dimensions



### Governance and transparency

Members and officers are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations. Crucial to this is ensuring that there is sufficient monitoring and review of corporate governance arrangements to ensure that these remain fit for purpose.

### Our responsibilities

In response to the changing economic pressures and demands, local authorities are undergoing a significant period of change, as service function and delivery is updated and aligned with available funding.

It is increasingly important that the Council's governance arrangements are sufficiently robust to ensure that these challenges and opportunities are effectively managed and delivered.

Robust governance arrangements are built upon the key areas shown in the diagram. Effective governance enables management and councillors to make clear strategic decisions through transparent management information.

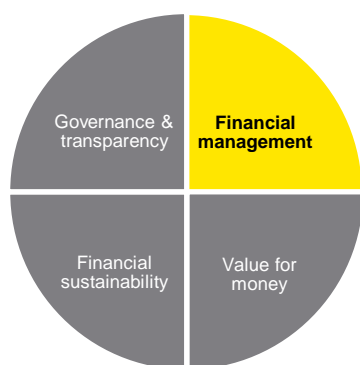


### Our strategy

We will evaluate and report on the Council's corporate governance arrangements. This will consider the:

- systems of internal control, including its reporting arrangements;
- arrangements for maintaining standards of conduct and the prevention and detection of corruption;
- arrangements for prevention and detection of fraud and irregularity; and
- the arrangements for the monitoring and review of corporate governance arrangements.

## 4. Wider scope audit dimensions



### Financial Management

With the significant financial challenges facing public sector bodies, it is essential that the Council has robust financial management arrangements to ensure that it can continue to deliver services to the local population. Effective financial management requires good financial planning, budgetary control and financial reporting arrangements.

### Our responsibilities

Financial management is concerned with financial capacity and robust financial planning processes. This includes sound budgetary processes and whether the control environment and internal controls are operating effectively. While the Council has delivered recent required financial savings targets, delivery of further efficiency savings is likely to require more fundamental decisions around services offered and service delivery.

The Council faces significant financial pressures including reductions in government funding and social and demographic factors increasing the level of demand on available resources. Therefore, it is increasingly important that the Council has robust financial management arrangements to effectively manage these pressures.

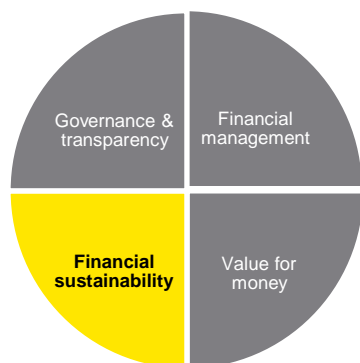
### Our strategy

Over the course of our audit planning and execution we will look to develop a comprehensive understanding of the Council's financial management arrangements. Our audit work will include assessing and reporting on areas including:

- the Council's arrangements to ensure systems of internal control are operating effectively;
- whether the Council can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance;
- how the Council has assured itself that its financial capacity and skills are appropriate; and
- whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.



## 4. Wider scope audit dimensions



### Financial sustainability

Financial sustainability is focused on the medium to longer term financial viability. A key challenge for authorities is ensuring that in implementing shorter term financial and operational targets, the Council does not adversely impact on the delivery of its strategic objectives and medium to longer term financial sustainability.

### Our responsibilities

As part of the annual audit of the financial statements, ISA 570 requires auditors to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements. This requires auditors to consider that an entity will continue in operational for a period of at least 12 months from the date of signing the financial statements. The Code requires auditors to consider the financial sustainability of an entity for the medium to longer term, which covers a period of two to five years.

Some of the challenges facing the Council over this timescale include:

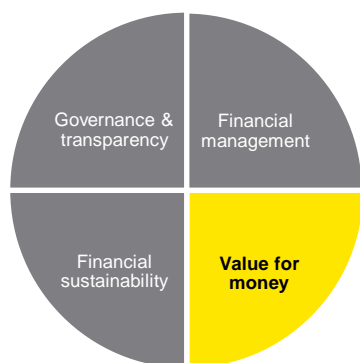
- Government grant levels which have not kept pace with inflation and service demand
- Continuing demographic pressures with rising school rolls at one end of the spectrum and a higher number of elderly people requiring care at the other end;
- Other events, including equal pay settlements and changes to national insurance for defined benefit pension schemes.

### Our strategy

Our audit work in respect of financial sustainability will include assessing and reporting on areas including:

- The effectiveness of the financial planning systems and identifying and addressing risks to financial sustainability across shorter and longer terms;
- Whether the Council can demonstrate the affordability and effectiveness of funding and investment decisions that it has made; and
- The appropriateness of the arrangements put in place to address identified funding gaps and whether the body can demonstrate that these arrangements are working.

## 4. Wider scope audit dimensions



### Value for money

Value for money is focused on how the Council effectively utilises its resources and the arrangements in place to continually improve services.

### Our responsibilities

The Council has a responsibility to achieve value for money and demonstrate this through transparent reporting to the public, demonstrating how efficiently and effectively these are being delivered. Local authorities use various mechanisms to determine the efficiency of services, including a range of performance measures and indicators. They should also look to benchmark performance against other authorities to demonstrate value for money.

A key challenge for councils is ensuring that pressures to deliver short term financial and operational targets do not hinder the achievement of medium to longer efficiency improvements. Furthermore, there is a risk that the delivery of these is not at a sufficient pace to maximise the benefits.

Under the Code we are required to consider the extent to which the Council is delivering value for money and that there is clear focus on delivering services as efficiently as possible. Two key areas of focus are:

#### Option appraisal process

The Council's decision making process and the extent to which it is underpinned by critical appraisal of potential options to secure the best value to the Council.

#### Focus on continuous improvement

The Council's arrangements for monitoring the delivery of planned efficiencies. The extent to which planned efficiencies or improvements are tracked by the organisation and achievement of these, including pace of delivery, are challenged.

### Our strategy

In accordance with the Code, our audit work will include reviewing:

- The extent to which the Council can demonstrate that there is a clear link between money spent, outputs and outcomes delivered;
- Whether the Council can demonstrate that outcomes are improving;
- The extent to which there is a sufficient focus on improvement and the pace in which it is delivered; and
- The extent to which the Council can evidence that it is demonstrating value for money in the use of resources.

## **5. Other audit responsibilities**

## 5. Other audit responsibilities

Under the terms of our appointment, our role and responsibilities extend beyond the audit of the financial statements and the wider scope audit dimensions. There a number of further areas of audit activity that we will cover over the term of our appointment. These include our responsibilities in relation to following the public pound, statutory performance information and audit activity across the National Fraud Initiative and grant claims. Below we provide a summary of these areas which will be further detailed in our audit plan.

### **Following the public pound**

Local Authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound (FPP Code). The principles of the FPP Code are embedded into the new approach to auditing Best Value. As part of our risk based planning approach we will consider the Council's arrangements to comply with the FPP Code. Over our five year appointment, Audit Scotland undertake performance audits across authorities for which we will be required to provide supporting information. During 2017, Audit Scotland will be undertaking a performance audit relating to Arms Length Organisations (ALEOs).

### **Statutory performance information**

Local authorities have a responsibility, under their Best Value duty, to report performance to the public. One of the Accounts Commission's Strategic Audit priorities is 'the quality of council public performance reporting to help citizens gauge improvement'. Consequently, over the term of our appointment, we will focus on the Council's performance reporting arrangements and integrate this with our wider planning activity.

### **National Fraud Initiative and fraud returns**

All local authorities are required to participate in the National Fraud Initiative (NFI). NFI involves the collection of data from various entities including authorities to identify potential irregularities for investigation. Authorities are required to participate through both initial data submission and investigation of identified matches. We are required to monitor and report on the Council's participation in NFI. We are also required to report on any frauds identified at the Council.

### **Other assurance activity**

Under the terms of our appointment we are required to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns as well as certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

## **Appendix A - Implementation timeline**

# Appendix A - Implementation timeline

We will develop our detailed audit plan over the coming months and report our planned audit approach. Over the term of our appointment we will develop our knowledge and understanding of the Council to help develop and inform our conclusions on the Council's Best Value arrangements. The diagram below summarises our annual audit cycle for 2016/17, as well as the longer term strategic planning.



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## **Risk Management, Update for 1 April 2016 – 30 June 2016**

### **Report by Chris Lawson, Risk Manager**

#### **1 Purpose of Report**

The purpose of this report is to provide Audit Committee with the 2016/17 quarter 1 strategic risk management update, covering the period 1 April to 30 June 2016.

#### **2 Background**

##### **2.1 CORPORATE RISKS**






Audit Committee has requested regular reporting on the Council's Strategic Risks. A Strategic Risk Profile report is attached as Appendix 1 for information. This report reflects the Strategic Risk, Issues and Opportunities facing the Council as at quarter 1 2016/17.









Following the work by Midlothian Community Planning Partners to develop the Single Midlothian Plan work is underway to identify and assess the risk associated with delivery against outcomes within the Council Corporate Risk Profile.





The Corporate Management Team have given consideration to the result of the United Kingdom referendum the European Union held on 23 June 2016. While the impact of the referendum result is yet to be fully assessed, it is recognised the implications could be wide ranging and will require consideration at both Service and Strategic levels.





More recently the Education Delivery Plan, announced by the Scottish Government, together with possibility of a public sector reform programme, creates uncertainty. These external factors require to be considered to assess and quantify the potential associated risks and opportunities.

#### **Strategic Risk Profile Summary**

<b>Strategic Risks</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Evaluation</b>	
Balancing budget in future years	4	4	16	High	
Corporate change and transition	4	4	16	High	
Information Security	3	5	15	Medium	
People risk	3	4	12	Medium	
Integration of health and social care	3	4	12	Medium	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Governance and standards	3	4	12	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with others to deliver outcomes	3	3	9	Medium	
Asset condition	3	3	9	Medium	
Climate change	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Emergency planning and business continuity	2	4	8	Low	
Corporate policies and strategies	2	3	6	Low	

Top Issues	Likelihood	Impact	Score	Evaluation	
Balancing budget 2017/18	4	5	20	High	
Review of Pay and Grading	4	4	16	High	
Corporate change and transition	3	4	12	Medium	
Integration of Health and Social Care	3	4	12	Medium	

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
Shawfair Development	5	4	20	High	
Borders Rail	5	4	20	High	
Easter Bush - Penicuik	5	4	20	High	
City Deal	3	5	15	Medium	

## 2.2 STRATEGIC RISKS – RATED HIGH

### Balancing budget in future years

The Council's Financial Strategies core objective is to secure the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint coupled with increasing service demands and increasing customer expectations.

In response to these challenges the Council has set out a Financial Strategy to 2021. To ensure the Council Services provided meet the needs of service users and are as efficient as possible the Council are implementing the Delivering Excellence programme. A framework for service review and redesign is established and this is expected to bring forward savings option, whilst endeavouring ensuring service user needs are met.

A report was provided to June Council setting out actions and timelines associated with setting the 2017/18 Budget and a further update will be presented to the September Council.

## **Corporate change and transition**

Services continue to address the financial and service challenges which the Council faces, through the transformation programme and the Delivering Excellence framework. These are focused on reshaping services to deliver improved customer outcomes, achieve service efficiencies and create sustainable change. The Transformation programme and the Delivering Excellence framework is not without its challenges and success requires a sustainable shift in culture and introduction of more innovative, entrepreneurial and collaborative thinking across the Council underpinned by strong leadership.

### **2.3 STRATEGIC ISSUES – RATED CRITICAL AND HIGH**

#### **Balancing Budgets 2017/18**

The financial position for 2017/18 is expected to remain challenging. In response a budget preparation report was presented to Council in June 2016.

#### **Review of Pay and Grading**

The implementation of the 'Pay and Grading Review' approved by Council in June will have a positive effect on employees within Midlothian Council. There are risks if the implementation of the review is not fully realised. A key aspect of the review is the updating of Organisational Development and Human Resource policies, the re-launch of the 'Code of Conduct' and lifelong learning as well as the strengthening of employee benefits package. The pay and grading structure changes will make a important difference to 'in work poverty' and Midlothian Councils position as an employer of choice.

There are Consequences to not fully implementing the review and concerns about what the organisation will 'look like' if the cultural change required does not follow. It is possible that this might result in higher employee relationship issues, owing to uncertainty about what behaviours are expected and the boundaries the organisation works within. There is a risk if the 'pay and grading review' is not implemented, the vision of 'A Great Place to Grow' and the Council values including respect, collaboration, pride and ownership will not be fully embedded.

### **2.4 STRATEGIC OPPORTUNITIES**

The opportunities arising from Shawfair, Borders rail, Easter Bush and City Deal are included within the strategic risk profile as they directly or indirectly support the delivery of the Council's key strategic priorities.

These projects offer a solid foundation for the investment in and development of infrastructure across the Council area.

### **3 Report Implications**

#### **3.1 Resource**

There are no direct resource implications in this report although individual risks will have associated resource implications which are considered within the Risk Registers.

#### **3.2 Risk**

Corporate Risks are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis.

#### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

#### **3.4 Impact on Performance and Outcomes**

The purpose of the council's risk management approach is to support a level of risk awareness, to inform decision making and to support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

#### **3.5 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 greater risk awareness.

#### **3.6 Involving Communities and Other Stakeholders**

Consultation has taken place with Senior Managers responsible for key corporate risk and the Corporate Management Team.

#### **3.7 Ensuring Equalities**

There are no direct equalities issues arising from this report.

### **3.8 Supporting Sustainable Development**

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Corporate Risks.

### **3.9 IT Issues**

No additional issues other than those relating to the Risk Register.

## **4 Recommendations**

Audit Committee is invited to:

Note the quarter 1 2016/17 Strategic Risk Profile report and consider the current response to the risks and opportunities highlighted.

**Date: 24 August 2016**

**Report Contact:**

Chris Lawson, Risk Manager

Tel No: 0131-271-3069

[chris.lawson@midlothian.gov.uk](mailto:chris.lawson@midlothian.gov.uk)

**Background Papers:**      **Appendix 1** Strategic Risks Profile Report  
Quarter 1 2016/17

## Strategic Risk Perspective

### ISSUES





#### RP.IR.01a Balancing budget 2017/18

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.01a	<p><b>Risk cause</b> Potential for a reduced level of grant settlement offered to Midlothian Council and budgetary pressures including: Pay inflation, Pension reform, Demographics, Service demand.</p> <p><b>Risk event</b> Uncertainty regarding the level of Grant to be set in December 2016.</p> <p><b>Risk effect</b> Extended period of uncertainty. Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.</p>	Gary Fairley	1. Financial Strategy. 2. Budget preparation Report to June Council, setting £15m savings program. 3. Headroom in reserves.	4	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.A.01	Financial Strategy	<b>Q1 16/17:</b> Financial Strategy - Delivery of the strands of the Financial strategy , Directorates developing options in-line with savings target.		16-Dec-2016	

## SRP.IR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<b>Risk cause</b> Lack of clarity on clear & compelling vision for the future  <b>Risk event</b> Delayed progress in applying Delivering Excellence framework.  <b>Risk effect</b> Slow or delayed proposals/savings arising from service redesign.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Delivering Excellence Framework  2. Delivering Excellence Management Tools to support the application of the framework	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.02.A1	Applying Delivering Excellence	<b>Q1 16/17:</b> Heads of Service and Directors are identifying budget reduction measures to present over September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Oct-2016	


## SRP.IR.03 Integration of Health and Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.03	<p><b>Risk cause</b>  IJB not having enough flexibility to make changes  Lack of clarity on funding from NHS on IJB.</p> <p>Savings proposals being sought from Adult Services to contribute to Council budget savings.</p> <p><b>Risk event</b>  Uncertainty on final financial settlement for IJB</p> <p>Uncertainty on future budget settlement from MLC.</p> <p><b>Risk effect</b>  Impact the IJB's ability to govern and deliver on strategic plan.</p>	Eibhlin McHugh	IJB Strategic Plan setting out key transformational activity to shift the demands on services and improve outcomes for people of Midlothian.	3	4	



## SRP.IR.05 Review of Pay and Grading


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.05	<p><b>Risk cause</b> Investment to reduce in-work poverty need to improve flexibility and productivity. Update terms and conditions.</p> <p>Many current policies and terms and conditions, including pay arrangements have been constructed around a Monday - Friday, 9 - 5 working week, with many services requiring to deliver services 7 days a week beyond 9-5.</p> <p><b>Risk event</b> Employees may decide in the future not to work non contracted overtime. Employees joining the Council in the future may choose they don't want to work non contracted overtime.</p> <p><b>Risk effect</b> Jeopardy to service delivery and vulnerable people in receipt of services outwith Monday - Friday, 9 - 5.</p>	Gary Fairley	<ol style="list-style-type: none"> <li>Investing in our Workforce- Project Board.</li> <li>Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial benefits.</li> <li>Delivery of revised Terms &amp; Conditions</li> <li>Policies and support to Managers to Implement</li> <li>Working with Trades unions to reach a collective agreement.</li> <li>Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.</li> </ol>	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.05.A1	Negotiations on policy change	<b>Q1 16/17:</b> Negotiations with the Trades Unions are on going - linked to changes in Council Policy with an emphasis on cultural change.	Gary Fairley	01-Oct-2016	


## Risks


## SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p><b>Risk cause</b> Future Scottish Government grant settlements are expected to result in cash reductions. Policy decisions by UK &amp; Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand.</p> <p><b>Risk event</b> Reduced grant settlement. Policies decisions at Government level not fully funded to Council's. Delay in project to achieve savings Cost pressures exceeding budget estimates</p> <p><b>Risk effect</b> Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.</p>	Gary Fairley	<p>1. The Financial Strategy to 2021.</p> <p>2. Delivering Excellence framework in place to bring forward savings options.</p> <p>3.Measures taken to reduce the structural deficit 2016/17, reducing demand on Reserves to £2.6m..</p> <p>4. Maintaining reserves to deal with unforeseen or one off pressures.</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.01.A1	Budget Preparation	<b>Q1 16/17:</b> Report made to June Council setting out actions and timeline associated with setting the 2017/18 Budget.	Gary Fairley	16-Dec-2016	


## SRP.RR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<b>Risk cause</b> Leadership Fit for the Future Lack of clarity or clear compelling vision for the future Delays Cost creep  <b>Risk event</b> Slow benefits realisation and budget savings  <b>Risk effect</b> Objectives of changes not actually met Adverse impact on services Staff morale affected Government step-in	Nancy *Brown; Zoe Graham	1. Clear Leadership from Executive Team and Senior Leadership Group. 2. Project Boards for each of the key strands of Corporate Change and Transformation overseeing project delivery. 3. Workforce Planning. 4. Resilience planning. 5. SLG regularly considering change program and budget position.	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	<b>Q1 16/17:</b> Heads of Service and Directors are identifying budget reduction measures to present over September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	



## SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p><b>Risk cause</b> Current or new legislation applying to Midlothian Council</p> <p><b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p><b>Risk effect</b> Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Directors and Heads 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. Statutory Inspection.	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.03.A1	Legal & Regulatory Compliance	<b>Q1 16/17:</b> Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	

## SRP.RR.04 People risks


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p><b>Risk cause</b>            HR Policies and Employee Terms &amp; Conditions not creating adequate flexibility to meet service needs and or employee desires.            Employees not suitably qualified or developed for the roles required of them.            Statutory health and safety - duty of care over services users and employees not met.            Organisational transformation activities not informed by all key stakeholders            Ageing work force            Employees unclear on expected behaviours.</p> <p><b>Risk event</b>            Employees required to undertake tasks they are not competent to.            Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly.            Employees not engaged/consulted as part of organisational transformation.            Experienced employees leaving the organisation            Unacceptable behaviours demonstrated by employees</p> <p><b>Risk effect</b>            Negative impact on outcomes for customers/service users.            Difficulties recruiting the right staff            Challenges retaining quality staff            Service users and employees exposed to hazards where statutory requirements exist.            low skill levels            low morale, especially during change            non compliance with policy and procedure            high absence rates            Lose of experience in service areas. 'A Great Place to Grow' our values including respect, collaboration, pride and ownership not realised.</p>	Chris Lawson; Marina Naylor	01 - Main internal controls centre on the approved People Strategy and supporting initiatives and Action Plan. 02 - HR related policies regularly reviewed 03 - Management of external factors that affect staff 04 - Significant stress awareness campaign 05 - Making performance matter 06 - Various initiatives to keep staff informed of change (In brief, Staff Magazine, Low Pay and Great Place to grow Leadership briefings) 07 - Absence Monitoring/Reporting. 08 - Health and Safety Risk Management/pro-action to Internal Audit recommendations/use of risk consultants for surveys/updating policies and link to PI's and day-to-day practice/specific improvements underway in driver training, down to casual users 09 - Adoption and management of a BT Project Risk Register, reviewed/updated quarterly 10 - Non-redundancy policy supported by SWITCH and Organisational Change Policy	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01 -A01-1	Policy Review program	<b>Q1 16/17:</b> The Policy review work is linked to the review of Pay & Grading for Non-Teaching staff and is expected to be concluded by October 2016.	Marina Naylor	01-Oct-2016	
MC01-A01-2	Health & Safety Management Arrangement Development	<b>Q1 16/17:</b> The Management Arrangement development program is nearing completion. A suite of Management Arrangements will be presented to CMT for formal approval in Q2. The roll out of the new Health & Safety Management Information System is progressing on target with 280+ staff trained in the use of the new system with all accidents and violent incidents being captured on this system from 1 April 2016 onward.	Chris Lawson	30-Sep-2016	

### SRP.RR.05 Working with others to deliver outcomes

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.05	<p><b>Risk cause</b> Partners not engaged or focused to deliver specific outcomes. Public Sector Reform Agenda.</p> <p><b>Risk event</b> Partners prioritising activity in areas not inline with delivery of defined outcomes. Community groups afforded legal right to make case to operate vacant properties for community use.</p> <p><b>Risk effect</b> Delivery of outcomes delayed or not achieved Officer time to support the assessment of unsustainable business cases.</p>	John *Blair; Mary *Smith; Eibhlin McHugh	<p>1. Key partners engaged in planning and delivery of Service outcomes, e.g. Midlothian Community Planning Partnership have developed a Single Midlothian Plan. Midlothian Integrated Joint Board (Adult &amp; Social Care Integration) have developed and Strategic Plan.</p> <p>2. Approved integration scheme.</p> <p>3. Service Directions in Place.</p>	3	3	


## SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p><b>Risk cause</b> General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period.</p> <p><b>Risk event</b> The Regulation is expected to be agreed in the first part of 2016 with a two year lead in period.</p> <p><b>Risk effect</b> The Regulations are expected to bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.</p>	Ian Wragg	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i)	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.R.06.A01	Regulation Gap Analysis	<b>Q1 16/17:</b> Once the text for the General Data Protection Regulation has been agreed and approved a Gap analysis will be required. The Information Management Group will carry out this exercise and report to CMT on the implications of the new Regulation. The actions arising from this will be reflected in the Information Management Groups Action Plan.	Ian Wragg	30-Sep-2016	


## SRP.RR.07 Integration of Health and Social Care


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b> The nature of many of the Services provided under the banner of Health &amp; Social Care are demand led. Rising numbers of people requiring care and support together arising from demographic make up and improvements in treatment increase the number of people in receipt of long term care packages.</p> <p><b>Risk event</b> Unless the focus and balance of care shifts from acute treatment the costs of providing these services will continue to rise and not provide the best possible outcomes for individuals.</p> <p><b>Risk effect</b> The reactive demand led service may become financially unsustainable.</p>	Alison White	Midlothian IJB Strategic Plan - focussed on rebalancing care.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
	Develop an IJB risk register	<b>Q1 16/17:</b> The IJB's Risk Register was presented to the IJB meeting on 14 April 2016. IJB referred risk register to the Audit & Risk Committee and will maintain going forward with Officer support.	Tom Welsh	30-Sep-2016	





**SRP.RR.08 Asset Condition – buildings, vehicles, roads and Digital assets/networks**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p><b>Risk cause</b> Many of the assets the Council own by there nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Ricky *Moffat; Garry *Sheret; Gary Fairley	1. There is provisions in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy. 6. Roads asset management plan 7. Land register 8. Vehicle maintenance schedules. 9. Capital program - investment in estate. 10. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 11. Digital Strategy 12. Asset management plans for office and school digital devices 13. Network Strategy	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.08.A2	Resource allocation	<b>Q1 16/17:</b> Preparation of proposals for Asset Management Plan will be developed for report to Council meeting in September 2016.		30-Sep-2016	



### SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p><b>Risk cause</b> The Council not preparing and testing arrangements to respond to Civil Contingencies Incidents.</p> <p><b>Risk event</b> There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p><b>Risk effect</b> Censure through non compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (eg secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Chris Lawson	<p><u>Potential</u> sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations. 04 – As part of the Council's Emergency response plan 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>	2	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A06	Preparation for Partnership Working	<b>Q1 16/17:</b> Midlothian Council review of overarching Emergency Response Plan completed in Q1 and to be approved by the Contingency Planning Group on 30 August 2016.	Chris Lawson	31-Dec-2016	



## SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.  <b>Risk event</b> Failure in openness, accountability, clarity.  <b>Risk effect</b> Service, partnerships and project outcomes not achieved Non compliance with conduct standards and reduction in standards in public life.	Alan Turpie	<b>Potential</b> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement.	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A02	International Governance Standards	<b>Q1 16/17:</b> Working Group to be established to review current governance arrangements against new International Governance standard developed by CIPFA and the International Federation of Accountants.	Alan Turpie	30-Sep-2016	
SRP.RR.10.A01	Review - Code of Conduct	<b>Q1 16/17:</b> Existing Employee Code of Conduct is being revised to reflect the values and behaviours expected of employees, reflecting the give and the get.		30-Sep-2016	

## SRP.RR.11 Corporate Policies and Strategies


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p><b>Risk cause</b> Policies may not be match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p><b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p><b>Risk effect</b> Policies not monitored could result in non compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<p>1. Single Midlothian Plan providing overarching direction</p> <p>2. Service plans aligned to Single Midlothian Plan.</p> <p>3. Leadership team to ensure correct approaches are adopted to get the right results.</p>	2	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	<b>Q1 16/17:</b> Heads of Service and Directors are identifying budget reduction measures to present over September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	
SRP.RR.11.A01	HR Policy Review	<b>Q1 16/17:</b> HR - People Policies being overhauled as part of Pay & Grading review, ongoing review thereafter.		31-Dec-2016	

## SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed.</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<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>	3	3	


## SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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>	Ian Johnson	<p>1. Voluntary reporting on compliance with the climate change duties (this will be a statutory requirement from 30 November 2016 onwards).</p> <p>2. Council Carbon Management Plan</p> <p>3. Approval of a Corporate Climate Change and sustainable development action plan 2016/17</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.13.A1	Adaptive Planning	<b>Q1 15/16:</b> Adaptive planning proposal to be brought forward to CMT.	Ian Johnson	31-Mar-2017	

## Opportunities


### SRP.OP.01 Shawfair Development

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Ian Johnson	<ol style="list-style-type: none"> <li>1. Shawfair Development Group.</li> <li>2. Legal agreement with developers</li> <li>3. Secured developer contributions (Section 75)</li> <li>4. Plan for entire community:</li> <li>5. Business and industrial provision, including small business incubator space.</li> <li>6. Circa 4000 new homes</li> <li>7. A school campus comprising Early Years, Nursery, Primary, Secondary &amp; Life Long Learning provision</li> <li>8. New Primary schools</li> </ol>	5	4	


### SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	<p>Regeneration of priority communities of Midlothian through which the railway passes.</p> <p>The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also a catalyst for housing growth.</p> <p>Ensuring Midlothian secures appropriate levels of Blueprint funding.</p>	Ian Johnson	<ol style="list-style-type: none"> <li>1. Designated Project Manager post.</li> <li>2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway.</li> <li>3. Dedicated Inward Investment Co-ordinator post</li> <li>4. Dedicated Tourism Development post.</li> <li>5. Timely submission of bids for approval by the Blueprint Group.</li> </ol>	5	4	

### SRP.OP.03 Easter BUSH - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the BUSH to promote STEM. Link to City Deal	Ian Johnson	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialism's including STEM. 2. Land allocated for expansion. 3. Easter BUSH Development Board. 4. Troubleshooting issues - Roads Access - tackling road access through proposal in the Local Plan.	5	4	

### SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation.	Ian Johnson	1. Key projects identified. 2. Consortium submission made, including Midlothian Council in September 2015 with and update in December 2015.	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A05	City Deal submission	<b>Q1 16/17:</b> City Deal submission update made in December 2015.	Ian Johnson	30-Sep-2016	



**Risk Management, Update for 1 July 2016 – 30 September 2016****Report by Chris Lawson, Risk Manager****1 Purpose of Report**

The purpose of this report is to provide Audit Committee with the 2016/17 quarter 2 strategic risk management update, covering the period 1 July to 30 September 2016.

**2 Background****CORPORATE RISKS**

- 2.1** Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile report for quarter 2 is attached as Appendix 1. This report reflects the Future Strategic Risk, Current Issues and Opportunities facing the Council at Q2 2016/17.

Following the work by Midlothian Community Planning Partners to develop the Single Midlothian Plan, work is underway to identify and assess the risk associated with delivery against outcomes within the Council Strategic Risk Profile.

Following Corporate Management Teams consideration of the result from the United Kingdom referendum on the European Union held on 23 June 2016, the impact of the referendum result has been discussed with Heads of Service and Service Managers as part of Risk Management review meetings. There is wide recognition that the implications could be wide ranging however there is currently limited information to suggest those areas most likely to be affected in the short to medium term.

The Education Delivery Plan, announced by the Scottish Government, together with possibility of a public sector reform programme, creates uncertainty. These external factors will require to be assessed to consider the potential associated risks and opportunities.

- 2.2** The Council made provision within the Capital Plan to carry out investigative work at Goreglen Bing.

A recent deterioration in site conditions have resulted in the need to securely fence off the entire site while investigative work is carried out and a suitable means of managing the site going forward is identified. External partners and neighbour property owners have been made aware of the risk the site presents. This has included contact with Network Rail and Scottish Gas Networks given the proximity of this site to infrastructure managed by these partners.

## 2.3 Strategic Risk Profile Summary

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Balancing budget in future years	4	4	16	High	
Corporate change and transition	4	4	16	High	
People risk	3	4	12	Medium	
Integration of health & social care	3	4	12	Medium	
Governance & standards	3	4	12	Medium	
Legal & regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset condition	3	3	9	Medium	
Climate change	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Emergency planning & business continuity	2	4	8	Low	
Corporate policies and strategies	2	3	6	Low	

Top Issues	Likelihood	Impact	Score	Evaluation	
Balancing budget 2017/18	4	5	20	High	
Review of Pay & Grading	4	4	16	High	
Corporate change & transition	3	4	12	Medium	
Integration of Health & Social Care	3	4	12	Medium	

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush - Penicuik	5	4	20	High	
City deal	3	5	15	Medium	

### STRATEGIC RISKS – RATED HIGH

#### Balancing Budget in Future Years

- 2.3.1** The Council's Financial Strategies core objective is to secure the Council's continued financial sustainability during what is and will continue to be an extended period of significant financial constraint coupled with increasing service demands and increasing customer expectations.

In response to these challenges the Council has set out a Financial Strategy to 2021. In order to ensure the Services provided meet the needs of our service users and are as efficient as possible the Council are implementing Delivering Excellence. A framework for service review and redesign, this is expected to bring forward savings options in addition to ensuring service user needs are met.

A report was provided to September Council setting out actions and timelines associated with setting the 2017/18 Budget.

### **2.3.2 Corporate Change and Transition**

Service areas continue to address the financial and service challenges, the Council faces, through the activity of the transformation programme and application of the Delivering Excellence Framework. Both are clearly focused on reshaping services to deliver improved customer outcomes, achieve service efficiencies and create sustainable change. The Transformation programme and the Delivering Excellence framework is not without its challenges and success requires a sustainable culture shift, with more innovative, entrepreneurial and collaborative thinking across the Council all underpinned by strong leadership.

## **2.4 STRATEGIC ISSUES – RATED CRITICAL & HIGH**

### **2.4.1 Balancing Budgets 2017/18**

The financial position for 2017/18 is expected to remain challenging. In response a budget preparation report was taken to Council in September 2016.

### **2.4.2 Review of Pay & Grading**

The implementation of the 'Pay and Grading Review' will have a positive effect on employees within Midlothian Council. There are however risks if the implementation of the review is not fully realised. A key aspect of the review is the updating of OD/HR policies, the re-launch of the 'Code of Conduct' and lifelong learning as well as the strengthening of employee benefits package. The pay and grading structure changes will make a important difference to 'in work poverty' and Midlothian Councils position as an employer of choice.

There are Consequences to not fully implementing the review and concerns about what the organisation will 'look like' if the culture change required does not follow.

This might result in higher employee relationship issues, because there is uncertainty about what behaviours are expected and what boundaries the organisation works within. There is a risk if the 'pay and grading review' is not implemented, the vision of 'A Great Place to Grow' and the Council values including respect, collaboration, pride and ownership will not be embedded.

## **2.5 STRATEGIC OPPORTUNITIES**

The opportunities arising from Shawfair, Borders rail, Easter Bush and City are included within the strategic risk profile as they directly or indirectly support the delivery of the Council's key strategic priorities.

## **3 Report Implications**

### **3.1 Resource**

There are no direct resource implications in this report although individual risks will have associated resource implications which are considered within the Risk Registers.

### **3.2 Risk**

Corporate Risks are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis.

### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

### **3.4 Impact on Performance and Outcomes**

The purpose of the council's risk management approach is to support a level of risk awareness, to inform decision making and support the authority to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

### **3.5 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 greater risk awareness.

### **3.6 Involving Communities and Other Stakeholders**

Consultation has taken place with Senior Managers responsible for key corporate risk.

### **3.7 Ensuring Equalities**

There are no direct equalities issues arising from this report.

### **3.8 Supporting Sustainable Development**

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Corporate Risks.

### **3.9 IT Issues**

No additional issues other than those relating to the Risk Register.

## **4 Recommendations**

AUDIT COMMITTEE is invited to:

Note the quarter 2 2016/17 Strategic Risk Profile report and consider the current response to the risks and opportunities highlighted.

**Date: 26 October 2016**

**Report Contact:**

Chris Lawson, Risk Manager

Tel No: 0131-271-3069

[chris.lawson@midlothian.gov.uk](mailto:chris.lawson@midlothian.gov.uk)

**Background Papers:**  
Quarter 2 2016/17

**Appendix 1** Strategic Risks Profile Report

## Strategic Risk Perspective



### Current Issues

#### SRP.IR.01a Balancing budget 2017/18


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.01a	<p><b>Risk cause</b> Potential for a reduced level of grant settlement offered to Midlothian Council and budgetary pressures including: Pay inflation, Pension reform, Demographics, Service demand.</p> <p><b>Risk event</b> Uncertainty regarding the level of Grant to be set in December 2016.</p> <p><b>Risk effect</b> Extended period of uncertainty. Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.</p>	Gary Fairley	1. Financial Strategy. 2. Budget preparation Report to June Council, setting £15m savings program. 3. Headroom in reserves.	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.A.01	Financial Strategy	Q2 16/17: Financial Strategy - Delivery of the strands of the Financial strategy , Directorates developing options in-line with savings target.	Gary Fairley	16-Dec-2016	


#### SRP.IR.02 Corporate Change & Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> Lack of clarity on clear &amp; compelling vision for the future</p> <p><b>Risk event</b> Delayed progress in applying Delivering Excellence</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan	1. Delivering Excellence Framework 2. Delivering Excellence Management Tools to support the application of the framework	3	4	


	framework. <b>Risk effect</b> Slow or delayed proposals/savings arising from service redesign.	Tranent; Grace Vickers; Alison White				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.02.A1	Applying Delivering Excellence	<b>Q2 16/17:</b> Heads of Service and Directors identified budget reduction measures to present to the Strategic Leadership Group between September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Oct-2016	

### SRP.IR.03 Integration of Health & Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.03	<b>Risk cause</b> IJB not having enough flexibility to make changes Lack of clarity on funding from NHS on IJB.  Savings proposals being sought from Adult Services to contribute to Council budget savings.  <b>Risk event</b> Uncertainty on final financial settlement for IJB  Uncertainty on future budget settlement from MLC.  <b>Risk effect</b> Impact the IJB's ability to govern and deliver on strategic plan.	Eibhlin McHugh	IJB Strategic Plan setting out key transformational activity to shift the demands on services and improve outcomes for people of Midlothian.	3	4	

## SRP.IR.05 Review of Pay &amp; Grading

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.05	<p><b>Risk cause</b> Investment to reduce in-work poverty need to improve flexibility and productivity. Update terms and conditions.</p> <p>Many current policies and terms and conditions, including pay arrangements have been constructed around a Monday - Friday, 9 - 5 working week, with many services requiring to deliver services 7 days a week beyond 9-5.</p> <p><b>Risk event</b> Employees <b>may</b> decide in the future not to work noncontracted overtime. Employees joining the Council in the future <b>may</b> choose they don't want to work noncontracted overtime.</p> <p><b>Risk effect</b> Jeopardy to service delivery and vulnerable people in receipt of services outwith Monday - Friday, 9 - 5.</p>	Gary Fairley	<ol style="list-style-type: none"> <li>Investing in our Workforce- Project Board.</li> <li>Governance on the 4 strands of work from Council: Life Long Learning, Policy, Pay, Non Financial benefits.</li> <li>Delivery of revised Terms &amp; Conditions</li> <li>Policies and support to Managers to Implement</li> <li>Working with Trades unions to reach a collective agreement.</li> <li>Communications plan to ensure all employees know what is changing and how this will impact them and service delivery.</li> </ol>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IR.05.A1	Negotiations on policy changes and cultural change.	<b>Q2 16/17:</b> Consultation with the Trades Unions are on going - linked to changes in Council Policy with an emphasis on cultural change e.g. Code of Conduct.	Gary Fairley	31-Dec-2016	




## Future Risks


### SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p><b>Risk cause</b> Future Scottish Government grant settlements are expected to result in cash reductions. Policy decisions by UK &amp; Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand.</p> <p><b>Risk event</b> Reduced grant settlement. Policies decisions at Government level not fully funded to Council's. Delay in project to achieve savings Cost pressures exceeding budget estimates</p> <p><b>Risk effect</b> Gap in Council budget between budget commitments/ pressures and funding level and inadequate options presented to appraise this, resulting in a structural deficit.</p>	Gary Fairley	<p>1. The Financial Strategy to 2021.</p> <p>2. Delivering Excellence framework in place to bring forward savings options.</p> <p>3.Measures taken to reduce the structural deficit 2016/17, reducing demand on Reserves to £2.6m..</p> <p>4. Maintaining reserves to deal with unforeseen or one off pressures.</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.01.A1	Budget Preparation	<b>Q2 16/17:</b> Report made to September Council setting out actions and timeline associated with setting the 2017/18 Budget.	Gary Fairley	16-Dec-2016	


## SRP.RR.02 Corporate Change and Transition

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<b>Risk cause</b> Leadership Fit for the Future Lack of clarity or clear compelling vision for the future Delays Cost creep  <b>Risk event</b> Slow benefits realisation and budget savings  <b>Risk effect</b> Objectives of changes not actually met Adverse impact on services Staff morale affected Government step-in	Nancy *Brown; Zoe Graham	1. Clear Leadership from Executive Team and Senior Leadership Group. 2. Project Boards for each of the key strands of Corporate Change and Transformation overseeing project delivery. 3. Workforce Planning. 4. Resilience planning. 5. SLG regularly considering change program and budget position.	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	<b>Q2 16/17:</b> Heads of Service and Directors identified budget reduction measures to present to the Strategic Leadership Group between September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	



## SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<b>Risk cause</b> Current or new legislation applying to Midlothian Council  <b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.  <b>Risk effect</b> Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	1. Directors and Heads 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. Statutory Inspection.	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.03.A1	Legal & Regulatory Compliance	<b>Q2 16/17:</b> Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	

## SRP.RR.04 People risks


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p><b>Risk cause</b>            HR Policies and Employee Terms &amp; Conditions not creating adequate flexibility to meet service needs and or employee desires.            Employees not suitably qualified or developed for the roles required of them.            Statutory health and safety - duty of care over services users and employees not met.            Organisational transformation activities not informed by all key stakeholders            Ageing work force            Employees unclear on expected behaviours.</p> <p><b>Risk event</b>            Employees required to undertake tasks they are not competent to.            Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly.            Employees not engaged/consulted as part of organisational transformation.            Experienced employees leaving the organisation            Unacceptable behaviours demonstrated by employees</p> <p><b>Risk effect</b>            Negative impact on outcomes for customers/service users.            Difficulties recruiting the right staff            Challenges retaining quality staff            Service users and employees exposed to hazards where statutory requirements exist.            low skill levels            low morale, especially during change            non compliance with policy and procedure            high absence rates            Lose of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised</p>	Chris Lawson; Marina Naylor	01 - Main internal controls centre on the approved People Strategy and supporting initiatives and Action Plan. 02 - HR related policies regularly reviewed 03 - Management of external factors that affect staff 04 - Significant stress awareness campaign 05 - Making performance matter 06 - Various initiatives to keep staff informed of change (In brief, Staff Magazine, Low Pay and Great Place to grow Leadership briefings) 07 - Absence Monitoring/Reporting. 08 - Health and Safety Risk Management/pro-action to Internal Audit recommendations/use of risk consultants for surveys/updating policies and link to PI's and day-to-day practice/specific improvements underway in driver training, down to casual users 09 - Adoption and management of a BT Project Risk Register, reviewed/updated quarterly 10 - Non-redundancy policy supported by SWITCH and Organisational Change Policy	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01 -A01-1	Policy Review program	<b>Q2 16/17:</b> The Policy review work is linked to the review of Pay & Grading for Non-Teaching staff has been prepared with Trade Union Consultation on going. Initial implementation of the new Policies is expected to take place over November and December 2016.	Marina Naylor	31-Dec-2016	
MC01-A01-2	Health & Safety Management Arrangement Development	<b>Q2 16/17:</b> The Management Arrangement development program is nearing completion. A suite of Management Arrangements will be presented to CMT for formal approval in Q3. The role out of the new Health & Safety Management Information System is progressing on target with 300+ staff trained in the use of the new system with all accidents and violent incidents being captured on this system from 1 April 2016 onward.	Chris Lawson	31-Dec-2016	

### SRP.RR.05 Working with others to deliver outcomes

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.05	<p><b>Risk cause</b> Partners not engaged or focused to deliver specific outcomes. Public Sector Reform Agenda.</p> <p><b>Risk event</b> Partners prioritising activity in areas not inline with delivery of defined outcomes. Community groups afforded legal right to make case to operate vacant properties for community use.</p> <p><b>Risk effect</b> Delivery of outcomes delayed or not achieved Officer time to support the assessment of unsustainable business cases.</p>	John *Blair; Mary *Smith; Eibhlin McHugh	<p>1. Key partners engaged in planning and delivery of Service outcomes, e.g. Midlothian Community Planning Partnership have developed a Single Midlothian Plan. Midlothian Integrated Joint Board (Adult &amp; Social Care Integration) have developed and Strategic Plan.</p> <p>2. Approved integration scheme.</p> <p>3. Service Directions in Place.</p>	3	3	

## SRP.RR.06 Information Security


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p><b>Risk cause</b> General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period.</p> <p><b>Risk event</b> The Regulation is expected to be agreed in the first part of 2016 with a two year lead in period.</p> <p><b>Risk effect</b> The Regulations are expected to bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros which ever is greater.</p>	Ian Wragg	<p>1. Information Management Group</p> <p>2. Public Sector Network Compliance.</p> <p>3. Meta Compliance</p> <p>4. Information Management, awareness raising program (Private-i)</p>	3	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.R.06.A01	Regulation Gap Analysis	<b>Q2 16/17:</b> The General Data Protection Regulation has been approved and has now been published. The Information Management Group are leading on the development of a project plan. The Information Management Group will take a report to CMT on the implications associated with the General Data Protection Regulations and a proposed response plan for Midlothian Council. The actions arising from this will be reflected in the Information Management Groups Action Plan.	Ian Wragg	31-Dec-2016	

## SRP.RR.07 Integration of Health &amp; Social Care

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b> The nature of many of the Services provided under the banner of Health &amp; Social Care are demand led. Rising numbers of people requiring care and support together arising from demographic make up and improvements in treatment increase the number of people in receipt of long term care packages.</p> <p><b>Risk event</b> Unless the focus and balance of care shifts from acute treatment the costs of providing these services will continue to rise and not provide the best possible outcomes for individuals.</p> <p><b>Risk effect</b> The reactive demand led service may become financially unsustainable.</p>	Alison White	Midlothian IJB Strategic Plan - focussed on rebalancing care.	3	4	


**SRP.RR.08 Asset Condition – buildings, vehicles, roads and Digital assets/networks**


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p><b>Risk cause</b> Many of the assets the Council own by there nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Ricky *Moffat; Garry *Sheret; Gary Fairley	1. There is provisions in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy. 6. Roads asset management plan 7. Land register 8. Vehicle maintenance schedules. 9. Capital program - investment in estate. 10. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 11. Digital Strategy 12. Asset management plans for office and school digital devices 13. Network Strategy	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.08.A2	Resource allocation	<b>Q2 15/16:</b> Provisions in place in capital plan for investment in asset base.	Ricky *Moffat; Garry *Sheret; Gary Fairley	30-Sep-2016	






### SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p><b>Risk cause</b> The Council not preparing and testing arrangements to respond to Civil Contingencies Incidents.</p> <p><b>Risk event</b> There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p><b>Risk effect</b> Censure through non compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (eg secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Chris Lawson	<p><u>Potential</u> sub risks include:-</p> <p>01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency inline with key partner organisations. 04 – As part of the Council's Emergency response plan 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>	2	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP-RA.09.02	Development of Emergency Planning Improvement Plan	<b>Q2 16/17:</b> Civil Contingencies Risk Register being revised to present to the Contingency Planning Group with a view to agreeing a forward program of Contingency Plan Review and Development to meet the needs of Midlothian Council.	Chris Lawson	31-Dec-2016	



### SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.  <b>Risk event</b> Failure in openness, accountability, clarity.  <b>Risk effect</b> Service, partnerships and project outcomes not achieved Non compliance with conduct standards and reduction in standards in public life	Alan Turpie	<b>Potential</b> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement.	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A02	International Governance Standards	<b>Q2 16/17:</b> Working Group to be established to review current governance arrangements against new International Governance standard developed by CIPFA and the International Federation of Accountants.	Alan Turpie	31-Dec-2016	
SRP.RR.10.A01	Review - Code of Conduct	<b>Q2 15/16:</b> Employee Code of Conduct has been revised to reflect the values and behaviours expected of employees, reflecting the give and the get.	Marina Naylor	31-Dec-2016	

### SRP.RR.11 Corporate Policies and Strategies


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<b>Risk cause</b> Policies may not be match the aspirations of the Council's Strategic priorities or cultural perspective.  <b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.  <b>Risk effect</b> Policies not monitored could result in non compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	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.	2	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
MC01-A08	Delivering Excellence	<b>Q2 16/17:</b> Heads of Service and Directors identified budget reduction measures to present to the Strategic Leadership Group between September - October 2016 to address the £15m savings target reported in the Financial Strategy.	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	31-Mar-2017	
SRP.RR.11.A01	HR Policy Review	<b>Q2 16/17:</b> HR - People Policies being overhauled as part of Pay & Grading review, on going review thereafter.	Marina Naylor	31-Dec-2016	

### SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed.</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p>	Ricky *Moffat; Garry *Sheret; Kevin Anderson; Gary Fairley; Ian Johnson; Joan Tranent; Grace Vickers; Alison White	<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>	3	3	

## SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<b>Risk cause</b> Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act  <b>Risk event</b> Council Services not responding to the Climate Change Act with sufficient pace.  <b>Risk effect</b> Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.	Ian Johnson	1. Voluntary reporting on compliance with the climate change duties (this will be a statutory requirement from 30 November 2016 onwards). 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 2016/17	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.13.A1	Adaptive Planning	Q2 16/17: Adaptive planning proposal to be brought forward to CMT.	Ian Johnson	31-Mar-2017	

## Opportunities


### SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for housebuilders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Ian Johnson	1. Shawfair Development Group. 2. Legal agreement with developers 3. Secured developer contributions (Section 75) 4. Plan for entire community: 5. Business and industrial provision, including small business incubator space. 6. Circa 4000 new homes 7. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 8. New Primary schools	5	4	

### SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Regeneration of priority communities of Midlothian through which the railway passes.  The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also a catalyst for housing growth.  Ensuring Midlothian secures appropriate levels of Blueprint funding.	Ian Johnson	1. Designated Project Manager post. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Dedicated Inward Investment Co-ordinator post 4. Dedicated Tourism Development post. 5. Timely submission of bids for approval by the Blueprint Group.	5	4	

**SRP.OP.03 Easter BUSH - Penicuik**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the BUSH to promote STEM. Link to City Deal	Ian Johnson	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including STEM. 2. Land allocated for expansion. 3. Easter BUSH Development Board. 4. Troubleshooting issues - Roads Access - tackling road access through proposal in the Local Plan.	5	4	

**SRP.OP.04 City Deal**

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation.	Ian Johnson	1. Key projects identified. 2. Consortium submission made, including Midlothian Council in September 2015 with an update in December 2015. 3. Heads of terms agreed by consortium for discussion with Scottish and UK Government Officials.	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A05	City Deal submission	<b>Q2 16/17:</b> A series of meetings are scheduled to work through Heads of Terms with Scottish & UK Government Officials.	Ian Johnson	31-Mar-2017	

**Maintaining Midlothian's Roads – Update Report****Report by Ricky Moffat, Head of Commercial Operations****1 Purpose of Report**

The Audit Scotland Report “Maintaining Scotland’s Roads” was first published in 2004 with a “Follow up Report” in February 2011.

More recently, “Maintaining Scotland’s roads – A follow-up report” was published in August of this year. The purpose of this report is to highlight some of the key issues raised in this report.

A full copy of the report can be accessed at :-

[http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr\\_160804\\_maintaining\\_roads.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160804_maintaining_roads.pdf)

**2 Background**

- 2.1** Audit Scotland published an initial report concerning the condition and maintenance of Scotland’s roads in 2004 entitled “Maintaining Scotland’s Roads”, with two subsequent reports, in 2011 and the latest published in August 2016.
- 2.2** The follow up audit report examined the progress on the recommendations contained in the earlier report “Maintaining Scotland’s Roads” published in 2004. The latest report examines the changes in the condition of the road network since 2011, the current spend on roads maintenance and how the road maintenance service is managed.
- 2.3** The report offers a range of key messages/recommendations and these are summarised in this report, together with the Councils suggested response in section 5 of this report.
- 2.4** The proper maintenance of Scotland’s roads is vital for economic prosperity and for the quality of life of its people. The report acknowledges limited progress across Scotland in this regard since the initial report in 2004.
- 2.5** Currently 63% of Scotland’s roads are thought to be in an acceptable condition with a third thought to be in an unacceptable condition. Within Midlothian 68.6% of the network is in an acceptable condition with 31.4% in an unacceptable condition, slightly better than the Scotland average.
- 2.6** In Midlothian 4.4% of roads are in need of urgent repair in addition to the 27% which should be considered for further maintenance

- 2.7** Across Scotland the range is between 44% and 79% of authorities roads which are in an acceptable condition.
- 2.8** Overall, councils spent £33 million (13%) less on road maintenance in 2014/15 than the Society of Chief Officers of Transportation in Scotland (SCOTS) considers was necessary to maintain the current condition of local roads.
- 2.9** The Audit Scotland report touches upon the high levels of public dissatisfaction with the current state of the road network with 57% of road users stating that the condition of local roads is a major concern.
- 2.10** The Audit Scotland report suggests Councils need to conclude the project regarding the establishment of a comprehensive suite of performance indicators in order to support comparative analysis between roads authorities/organisations. Road Services within Midlothian undertook such an exercise in 2009 with the Edinburgh, Lothians, Borders and Fife (ELBF) authorities as part of an exercise in looking at shared services. The report by an independent consultant concluded “this extensive research project has benchmarked competitive and comparative efficiency with encouraging results; furthermore collaborative arrangements show promise for further improvements, which is already being energetically pursued by the six management teams”. Council agreed in December 2015 to join a Shadow Joint Committee of the ELBF councils
- 2.11** SCOTS maintain that present levels of spending are insufficient to maintain Scotland’s roads, even in their current condition. Some £2.25 billion pounds (report published 2010) was required to remove all negative defects on roads, this excludes removing all defects in bridges, lighting and footways. The figure produced by SCOTS indicated that Midlothian Council would need to spend £24.4 million to remove all the negative defects on its roads. To maintain the road network at its current level it was stated at the time would require an additional £1.0 million per annum added to the existing road maintenance budget.
- 2.12** Midlothian budget for road maintenance over the last 5 years has been as follows:-

	<b>Carriageway</b>		<b>Footway</b>	<b>Total Spend (£000's)</b>
	<b>Capital (£000's)</b>	<b>Revenue (£000's)</b>	<b>Capital (£000's)</b>	
2012/13	97	2818	0	2915
2013/14	1056	2237	0	3293
2014/15	1000	2034	0	3034
2015/16	1521	1527	1000	4048
2016/17	1524	1280	1122	3926

A real terms budget reduction for carriageway maintenance was made in 2016/17 totalling £244,000.



### 3 Report Implications

#### 3.1 Resource

The Midlothian road maintenance backlog stood at £24 million (SCOTS “State of the Scottish Local Road Network” which was published in 2010 and reported to Council in June 2010).

At that time it was identified that an additional £1 million per annum would arrest further deterioration in the Midlothian Council road network. The condition of the road network has remained in a steady state for the last five years following this additional resource being allocated.

It is likely that any reduction in the road maintenance budget will lead to deterioration in the condition of the road network. The graph below shows the state of Midlothian’s roads broken down into road classification. It shows that the road condition has generally remained constant with the additional budget that has been provided.



#### 3.2 Risk

The Roads (Scotland) Act 1984 places a duty on local authorities to “manage and maintain all such roads in their area as are for the time

being entered in a list (in this Act referred to as their “List of public roads”)).

Notwithstanding this duty, an ever increasing length of road and footway network means that limited resources are stretched to deliver an adequate maintenance programme. Funding to undertake adequate maintenance will reduce the risk of potential successful accident claims, whereby a failure to maintain can be cited as a contributory factor. Midlothian’s road length has increased from 657.7km in 2011/12 to 674.8km in 2015/16 (+2.5% increase)

### 3.3 Policy

#### Strategy

Maintaining the road network and footpath network at an acceptable level links directly to the Corporate Strategy where the Council will endeavour to “provide suitable infrastructure for the efficient and effective delivery of services to meet the full range of community needs”.

#### Consultation

As stated in a previous report to Council, a Shadow Joint Committee has now been established with the Edinburgh, Lothians, Borders and Fife (ELBF) shared services partners and they have experienced similar problems in connection with a deterioration of their Road and Footpath Network. The problem of damage to the footway network has been also reported locally and nationally in the press and other media outlets.

#### Equalities

An equalities impact assessment is not required in relation to this report.

#### Sustainability

The level of funding as identified in 3.1 is required to ensure that the road condition does not deteriorate.

## 4 Summary

The table below shows the surveyed length of Midlothian road network that is now defective. “Green” indicates the length of road that is acceptable.

	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
Road Length	28.2KM	170.8KM	435.6KM	634.6KM
% of network	4.4%	27%	68.6%	100%

## 5 Recommendations

Committee is requested to note the recommendations of the Audit Scotland report and note the proposed Midlothian response:-

### ***Audit Scotland recommends that Councils should:***

- *“Ensure that they work closely with the Roads Collaboration Programme and regional group partners to determine the extent of shared service models for roads maintenance operations.”*

**Response:** Midlothian Council has supported the formation of a Shadow Joint Committee around the ELBF group of councils. The Committee will agree a series of work streams to explore sharing opportunities between councils.

### ***Audit Scotland recommends that Councils should:***

- *“Ensure that they implement the findings of the consultant’s review of Road Asset Management Plans (RAMP) where relevant.”*

**Response:** Midlothian Council continues to develop a Road Asset Management Plan through SCOTS and in conjunction with all Scottish councils.

### ***Audit Scotland recommends that Councils should:***

- *“Implement methods for assessing and comparing councils’ roads maintenance efficiency with the aim of identifying and learning from councils delivering services more efficiently.”*

**Response:** The ELBF group have supported, contributed to and shared a list of Good Practise throughout the councils over a number of years. Further work is likely to come from the newly formed Shadow Joint Committee.

### ***Audit Scotland recommends that Councils should:***

- *“Use the national Highways and Transportation Network Survey, or similar, to obtain user views and perceptions of roads services consistently.”*

**Response:** Public perception of the service has recently been gauged through the Choices for Change survey. An overwhelming majority supported the need for a better road network with no reduction in the existing budgets.

### ***Audit Scotland recommends that Councils should:***

- *“Use the results of the user surveys to develop more proactive ways of engaging with the public over roads maintenance issues,*

*and to help inform scrutiny and challenge of road maintenance budgetary proposals.”*

**Response:** Community engagement is carried out to determine for example, the policy on the winter service. Road maintenance schemes are generally dictated by the results of the annual condition surveys carried out on a national level. The annual list of these works is published on the web site and is available in hard copy if required.

**17 November 2016**

**Report Contact: Neil Dougall**

**Tel No 0131 561 5215 e-mail [neil.dougall@midlothian.gov.uk](mailto:neil.dougall@midlothian.gov.uk)**

**Background Papers:      Maintaining Scotland’s Roads – A Follow up  
Report. Audit Scotland**

**State of the Scottish Local Road Network 2010,  
SCOTS**

**Anti Fraud and Corruption, Anti Bribery and Whistleblowing Policies  
Report by the Internal Audit Manager****1 Purpose of Report**

The purpose of this report is to present the Anti Fraud and Corruption Policy and Strategy, Anti Bribery Policy and Whistleblowing - Public Interest Disclosure Policy to the Audit Committee for comment.

**2 Background**

- 2.1 Midlothian Council has well established anti-fraud related policies including Anti Fraud and Corruption and Whistleblowing policies. The Internal Audit Section, with assistance from Legal and Human Resources, undertake regular reviews of these policies, updating for any new national guidance. Over recent years, CIPFA have published a code of practice on 'Managing the Risk of Fraud and Corruption' and 'Fighting Fraud and Corruption Locally' and there have been publications from the Scottish Government including 'Scotland's Serious Organised Crime Strategy'. The Council's policies have been updated to reflect these new guides as detailed below.

**3 Main updates to Policies****3.1 Anti Fraud and Corruption policy**

The main updates to this policy include: updating in line with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption; to reflect the transfer of responsibility for investigating housing benefit fraud to the Single Fraud Investigation Service of the Department for Work and Pensions; and the establishment of the Corporate Fraud team within Internal Audit. Reference has also been made to the Council's Integrity Group, joint working and data sharing arrangements.

**3.2 Whistleblowing - Public Interest Disclosure Policy**

The main update to this policy is to require that disclosure should be made in the first instance to the Internal Audit Manager, rather than the Head of Service.

**3.3 Anti Bribery Policy**

Following a recommendation by CIPFA in the Code of Practice on Managing the Risk of Fraud and Corruption, the anti-bribery sections of the Anti Fraud and Corruption Policy and Strategy now form a stand-alone policy. In addition, an anti-bribery procedure (Appendix 1 of the policy) has been produced requiring services to carry out an annual risk assessment on the Service area's vulnerabilities to bribery.

### 3.4 Gifts and Hospitality Policy

The Council's Employee Code of Conduct makes reference to Gifts, Hospitality and Services. The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and various training courses delivered by Police Scotland and CIPFA have detailed the need to have a stand-alone policy in this area. Internal Audit is therefore intending to draft a policy and after discussion with Legal and Human Resources, submit this to the Audit Committee.

### 4.1 **Resource**

There are no direct resource implications arising out of this report.

### 4.2 **Risk**

The report directly addresses the Council's exposure to fraud risk and details the Council's key policies designed to counteract these risks.

### 4.3 **Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☐ Business transformation and Best Value
- ☒ None of the above

### 4.4 **Key Priorities within the Single Midlothian Plan**

Although this report does not relate directly to the key priorities within the Single Midlothian Plan, by preventing and detecting fraud, additional resources may be available to support the Council's objectives.

### 4.5 **Impact on Performance and Outcomes**

The Council's performance and outcomes will be improved by preventing and / or detecting fraud.

### 4.6 **Adopting a Preventative Approach**

Having a robust fraud prevention strategy contributes to safeguarding the Council's financial resources and delivery of services.

### 4.7 **Involving Communities and Other Stakeholders**

The policies have been reviewed by Human Resources with the Whistleblowing and Anti-bribery policies and procedure also having been reviewed by Legal Services. The Policies will be discussed with Trade Union Representatives and the Anti Fraud and Corruption and

Whistleblowing policies will be submitted for approval to Cabinet. The Policies will also be submitted to the Council's Integrity Group for discussion.

#### **4.8 Ensuring Equalities**

There are no equalities issues with regard to this report.

#### **4.9 Supporting Sustainable Development**

Having anti-fraud related policies in place reduces the risk of threats to sustainable development.

#### **4.10 IT Issues**

There are no IT issues with regard to this report.

### **5 Summary**

The Council's Anti Fraud and Corruption and Whistleblowing policies have been updated and a separate Anti Bribery policy has been developed in accordance with current best practice.

### **6 Recommendations**

The Audit Committee is invited to:

1. note and provide comment on the Anti Fraud and Corruption, Anti Bribery and Whistleblowing policies attached to this report; and
2. note that the Anti Fraud and Corruption and Anti Bribery policies will be submitted to Cabinet for approval following consultation with the Trade Unions.

**Date 23 November 2016**

#### **Report Contacts:**

Heather Mohieddeen	Tel No 0131 271 3126 <a href="mailto:Heather.mohieddeen@midlothian.gov.uk">Heather.mohieddeen@midlothian.gov.uk</a>
Elaine Greaves	Tel No 0131 271 3285 <a href="mailto:Elaine.greaves@midlothian.gov.uk">Elaine.greaves@midlothian.gov.uk</a>
Graham Herbert	Tel No 0131 271 3517 <a href="mailto:Graham.herbert@midlothian.gov.uk">Graham.herbert@midlothian.gov.uk</a>

#### **Appendices:**

**Appendix 1** – Anti Fraud and Corruption Policy

**Appendix 2** – Whistleblowing Policy

**Appendix 3** – Anti Bribery Policy

**Appendix 4** – Anti Bribery Procedure







## ANTI FRAUD AND CORRUPTION POLICY AND STRATEGY

### CONTENTS

1. Introduction
2. Definitions
3. Policy Statement
4. Strategy – Deterrence and Prevention
5. Fraud Response Plan
6. Recovery and Criminal Proceedings
7. Associated Polices
8. Conclusion

## 1. INTRODUCTION

- 1.1 In accordance with the principles of good corporate governance in administering public funds, Midlothian Council is fully committed to an effective Anti Fraud and Corruption Policy.
- 1.2 The Council's Anti Fraud and Corruption Policy details how the Council:
- promotes an anti-fraud and anti corruption culture among elected Members, employees and the public;
  - deters and prevents fraud and corruption;
  - detects and investigates fraud and corruption; and
  - recovers and insitgates criminal proceedings
- 1.3 National trends indicate that fraud related losses can equate to around 3% of expenditure. Any loss of funds due to fraud and corruption may impact on the ability of Midlothian Council to achieve its priorities which for the next 3 years are:
- reducing inequalities in the health of our population;
  - reducing inequalities in the outcomes of learning in our population; and
  - reducing inequalities in the economic circumstances of our population.

## 2. DEFINITIONS

### 2.1 Fraud:

The Accounts Commission for Scotland describes fraud as the use of deception with the intention of obtaining private gain, avoiding an obligation or causing loss to another party. Fraud can be used to describe a wide variety of dishonest behaviour such as forgery, false representation and the concealment of material facts. The fraudulent use of Information and Communication Technology (ICT) resources is included in this definition, where its use is a material factor in carrying out a fraud.

Examples of Fraud include, but are not limited to:

- distorting or concealing both financial and non-financial information;
- knowingly and intentionally obtaining or attempting to obtain benefits to which there is no entitlement;
- falsification or alteration of accounting records or other documents;
- misappropriation of assets or theft;
- suppression or omission of the effects of transactions from records or documents;
- recording incorrect information eg time records that do not reflect actual hours worked; and

- wilful misrepresentation of transactions or of the Council's state of affairs which may involve the misuse of funds or other resources, or the supply of false information.

## 2.2 Corruption:

Corruption is the unlawful offering, giving, soliciting or acceptance of an inducement or reward which could influence the actions taken by the Council, its Elected Members or its employees. This also applies to business partners where a relationship is in place for them to undertake duties on behalf of the Council. Corruption can also include bribery and is not entirely removed from fraud as offences may overlap between them.

Examples of Corruption include, but are not exclusive to:

- disclosure of Information;
- using a position of authority inappropriately;
- altering contracts or official forms;
- misuse of IT systems;
- falsifying records; and
- making purchases of goods or services which are unnecessary or excessive

## 3. POLICY STATEMENT

- 3.1 The Council has adopted a local [Code of Corporate Governance](#) which can be viewed on the Council's website or on the intranet. The adoption of the Code demonstrates a commitment to the fundamental principles of good corporate governance, namely openness and inclusivity, integrity and accountability.
- 3.2 The Council is determined that the prevailing culture is one of honesty and integrity and is opposed to all aspects of fraud and corruption.
- 3.3 There is an expectation and obligation that all individuals and organisations associated with the Council will act with integrity and that, in this context, Elected Members and employees will lead by example.
- 3.4 Elected Members are subject to the Councillors' Code of Conduct as issued by the Scottish Ministers under the Ethical Standards in Public Life etc (Scotland) Act 2000. Elected Members are made fully aware of the terms of the Code as part of the initial induction process. Breaches of the Code by any Elected Member may give rise to a complaint to the Standards Commission for Scotland.
- 3.5 The Council has an Employee [Code of Conduct](#) which sets out the minimum standards of conduct and behaviours expected at work. The Disciplinary Procedure provides examples of behaviour considered gross misconduct, and this includes theft, fraud or any other act of dishonesty.

- 3.6 Midlothian Council is fully committed to the prevention, deterrence and detection of bribery and upholding all relevant laws, including the Bribery Act 2010. A separate Anti Bribery Policy has been created and this sets out a framework to enable the Council's employees and those that the Council has dealings with to understand and implement arrangements to ensure compliance with the Bribery Act 2010.
- 3.7 Council employees are important elements in the stance against fraud and corruption and have a duty to raise any concerns they may have on these issues which impact on the Council's activities. This may be achieved by reporting through the Council's Whistle Blowing - Public Interest Disclosure Policy which makes specific provision for whistle blowing (i.e. the right to raise concerns by employees within the terms of the Public Disclosure Interest Act 1998 without fear of victimisation for doing so). As a first step, disclosures should normally be raised with the Internal Audit Manager but where disclosures are made to Management, Heads of Service, Directors or the Chief Executive then these officers must also inform the Internal Audit Manager.
- 3.8 Members of the public are positively encouraged to raise any concerns they may have on fraud and corruption issues which impact on the Council's activities. This may be achieved by reporting concerns via the Council's website via "[Report/ Fraud, corruption and whistleblowing](#)", by clicking on the [link](#) or by contacting Internal Audit directly (see contact details under 5.3).
- 3.9 The types of allegations or suspicions which should be reported for investigation fall into the broad categories in the list below (this is for guidance and is not exhaustive and further advice on any matter can be sought from Internal Audit).

Allegations or suspicions in relation to theft, misappropriation or misuse of:

- assets, cash, stores, other property or contracts of the Council or . where there is a funding relationship with the Council;
- cash, property or other belongings of an employee, where suspicion falls on another Council employee.

and also:

- a criminal offence (e.g. fraud, stealing from the Council, fraudulently claiming wages, theft from clients);
- failure to comply with any legal obligation (e.g. the statutory obligation to provide a certain level of care is deliberately ignored);
- miscarriage of justice;
- conduct by officers of the Council or Elected Members which is unlawful or in breach of the Council's Standing Orders, Financial Regulations, Employee Code of Conduct or other policies;
- corruption or bribery;
- concerns over child protection / the protection of vulnerable adults;
- danger to the health and safety of an individual;

- danger to the environment; or
- deliberate concealment of any of the above.

## **4. STRATEGY - DETERRENCE AND PREVENTION**

- 4.1 The Local Government (Scotland) Act 1973 specifies that every local authority must make proper arrangements for the administration of its financial affairs. Accordingly, the Council has adopted Financial Regulations and Financial Directives which provide the framework for managing its financial affairs.
- 4.2 The Act provides that each Council must appoint a 'Proper Officer' with responsibility for the administration of its financial affairs (i.e. the s95 Officer). The Council has resolved that the 'Proper Officer' is the Head of Finance and Integrated Service Support and they work with other senior managers and Internal Audit in developing the anti-fraud and corruption culture. The Head of Finance and Integrated Service Support is also the Council's nominated Anti-Money Laundering Officer.
- 4.3 The Act also specifies that local authorities must make Standing Orders with respect to contracts for the supply of goods or materials and the execution of works. The Council has adopted Standing Orders for contracts (Standing Order 20) which ensure that uniform contracting procedures of the highest standard are laid down for use throughout the Council.
- 4.4 The Council has set up an Integrity Group which considers the risk of fraud and corruption in key areas together with the risk of Serious and Organised Crime within Midlothian. The Director, Resources is the chair for the group and has responsibility for overseeing the Council's compliance with the provisions of this policy.
- 4.5 The Council has a Procurement Policy and Procedures Manual which standardises the methods of procurement within the Council. These are mandatory for all Council employees involved in procurement. A central record of activity across the Council (Tenders, Quotations and Contracts Registers) is held by the Procurement Manager.
- 4.6 The Council has established an Audit Committee which reviews and monitors the following areas of corporate governance:
  - reviewing and promoting the Council's system of internal control, aimed at ensuring that the Council's activities are carried out in an efficient and controlled manner, and that its assets are safeguarded;
  - evaluation of the Council's control environment, including measures to prevent and detect fraud;
  - evaluation of the Council's risk management framework including regular reviews of the Council's high risks and corporate risk register; and
  - scrutiny of the Anti Fraud and Corruption Policy.

- 4.7 Internal Audit has a Corporate Fraud team which comprises 2 Accredited Counter Fraud Specialist officers. This team provides support to services in preventing and detecting instances of fraud. This support includes providing anti-fraud training and advice, conducting enquiries on behalf of services and carrying out investigations.
- 4.8 It is important to stress that the responsibility for the prevention and detection of fraud and corruption rests with management, and to this end the Council's managers have developed systems and procedures which incorporate efficient and effective internal controls. These systems contribute towards the prevention of fraud and corruption by ensuring that there are sound arrangements to control the following:
- the legitimacy of expenditure;
  - the security of assets and income;
  - the reliability of management information;
  - the accuracy of financial and other records; and
  - compliance with statutory requirements including the Bribery Act 2010.
- 4.9 The existence, appropriateness and effectiveness of these internal controls are independently monitored on a planned basis by Internal Audit which undertakes a series of systems and risk based audits on the basis of a predetermined annual audit plan which is approved by the Audit Committee. The Corporate Fraud work plan may be changed 'in year' to focus on new or emerging fraud threats identified as part of information sharing and intelligence.
- 4.10 Internal Audit carry out follow up reviews to ensure that control weaknesses have been addressed.
- 4.11 Every year, each Head of Service is required to undertake an annual self assessment of their area of responsibility using an assurance template and within this they are required to confirm whether all risks and controls relating to fraud are detailed in appropriate risk registers and that all officers are aware of the Council's policies on fraud and corruption.
- 4.12 The Council works with other Local Authorities and Enforcement Agencies, including Police Scotland to deter and detect fraud and corruption, sharing data across departments and agencies where appropriate. It participates in the National Fraud Initiative which is undertaken every 2 years.
- 4.13 The Council undertakes appropriate recruitment vetting of all employees prior to employment to prevent potentially dishonest employees from being appointed.

## 5. FRAUD RESPONSE PLAN

- 5.1 Where any matter arises which involves, or is thought to involve, a fraud, corruption or financial irregularity, the relevant Head of Service / Director must immediately notify the Internal Audit Manager for consideration of appropriate action. Managers must only establish the basic facts of the suspicion and should not attempt to carry out any detailed investigation themselves.
- 5.2 Good advice at an early stage is the key step to achieving a successful outcome when fraud or corruption is suspected. Investigations that are badly handled can lead to potential prosecutions failing. The Council provides mechanisms for members of the public and employees to contact the Internal Audit Manager to report any suspected frauds, corruption and irregularities.
- 5.3 This can be done in a number of ways, including:
- Use of the e-mail link [InternalAudit@midlothian.gov.uk](mailto:InternalAudit@midlothian.gov.uk);
  - Telephone the Internal Audit team on 0131 271 3572;
  - Write a confidential letter to the Internal Audit Manager: Midlothian Council, Fairfield House, 8 Lothian Road, Dalkeith, Midlothian. EH22 3AA;
  - Fill out a report (anonymously if desired) via the Council's website via "[Report/ Fraud, corruption and whistleblowing](#)";
  - Book a confidential appointment with the Internal Audit Manager on 0131 271 3517 or 3285; and
  - If the concern is about an Elected Member of the Council, the individual may wish instead to exercise their right to contact the Standards Commission for Scotland website: <http://www.standardscommissionscotland.org.uk/>. The individual may wish to inform the Internal Audit Manager of this course of action.
- 5.4 Where the Internal Audit Manager is satisfied that a matter will be investigated appropriately, the responsibility can be discharged to the Service.
- 5.5 Where the nature of the investigation requires specialist skills, a degree of independence, or the investigation is of a scale which cannot be managed by the Service, Internal Audit will reserve the right to carry out the investigation. This will include investigations where initially it has been agreed to allow the Service to do the preliminary work. It may on occasion be appropriate for Internal Audit not to pass information and evidence of fraud to the Service at an early stage.
- 5.6 The investigation, undertaken by Internal Audit, will:
- establish the facts as far as possible, including any criminal or disciplinary matters;
  - identify any control weaknesses and recommend control improvements, where required;
  - provide management with a written, factual report into the incident; and
  - record information for fraud statistics.

- 5.7 A summary of all reported suspicions will be presented to the Audit Committee and External Audit on an annual basis by the Internal Audit Manager. Significant matters will be reported to the Audit Committee as soon as is reasonably practicable.
- 5.8 Investigations into suspected wrongdoing of employees will be investigated within the standards and provisions set out in the relevant Disciplinary Procedure. Advice can be sought from OD/HR Services.
- 5.9 The Senior Auditor, Internal Audit is responsible for planning and coordinating the Council's participation in the National Fraud Initiative which is a comprehensive data matching exercise between public sector bodies to highlight potential frauds in a number of areas for example Housing Benefits, Payroll, Social Care, Blue Badges, Housing Tenancies, Insurance etc.
- 5.10 Where appropriate, the Council co-operates with other local authorities and public sector bodies in the prevention, detection and investigation of fraud and corruption.
- 5.11 The Council has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

## **6. RECOVERY AND CRIMINAL PROCEEDINGS**

- 6.1 Where the investigation reveals that criminal activity appears to have taken place, the Internal Audit Manager, in consultation with the relevant Director, will determine whether the matter should be referred to Police Scotland. The Council will always seek to prosecute cases where criminality has been identified.
- 6.2 Where an incident involves a break-in or theft, staff should automatically report the incident to Police Scotland for investigation and without delay. Following this, the incident must be reported to the Internal Audit Manager.
- 6.3 Where a fraud, corrupt act or irregularity is material, consideration is also given to recovering losses in a civil court. The relevant Director, in consultation with the Internal Audit Manager and the Legal Services Manager will determine whether action should be taken to recover any monies lost. In determining whether such action shall be taken, due account will be taken of all the salient factors, such as:
- the amount of the loss;
  - the costs of any recovery action; and
  - the prospects of successful recovery of the sums lost.
- 6.4 As well as the possibility of civil and criminal prosecution, any employee that breaches this policy will face action in accordance with the Council's Disciplinary procedures which could result in dismissal for gross misconduct.



- 6.5 The Council will publicise all successful fraud and corruption prosecutions as a deterrent to potential fraudsters and to demonstrate its commitment to protect public monies. This decision is made by the Chief Executive, in liaison with the relevant Director.

## 7. ASSOCIATED POLICIES

- 7.1 The following policies should be read in connection with this policy:

- Anti Bribery Policy;
- Anti Money Laundering Policy;
- Whistle Blowing – Public Interest Disclosure Policy;
- Information and Communication Technology Policy;
- Employee Code of Conduct; and
- Disciplinary Procedure

## 8. CONCLUSION

- 8.1 The Council has in place a clear set of systems and procedures to assist it in combating the constant threat of fraud and corruption. The Council is determined that these arrangements will be regularly reviewed to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection.
- 8.2 The Council maintains a continuous overview of existing systems of control, as well as reviewing on a regular basis all relevant policies, procedures and regulations.

Version Control	
Compiled March 2006	Approved by CMT - April 2006 Approved by Cabinet - May 2006 Presented to Standards Committee
Updated November 2008	Submitted to Cabinet for approval – December 2008
Updated November 2010	Submitted to Audit Committee for scrutiny – December 2010
Updated December 2011	To include reference to the Bribery Act 2010
Updated November 2012	To include reference to the Local Government Fraud Strategy Inclusion of a Fraud Response Plan Creation of a separate Public Interest Disclosure Policy Approved by CMT – December 2012 Submitted to Audit Committee for scrutiny – December 2012
Updated December 2016	Amended to comply with CIPFA guidelines





## WHISTLE BLOWING - PUBLIC INTEREST DISCLOSURE POLICY

### CONTENTS

1. Introduction
2. Scope
3. Key Principles
4. Making a Protected Disclosure
5. Further Information
6. Version Control

## **1. INTRODUCTION**

- 1.1 Midlothian Council is committed to supporting employees who identify serious misconduct either within the Council or with other bodies or contractors who work with the Council. Where an employee has reasonable grounds for believing that misconduct has occurred, is occurring or is likely to occur, then this Policy provides a mechanism for their concerns to be raised within the Council.
- 1.2 The purpose of this Policy is to encourage and enable Council employees to make known any serious concerns about breaches of law, codes of practice, bribery or other corrupt practices or any other wrong doing within the Council, and thus allow for internal investigation of any alleged malpractice or misconduct. For the purposes of this policy the term 'employee' includes permanent and fixed term employees; casual and supply workers; agency workers; volunteers; and those on secondment from other organisations.
- 1.3 Generally 'Whistle-blowing' is 'making a disclosure in the public interest' and occurs when a Council employee provides information to the relevant person within the Council to show that they reasonably believe that one or more of the following events has happened, is happening or is likely to happen:
- (a) criminal offence;
  - (b) failure to comply with any legal obligation;
  - (c) miscarriage of justice;
  - (d) danger to health and safety of any individual;
  - (e) risk of actual or likely damage to the environment; or
  - (f) deliberate concealment of any of the above.
- 1.4 This Policy reflects the provisions and conditions of the Public Interest Disclosure Act 1998 (PIDA).

## **2. SCOPE**

- 2.1 This Policy applies to all employees as detailed in paragraph 1.2 above (from day one of their appointment) who wish to make a disclosure to the Council. This includes all teaching staff, those on Scottish Negotiating Committee of Teachers (SNCT) Terms and Conditions and Chief Officials.
- 2.2 This Policy does not apply to matters relating to an employee's own employment, for which reference should be made to the Council's Resolution Procedure (Local Government Workers), Grievance Procedure (Teachers and those on SNCT Terms and Conditions), or other relevant People Management Policies and procedures.

### **3. KEY PRINCIPLES**

- 3.1 The Council considers that a clear mechanism enabling employees to raise serious concerns of wrongdoing or malpractice is important in maintaining the high standards of integrity, honesty and professionalism in the work place which is expected of those serving the public. It ensures that serious concerns are reported promptly and properly and are appropriately investigated and that employees who raise concerns in accordance with this Policy are protected from suffering detriment and / or being unfairly dismissed because they have disclosed information relating to such concerns.
- 3.2 The Council recognises that the decision to report a concern can be a difficult one for an employee to make. Employees may therefore wish to seek their own independent legal advice or advice from a trade union representative before making a disclosure to the Council.
- 3.3 To make a protected disclosure to the Council in terms of this Policy an employee must:
- disclose information (and not mere speculation) in relation to one or more of the grounds referred to in paragraph 1.3 above;
  - have a reasonable belief in the disclosure being substantially true;
  - not act maliciously or make false allegations; and
  - not seek any personal gain.
- 3.4 The Council will not tolerate any harassment, victimisation or other detrimental treatment of an employee because they have made a protected disclosure. The Council will invoke the provisions of the appropriate Disciplinary Procedure or other appropriate procedure against those who put pressure on, bully, harass, victimise or treat less favourably an employee who has made a protected disclosure.
- 3.5 Any employee who has made a protected disclosure and believes they have been victimised as a result will have recourse to the Resolution Procedure (Local Government Workers) or Grievance Procedure (Teachers and those on SNCT Terms and Conditions) or Policy on the Prevention of Harassment and Bullying at Work.
- 3.6 The Council will seriously consider concerns raised and will take the appropriate course of action in the circumstances.
- 3.7 The Council recognises that an employee making a disclosure under this Policy will wish to be assured that the matter is being addressed. The Council will, subject to any legal and confidentiality constraints, provide that employee with information on the outcome of the consideration or course of action.
- 3.8 Where an employee who is already the subject of a disciplinary or other investigation makes a disclosure, the disciplinary or other procedure will not normally be halted as a result of the making of that disclosure.

- 3.9 Where an employee is suspected to have acted maliciously in making false allegations this will be investigated under the terms of the relevant Disciplinary Procedure and may result in disciplinary action being taken.

#### **4. MAKING A PROTECTED DISCLOSURE**

- 4.1 The earlier a concern is raised, the easier it is to take appropriate action. Employees may raise the concern directly, or may seek support from a trade union or professional association to raise the concern on their behalf.
- 4.2 The person making the disclosure must reasonably believe their disclosures are made in the public interest.
- 4.3 As a first step, disclosures should normally be raised with the Internal Audit Manager. Where disclosures are made in the first instance to Management, Heads of Service, Directors or the Chief Executive, these officers should also inform the Internal Audit Manager.
- 4.4 The disclosure should, as far as is reasonable, be raised in writing, giving any relevant background and history and other information (for example names, dates and places) and setting out the reason for concern.
- 4.5 Where it is not feasible to raise the concern in writing, the employee or trade union or professional association acting on their behalf can raise the concern verbally to the relevant manager or book a confidential appointment with the Internal Audit Manager.
- 4.6 The Council will do its utmost to protect the identity of those who raise concerns and do not want their names disclosed. However, this cannot be guaranteed in all circumstances. It must be remembered that any investigation process may reveal the source of the information and a statement by the employee raising the disclosure may be required as part of the evidence necessary to properly deal with the concern.
- 4.7 Anonymous disclosures will be considered on their merit taking into account the seriousness of the allegations raised, the credibility of the concern and the likelihood of confirming the allegation from other sources.
- 4.8 The Council's Internal Audit Manager will consider all disclosures raised and will:
- log the concern;
  - acknowledge to the employee or trade union / professional association acting on their behalf that the concern has been received;
  - confirm with the employee or trade union / professional association that they have read and understood this policy;
  - consider the best course of action in terms of any investigation; and
  - consider whether the concern is part of a wider investigation.

- 4.9 The action taken by the Council will depend upon the nature of the concern. The matters raised may:
- be investigated internally;
  - be referred to Police Scotland;
  - be referred to the Council's External Auditor;
  - be referred to another appropriate Public Authority or regulatory body; or
  - form the subject of an independent enquiry.
- 4.10 Some concerns may be resolved without the need for investigation.
- 4.11 Where a meeting with the employee raising the concern is required, he or she will have the right, should they wish, to be accompanied by a trade union or professional association representative or a work colleague who is not involved in the area of work related to the concern.
- 4.12 The Council will, subject to any legal and confidentiality constraints, provide that employee with information on the outcome of the consideration or course of action.
- 4.13 If an employee decides to blow the whistle to a prescribed person rather than Midlothian Council, he/she must make sure that they have chosen the correct person or body for their issue. Further details can be found at <https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2>

## **5. FURTHER INFORMATION**

- 5.1 Advice and guidance on how matters of concern may be pursued is available from the Internal Audit team on 0131 271 3517 or 3285 or by email at: [InternalAudit@midlothian.gov.uk](mailto:InternalAudit@midlothian.gov.uk)
- 5.2 Trade unions and professional associations can provide advice, guidance and support.
- 5.3 Information is also available on the Council's website at: [Link](#)
- Concerns can be reported (anonymously if desired) via the Council's website under 'Report, Fraud, Corruption and Whistle-blowing' [Link](#).
- 5.4 General information can also be found on the ACAS website at: <http://www.acas.org.uk/index.aspx?articleid=1919>
- and on the gov.uk website at: <https://www.gov.uk/whistleblowing>

## 6. VERSION CONTROL

Date	Details of Amendment/Revision	Authorised Officer
12/08/2015	Updated in line with legislation. Removal of 'in good faith' in order to be a protected disclosure – person making the disclosure must reasonably believe it is in the public interest; inclusion of link to list of prescribed persons; confirmation that employee has recourse to grievance procedure if they feel they have been victimised as a result of making a protected disclosure.	Elaine Aitken
18/02/2016	Change to requirement for all cases to be reported into Internal Audit Manager / other minor updates by Audit and Legal.	Graham Herbert / William Venters
13/07/2016	Formatting changes, link updates.	Heather Mohiedeen
02/11/2016	Review of proposed updates by Legal and Audit to policy.	Graham Herbert/ Elaine Greaves

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## **ANTI-BRIBERY POLICY**

### **CONTENTS**

1. Introduction
2. Scope
3. Council's Commitment
4. What is Bribery?
5. What is the Council's Position on Bribery?
6. Preventing Bribery – Adequate Procedures
7. Employee Responsibilities
8. Consequences of Improper Behaviour
9. Review

## **1 Introduction**

- 1.1 Midlothian Council is fully committed to the prevention, deterrence and detection of bribery and upholding all relevant laws, including the Bribery Act 2010.
- 1.2 Bribery is a criminal offence and is unacceptable in any form and will lead to disciplinary action against employees where allegations are substantiated. The Council operates a zero tolerance approach to bribery.
- 1.3 This Policy sets out a framework to enable the Council's employees and those that the Council has dealings with to understand and implement arrangements to ensure compliance with the Bribery Act 2010.
- 1.4 This Policy should be read in conjunction with the Council's Anti Fraud and Corruption Policy and Strategy, Anti Money Laundering Policy, Employee Code of Conduct (which contains reference to Gifts and Hospitality) and the Whistle Blowing – Public Interest Disclosure Policy.
- 1.5 This Policy and the associated Procedure (Appendix 4) provide information and guidance for employees on how to prevent, recognise and deal with bribery.
- 1.6 The Audit Committee, Cabinet and Corporate Management team have been involved in the production and approval of the Anti Bribery Policy and there is therefore Elected Member and Senior Management commitment and endorsement of these.

## **2 Scope**

- 2.1 This policy applies to all Council activities. For partners, joint ventures and suppliers we will seek to promote adoption of policies consistent with the principles set out in this policy.
- 2.2 This Policy applies to all Council employees, including all levels and grades, those permanently employed, fixed term, on secondment from another organisation, casual and agency staff. It also applies to contractors, agents, volunteers and consultants with which the Council has dealings.

## **3 Council's Commitment**

- 3.1 Midlothian Council commits to:
  - setting out a clear anti-bribery policy and keeping this up to date;
  - making all employees and others within the scope of paragraph 2 aware of their responsibilities to adhere strictly to this policy at all times;

- provide a channel for all employees to report suspected breaches of this policy; and
- include, where appropriate, clauses in contracts to prevent bribery.

#### **4 What is Bribery?**

4.1 Bribery is an inducement or a reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

4.2 Offences under The Bribery Act 2010 are:

##### Individual offences

- Section 1 - bribery of another person, offering an advantage (financial or otherwise) to another person in return for beneficial treatment.
- Section 2 - accepting a bribe, receiving or requesting an advantage (financial or otherwise) from another person in return for beneficial treatment.
- Section 6 - bribing a foreign official.

##### Corporate offence

- Section 7 - allowing an associated person to bribe another person (ie failure by an organisation to prevent bribery). An associated person can be an employee or a contractor providing a service on behalf of the Council.

4.3 The maximum penalty for individuals under the Act is 10 years imprisonment and /or unlimited fines. Failure by an organisation to prevent bribery carries an unlimited fine.

#### **5 Preventing Bribery – Adequate Procedures**

5.1 An organisation will have a statutory defence against prosecution under section 7 bribery offences if it puts into place ‘adequate procedures’ designed to prevent bribery. Ultimately it will be for a court to decide whether these procedures are adequate.

5.2 Midlothian Council’s procedures to prevent bribery are attached at Appendix 4.

5.3 These procedures will be applied by all Services in all dealings proportionally based on the level of risk.

#### **6 Employee Responsibilities**

6.1 Employees must ensure they read, understand and comply with this policy.

- 6.2 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all employees working for the Council.
- 6.3 Employees should raise any concerns as soon as possible if they believe or suspect that a breach of this policy has occurred or may occur in the future. These concerns should be raised in line with the Council's Whistle Blowing-Public Interest Disclosure Policy.

## **7 Consequences of Improper Behaviour**

- 7.1 All allegations relating to bribery or corrupt practices will be investigated by the Council.
- 7.2 In all circumstances where it is considered that a criminal offence may have been committed, the Council will notify Police Scotland.
- 7.3 The Council will seek, wherever possible, to recover any losses suffered as a result of an act of bribery or corruption.
- 7.4 As well as the possibility of civil and criminal prosecution, employees that breach this policy will face action in line with the Council's Disciplinary Procedures which could result in dismissal for gross misconduct.

## **8 Gifts and Hospitality**

- 8.1 This policy does not change the requirements relating to Gifts and Hospitality currently contained in the Employee Code of Conduct.
- 8.2 Gifts, offers of hospitality or favours from or to a third party, a contractor, client or partner organisation of the Council are capable of being perceived as constituting a bribe.
- 8.3 Employees and their family members should never accept or offer a gift, hospitality, favour or any other form of inducement which may influence or be perceived as influencing actions or decisions related to their job.

## **9 Review**

- 9.1 This policy and associated procedures will be reviewed periodically and at least every three years to reflect organisational changes, best practice, operational experience and legislative updates in order to maintain its effectiveness and compliance with the Bribery Act 2010.

### **ANTI-BRIBERY PROCEDURE**

#### **Contents**

1. Introduction
2. The Bribery Act 2010
3. Top level commitment and responsibility for bribery prevention measures
4. Carry out a risk assessment
5. Put in place proportionate bribery prevention measures
6. Review due diligence measures
7. Communication and training
8. Monitoring and review

## **1 Introduction**

This procedure is intended to provide guidance for assessing and mitigating the risk of Bribery and should be read in conjunction with the Council's Anti Bribery Policy and Anti Fraud and Corruption Policy and Strategy.

## **2 The Bribery Act 2010**

- 2.1 The Bribery Act 2010 came into force on 1 July 2011 and under the Act the Council must ensure that there are adequate procedures in place to prevent bribery by employees, or of persons associated with the Council. This includes anyone who performs services for or on behalf of the Council including permanent employees, temporary employees, agency staff, contractors and third sector partners.
- 2.2 Failure to comply with the requirements of the Act could result in imprisonment and / or unlimited fines.
- 2.3 Guidance on the content of Bribery procedures has been produced by the Ministry of Justice and this includes the need for procedures based on the following six principles:
  - Top Level Commitment
  - Risk Assessment
  - Proportionate Procedures
  - Due Diligence
  - Communications
  - Monitoring and Review
- 2.4 These six principles have been used to develop these procedures but are not prescriptive and are intended to be flexible with outcomes focussed on allowing for the different circumstances of each Service area.

## **3 Top level commitment and responsibility for bribery prevention measures**

The Audit Committee, Cabinet and Corporate Management team have been involved in the production and approval of the Bribery Prevention Procedures and there is therefore Elected Member and Senior Council Management commitment and endorsement of these.

- 3.1 The Council's Monitoring Officer has overall corporate responsibility for these policies and procedures and ensuring that the Council complies with the Bribery Act 2010.
- 3.2 Individual Services must appoint an officer within their Service area for developing and monitoring bribery prevention procedures and for providing copies of these procedures to the Council's Monitoring Officer.

#### **4 Carry out a Risk Assessment**

- 4.1 All Services must carry out a risk assessment on the Service area's vulnerabilities to bribery. This should highlight areas where effort needs to be focussed and ensure that procedures are proportionate to the risks faced by the Council.
- 4.2 This risk assessment must be carried out at least annually and should be incorporated into the Risk Management process and included in each Service's risk register.

#### **5 Put in place proportionate bribery prevention measures**

- 5.1 Having identified any relevant areas of risk, Services must put in place adequate measures and controls that address the potential areas for bribery. These need to be applied proportionately based on the level of risk identified through the risk assessment.
- 5.2 These measures should be reviewed on a regular basis to ensure they are effective, especially if new practices or business arrangements are put in place, which may impact on the Council's ability to continue to comply with the Bribery Act 2010 and any relevant guidelines.

#### **6 Due Diligence Measures**

- 6.1 Due diligence involves assessing a proposed or existing business relationship or transaction, and ensuring any risk of bribery is mitigated by putting in place appropriate procedures and checks where the risk assessment has highlighted the risk of bribery.
- 6.2 These procedures should include checking that the businesses or people with whom we work with are trustworthy, solvent and have a good reputation for doing

business (through for example, enquiries with business contacts, review of the intranet, review of CVs of agents, financial statements, references etc).

- 6.3 Where procedures or checks are already in place to do this (e.g. tendering processes) managers and employees must ensure that all steps outlined in the process are followed correctly and completed fully.
- 6.4 Services should carry out and fully document these due diligence checks to satisfy themselves that any risk is mitigated and to provide an audit trail of the work undertaken to achieve this.

## **7 Communication and Training**

- 7.1 Services should ensure that the Council's position on bribery is clearly communicated to all employees, including those on permanent and fixed term contracts; those on secondment from other organisations; casual workers; and agency staff; and to any external parties with whom the Council has dealings including contractors and third sector partners. In addition, the policy and procedure will be drawn to the attention of all tenderers for Council contracts.
- 7.2 Services need to determine the best way to communicate the policy and procedures on anti-bribery which will depend on the nature and locations of the Service, and the level of risk identified through the risk assessments.
- 7.3 Possible methods include induction training, team briefings, emails / letters from Service Directors and should include specific training in areas identified as high risk.
- 7.4 Services also need to consider how they communicate the policy and procedures to any third parties and partner organisations.
- 7.5 The policy and procedure will be published on the Council's website.

## **8 Review**

- 8.1 The procedure and associated policy will be reviewed periodically and at least every three years to reflect organisational changes, best practice, operational experience and legislative updates in order to maintain its effectiveness and compliance with the Bribery Act 2010.



**Audit Scotland Report - National Fraud Initiative 2014/15**  
**Report by Internal Audit Manager**

**1. Purpose of the Report**

Audit Scotland published a report on the National Fraud Initiative (NFI) in Scotland in June 2016. The purpose of this report is to:

- provide the Audit Committee with a summary of how the Audit Scotland report relates to the work undertaken within Midlothian Council;
- review actions taken within Midlothian to address recommendations made in the Audit Scotland Report; and
- allow the Audit Committee to consider and comment on the draft self assessment questionnaire contained within the Audit Scotland report.

**2. Background**

**2.1** Audit Scotland leads the NFI in Scotland. This is a long established national counter-fraud exercise using data matching to identify circumstances that might suggest the existence of fraud or error. All bodies in Scotland that have auditors appointed by Audit Scotland are required to take part in the NFI. Other bodies including private sector bodies are encouraged to take part.

**2.2** In June 2016, Audit Scotland reported on the outcomes of the 2014/15 NFI and made recommendations for the participating bodies. The report can be found on the Audit Scotland website (see link below).

The recommendations contained in this report, along with the actions which are being progressed by Midlothian Council are recorded in the table below:

Recommendation	Comment
Audit Committees should review the self appraisal checklist.	A draft response for the self appraisal checklist has been completed and is attached at Appendix 1.
All bodies should aim to maximise the benefits of participation in the NFI by considering the following: <ul style="list-style-type: none"> <li>• Working more efficiently on the matches;</li> <li>• Using the matches in conjunction with other matching services where appropriate; and</li> <li>• Using the NFI flexible data matching service and point of application data matching service.</li> </ul>	<p>Midlothian's participation in the NFI is designed to be as efficient as possible, with resource being focused on matches that are 'recommended matches' or, in the view of the service, merit investigation.</p> <p>There is a cost for using these services which, based on the outcomes from the checking of matches thus far, is not considered to be required. This position will continue to be monitored.</p>

Recommendation	Comment
Local authorities should ensure they have sufficient capability to investigate non-housing benefit fraud or corporate fraud, including relevant NFI matches.	Midlothian has established a Corporate Fraud team to investigate non-housing benefit fraud. A separate report on this area is included within today's agenda.
Local Authorities should embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.	The Corporate Fraud team have been working with Revenues staff to identify fraud and error in respect of council tax discounts and exemptions. Data matching is one of the techniques used to identify potential fraud or error. Internal data matching exercises are also undertaken within Midlothian.

**2.2** In December 2015, Internal Audit reported to the Audit Committee the outcomes from the 2014/15 NFI exercise and the outcomes from the additional data match between Council Tax (Single Person Discount) to the Referendum Electoral Roll, uploaded in May 2015.

**2.3** Since that date, Internal Audit have carried out a further data match between Council Tax (Single Person Discount) to the Electoral Roll, uploaded in December 2015.

### **3. Outcomes**

**3.1** Audit Scotland has identified national outcomes of £16.8 million (as at 31 March 2016) where outcome figures include amounts for fraud and error detected and also an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. Cumulative outcomes from the NFI in Scotland are now reported at £110.6 million.

**3.2** The following table compares the national outcomes with Midlothian's outcomes as follows:

Category	National Value £m	Midlothian's Value £m	Comments
Council Tax	5.6	0.120	This outcome includes £7k reported in December 2015, £20k from the later Council Tax match and £93k in respect of a case that led to the recovery of a Council house.
Pensions	4.6	0	Midlothian Council employees are members of the Lothian Pension Fund (administered by City of Edinburgh Council) or the Teachers' Fund (administered by the Scottish Public Pensions Agency) and are therefore not included in the work undertaken by Midlothian Council.
Housing Benefit	3.0	0.009	This is the outcome from 3 matches, a further 26 matches were referred to the Department for Work and Pensions for investigation.

Blue Badges	2.4	0.014	The Audit Scotland report applies a value of £575 to each blue badge cancelled to reflect lost parking and congestion charging revenue. This figure is a result of applying this to the 24 blue badges cancelled in Midlothian. However, this does not necessarily mean that the badges have been misused.
Other	1.2	0	No outcomes in these areas for Midlothian.
<b>Total</b>	<b>16.8</b>	<b>0.143</b>	

**3.3** During the period covered by the report, Midlothian took part in three NFI exercises as follows:

- The biennial data match which was uploaded in October 2014 and matches were made available in February / March 2015. This matching exercise was reported to the Audit Committee in December 2015 with an outcome of £9k. We did not report any outcome for Blue Badges as the badges cancelled all related to timing differences in the reporting of deaths;
- The Referendum Electoral Roll to Council Tax data match which was uploaded in May 2015. The result of this exercise was reported to the Committee in December 2015 with an outcome of £7k;
- The Electoral Roll to Council Tax data match which was uploaded in December 2015. The results of this match are included in the Corporate Fraud Report which is included in today's agenda. This report shows an outcome of £113k.

## **4. Report Implications**

### **4.1 Resource**

There are no additional resources required as a result of this report.

### **4.2 Risk**

The NFI is a control that is implemented to identify potential fraud or error. Active participation in the NFI has been reported as one way bodies can demonstrate good governance and sound financial management.

### **4.3 Single Midlothian Plan**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☐ Business transformation and Best Value
- ☒ None of the above

#### 4.4 Key Priorities within the Single Midlothian Plan

This report does not address the issues within the Single Midlothian Plan.

#### 4.5 Impact on Performance and Outcomes

Participation in the NFI increases the likelihood that fraud or error can be identified as a result of data matching with information from public bodies.

## 4.6 Adopting a Preventative Approach

Participation in the NFI provides increased assurance that existing data is free from fraud or error.

## 4.7 Involving Communities and Other Stakeholders

The Council's external auditors reported that they were satisfied with the Council's arrangements for NFI.

## 4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

## 4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

## 4.10 IT Issues

There are no IT issues with regard to this report.

## 5. Recommendations

The Audit Committee is invited to:

- note the contents of this report; and
- consider and comment on the draft Audit Scotland questionnaire attached at Appendix1.

**08 November 2016**

**Report Contact:**

Heather Mohieddeen Tel No 0131 271 3126  
heather.mohieddeen@midlothian.gov.uk

### Background Papers:

## Appendix 1 - Audit Scotland Questionnaire

**The National Fraud Initiative in Scotland** [http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr\\_160630\\_national\\_fraud\\_initiative.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160630_national_fraud_initiative.pdf)

## Audit Scotland

### National Fraud Initiative - Self-appraisal checklist

Part A: for those charged with governance	Yes / No / Partly	Is action required? Who by and when?	Comments
<b>Leadership, commitment and communication</b>			
1. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	No	
2. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes	No	
3. Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes	No	There is a cost for using these services which, based on the outcomes from the checking of matches thus far, is not considered to be required. This position will continue to be monitored.
4. Are the NFI progress and outcomes reported regularly to senior management and elected/board members (e.g. the audit committee or equivalent)?	Yes	No	Regular reports are made to the Audit Committee at which senior Council officers are present.
5. Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	N/A	No	
6. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	No	Internal Audit have been responsible for administering the NFI from 18 March 2015. The outcomes from the process are taken account of in the Internal Audit work plan.
7. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes	No	

<b>Part A: for those charged with governance</b>	<b>Yes / No / Partly</b>	<b>Is action required? Who by and when?</b>	<b>Comments</b>
<b>8.</b> Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?	Yes	No	Recent articles in the Staff magazine and the Tenants' newsletter have focused on the role of the Corporate Fraud team. The Corporate Fraud Annual Report has been reported to the CMT, Audit Committee and the Integrity Group.

<b>Part B: for the NFI key contacts and users</b>	<b>Yes / No / Partly</b>	<b>Is action required? Who by and when?</b>	<b>Comments</b>
<b>Planning and preparation</b>			
<b>1.</b> Are we investing sufficient resources in the NFI exercise?	Yes	No	
<b>2.</b> Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes	No	
<b>3.</b> Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	No	The key contact has been the Senior Auditor since 18 March 2015
<b>4.</b> Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes	No	
<b>5.</b> Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	No	It is understood that the existence of data matching has a deterrent effect
<b>6.</b> Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Partly	Yes  Key Contact  31 March 2017	The fair processing notice was completed on the website by the Senior Responsible Officer on 26 September 2016. In addition an action plan has been implemented to ensure all documentation contains the appropriate notice.
<b>7.</b> Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	No	
<b>8.</b> Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?	N/A	No	All datasets in the 2016/17 exercise are mandatory

<b>Part B: for the NFI key contacts and users</b>	<b>Yes / No / Partly</b>	<b>Is action required? Who by and when?</b>	<b>Comments</b>
<b>9.</b> Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes	No	There is a cost for using these services which, based on the outcomes from the checking of matches thus far, is not considered to be required.  This position will continue to be monitored.
<b>Effective follow-up of matches</b>			
<b>10</b> Do all departments involved in NFI start the follow-up of matches promptly after they become available?	Yes	No	
<b>11</b> Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes	No	
<b>12</b> Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?	Yes	No	
<b>13</b> Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	No	
<b>14</b> (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?	N/A	No	
<b>15</b> Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?	Yes	No	
<b>16</b> Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?	Yes	No	
<b>17</b> Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?	Yes	No	

<b>Part B: for the NFI key contacts and users</b>	<b>Yes / No / Partly</b>	<b>Is action required? Who by and when?</b>	<b>Comments</b>
<b>18</b> Overall, are we deploying appropriate resources on managing the NFI exercise?	Yes	No	
<b>Recording and Reporting</b>			
<b>19</b> Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	No	
<b>20</b> Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes	No	In the first instance staff refer queries to the key contact, who will consult the NFI team if required.
<b>21</b> If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?	Yes	No	Outcomes are recorded on the secure website. Additional information is included in the website comments.



**Corporate Fraud - Annual Report  
Report by the Internal Audit Manager****1 Purpose of Report**

The purpose of this report is to provide an update to the Audit Committee on the activities of the Corporate Fraud team over the past year and to seek input from the Audit Committee on areas where this resource could be used further.

**2 Background**

In October 2015, following the transfer of housing benefit investigations to the Single Fraud Investigation Service (SFIS) of the DWP, the Council's counter fraud staff were transferred to the Internal Audit Service. The aim of the transfer was to allow the Council to provide a Corporate Fraud service.

**3 Corporate Fraud Team Activity**

We have calculated, using Audit Scotland guidance (where relevant) that the Corporate Fraud Team has identified around £250,000 of savings during 2015/16. These are detailed in Appendix 1. Areas of work undertaken by the team and the savings identified during 2015/16 are detailed below.

- 3.1 In carrying out the National Fraud Initiative data matching exercise between the Electoral Roll and Single Person Discount records, the Corporate Fraud Officers identified £11,000 of uncollected Council Tax which will provide £10,000 of additional Council Tax annually. During the investigation it was identified that one of the matches related to a Council house that was not being used as a main residence and was the subject of a right to buy application. This house was recovered and was subsequently allocated to a family on the waiting list. The saving in respect of this house, calculated according to Audit Scotland guidance, is £93,000 over 4 years.
- 3.2 A review of Council Tax exemptions was carried out during the year. There are a number of categories of exemptions available, for example: when a resident goes into hospital for long term care; all residents in a property are students; a house is empty and unfurnished; or a property is uninhabitable. In these cases, no Council Tax is payable on the property. The review highlighted 31 cases where circumstances had changed and Council Tax became payable but the Council had not been informed. The review identified a total of £48,000 of Council Tax collectable (see table below):

<b>Council Tax Exemptions Exercise 2015/16</b>	
Cases with an exemption flag	590
Cases investigated / visited	206
Number of cases where exemption no longer applied	31
Value of identified savings to date	£27,410
Value of annual savings ( <i>following Council Tax year</i> )	£20,767
<b>Total savings</b>	<b>£48,177</b>

- 3.3 The team have delivered fraud awareness training to Housing staff. As a result of this, 30 allegations of potential tenancy fraud are being investigated, one of which resulted in the return of a second house to the housing stock, again at a four year value of £93,000. This house too has since been allocated to a family on the waiting list.
- 3.4 The Corporate Fraud officers have developed service specific fraud awareness training modules for Homelessness and Procurement staff and these will be delivered in the coming weeks.
- 3.5 The Council's policies on Anti Fraud and Corruption, Anti Bribery and Whistleblowing have been updated in line with current legislation and best practice.
- 3.6 As part of Internal Audit, the team have assisted with various audits, providing their view on the potential fraud aspects of areas under review and performing compliance testing on elements of the Code of Corporate Governance, Petty Cash procedures and the Construction Industry Scheme Audit.
- 3.7 The Fraud team have dealt with 28 enquiries from the Midlothian Council website page "Report - Fraud, Corruption and Whistleblowing."
- 3.8 As investigators, the team have conducted consultancy and investigation work for Resources and Education services in respect of thefts and recommended procedures to prevent further occurrences.
- 3.9 The fraud team are members of the Scottish Local Authority Investigators Group and represent Midlothian Council at their quarterly meetings, ensuring current practice is up to date.
- 3.10 The team are part of the Council's Integrity and Contest groups, relating to Serious and Organised Crime and Counter Terrorism. A member of the team acts as the Single Point of Contact for Midlothian Council with Police Scotland for Serious and Organised Crime Groups.
- 3.11 The team have published fraud awareness raising articles in the Tenants' Newsletter and Inside Midlothian in order to encourage reporting of suspected frauds.

### Longer Term

Much of the work outlined above will continue in future years however additional areas could be developed in the longer term as suggested below:

3.12 Undertake specific reviews in areas where the Council could be at risk from external fraud:

- council tax reduction, discounts and exemptions;
- tenancy fraud (commercial and residential including sub-let, inappropriate use, inaccurate information provided impacting on housing allocation score);
- licensing;
- planning or development;
- procurement;
- invoicing;
- funding provided to third parties;
- direct payments for social care;
- theft of council assets or data;
- insurance claims;
- Scottish Welfare Fund and Community Care Grants; and
- blue badge fraud.

3.13 Undertake specific reviews in areas where the Council could be at risk from internal fraud:

- risk that employees could be in collusion with serious organised crime (for example procurement, planning, licensing, tenancy etc);
- theft of council assets or data;
- time abuse;
- payroll and / or expense claim frauds; and
- purchasing goods or services using Council funding for personal use.

3.14 The Corporate Fraud Team with the support of Internal Audit and the Integrity Group could develop further training programmes for managers and staff to highlight the risks and controls over fraud. As well as team training sessions, an on-line training package could be developed.

3.15 The Corporate Fraud team could look at the effectiveness of the control environment in relation to fraud prevention operated by the Council including use of risk assessments, staff vetting and local policies and procedures.

3.16 The Corporate Fraud Team could provide support to Internal Audit by assisting with compliance based reviews (for example recommendation follow ups).

3.17 Internal Audit plan to work closely with the Integrity Group to identify any risk areas for investigation.

## 4.1 Resource

There are currently two FTE fraud officers and support is provided to them by the Senior Auditor and the Audit Manager.

## 4.2 Risk

The report directly addresses fraud risk and proposes work that can be undertaken by the corporate fraud resource to reduce the risks within the Council.

## 4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☐ Business transformation and Best Value
- ☒ None of the above

## 4.4 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan by preventing and detecting fraud, additional resources may be available to support the Council's objectives.

## 4.5 Impact on Performance and Outcomes

The Council's performance and outcomes will be improved by preventing and / or detecting fraud.

## 4.6 Adopting a Preventative Approach

Having a robust fraud prevention and investigation service contributes to safeguarding the Council's financial resources, for delivery of services.

## 4.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report.

## 4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

## 4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

## 4.10 IT Issues

There are no IT issues with regard to this report.

## 5 Summary

Midlothian Council continues to be responsible for non benefit fraud investigations and the prevention and detection of fraud. A Corporate Fraud team has been created and this report outlines areas where this resource could be best utilised.

## 6 Recommendations

The Audit Committee is invited to:

- note the content of the report; and
- discuss and suggest any other areas where the counter fraud resource could be effectively deployed.

**Date 17 October 2016**

### **Report Contacts:**

Heather Mohieddeen

Tel No 0131 271 3126

[Heather.mohieddeen@midlothian.gov.uk](mailto:Heather.mohieddeen@midlothian.gov.uk)

### **Appendices:**

**Appendix 1 – Savings and Fraud team activity**

**Actual Fraud and Error Identified in 2015/16**

<b><u>Service</u></b>	<b><u>Fraud or Error Identified</u></b>	<b><u>Annual Sum Involved</u></b>	<b><u>Total Saving</u></b>
Council Tax Discounts and Exemptions <sup>1</sup>	£27,410	£20,767	£48,177
Single Person Discount – Electoral Register Match	£10,544	£9,860	£20,404
Joint investigation with Housing following NFI match resulted in the recovery of a Council house and return to available housing stock. Value per Audit Scotland guidance <sup>2</sup>			£93,000
Joint investigation with Housing recovered a Council house and return to available housing stock. Value per Audit Scotland guidance			£93,000
Total Savings identified in year as a result of Corporate Fraud Activity			£254,581

**Fraud Team Activity**

	<b><u>Activity</u></b>
Council Tax Discounts and Exemptions Cases Investigated	206
NFI Single Person Discount – Electoral Register Match Cases Investigated	208
Housing referrals	30
Website referrals	28
Consultancies and Investigations	4
Internal Audit Compliance Testing	3
Presentations delivered	3
Policies updated	3

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<sup>1</sup> The Cabinet Office has advised that Council Tax can be backdated to the beginning of the financial year fraud was first discovered and claimed to the end of the current financial year so in effect these monies would be classed as loss stemmed, and another year's savings at the same rate as current year as loss prevented.

<sup>2</sup> Audit Scotland has advised that the appropriate calculation for the loss in respect of a fraudulent tenancy is £93,000 per tenancy to cover 2 years homeless accommodation, legal and administrative costs and 2 years future savings, assuming an average tenancy period of 4 years.

## **PROGRESS UPDATE**

### **Report by Internal Audit Manager**

#### **1. Purpose of Report**

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

- a summary of the work undertaken by Internal Audit since April 2016; and
- an update on progress with the current audit plan which was approved by the Audit Committee on 15 March 2016.

#### **2. Detail**

The Internal Audit Section has completed the following tasks since April 2016:

<b>Task</b>	<b>Description</b>	<b>Reported to</b>
A review of the Code of Corporate Governance	An audit of a sample of controls listed in the Code of Corporate Governance was reviewed for operational effectiveness. Testing identified that the key elements were in place and operating effectively. Issues raised are recorded within the Internal Audit Manager's statement.	Reported to the May 2016 Audit Committee
Annual Assurance Report	A high level summary of the risk management, governance and internal control environment of the Council by the Internal Audit Manager. The statement is also used to inform the Annual Governance Statement.	Reported to the May 2016 Audit Committee
Public Sector Internal Audit Standards.	Assessment of Internal Audit against the Public Sector Internal Audit Standards.	Reported to the May 2016 Audit Committee

<b>Task</b>	<b>Description</b>	<b>Reported to</b>
Review of the Internal Audit Charter	The Charter is required to allow the Internal Audit Section to be compliant with the Public Sector Internal Audit Standards.	Reported to the May 2016 Audit Committee
Business Gateway	A review of controls operating over the appointment of consultants.	Reported to the May 2016 Audit Committee
Internal Audit Recommendations follow up	A review of a sample of recommendations that have been signed off as complete to determine whether they had been implemented satisfactorily.	Reported to the June Audit Committee.
Developer Contributions	A follow up review of a sample of issues raised in the report presented to the Audit Committee in March 2016	Reported to the June Audit Committee
Business Transformation	A follow up review of issues raised on Business Transformation in the report presented to the Audit Committee in October 2014.	Reported to the September Audit Committee
Care at Home	A review of the controls operating over the monitoring of contracts with third party suppliers.	Reported to the September Audit Committee
Petty Cash	Follow up of issues raised as part an Internal Audit Report presented to the Audit Committee in March 2015.	Reported to the September Audit Committee
Self Directed Support	To review the controls in place regarding the implementation of Self-Directed Support (SDS)	Reported to the September Audit Committee
Construction Industry Scheme	The objective of the audit was to review the controls operating over the Construction Industry Scheme.	Summary to be included in Audit Manager's Annual Report in May 2017.
Welfare Reform	To review the processes and controls	Anticipated to be presented to the



Task	Description	Reported to
	put in place to deliver the new Universal Credit payments (which commence on a phased basis from April 2015)	December 2016 Audit Committee
Private Public Partnership	A review of the current utilisation of buildings to ensure best value is being achieved.	Anticipated to be presented to the March 2017 Audit Committee
Fraud policies and procedures	A review of the existing fraud policies and procedures to determine whether these require amendment / update as a result of changing regulations / legislation.	Anticipated to be presented to the December 2016 Audit Committee
Tyne and Esk	To review the controls in place to deliver the Tyne Esk Leader Grant Fund and to undertake compliance related work as defined by the Service Level Agreement	Anticipated to be presented to the December 2016 Audit Committee
Overdue Audit Recommendations	To undertake a review of Management's reported performance in closing audit issues by expected due dates.	Anticipated to be presented to the December 2016 Audit Committee
Corporate Fraud	A summary of the work undertaken by the Corporate Fraud unit for the period October 2015 to September 2016	Anticipated to be presented to the December 2016 Audit Committee
Investigations / consultancies	Three investigations completed.	Summary to be included in Audit Manager's annual Report in May 2017
Help Desk	Between the periods of April 2016 to October 2016 Internal Audit has received a total of 49 help desk enquiries.	Summary to be included in Audit Manager's annual Report in May 2017
Co-ordinated the submission of Audit Scotland National Reports	<p>These are to date:</p> <ul style="list-style-type: none"> <li>An overview of local government in Scotland 2016</li> <li>National Fraud Initiative</li> </ul>	<p>Reported to: Audit Committee in May 2016.</p> <p>Anticipated to be presented to the</p>

Task	Description	Reported to
		December 2016 Audit Committee.
Integration Joint Board	Manager's Annual Audit report, update to Charter and Public Sector Internal Audit Standards Assessment, audit review on Financial Assurance and Strategic Plan.	Reported to the IJB Audit and Risk Committee.

The following areas are work in progress:

Task	Description	Progress
Bank and Cash	To review the controls over the collection, banking and accounting for income	Work in progress
Health and Safety	To review the adequacy of the control framework designed by management to allow compliance with Health and Safety legislation.	Work in progress
Arrears	To review the Council's management over the collection of overdue debt including council tax, rental income and sundry debt	Field work underway
Co-ordinated the submission of Audit Scotland National Reports	<p>Published reports due to be presented to the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Major capital investment in Councils follow up</li> <li>• Maintaining Scotland's roads: a follow up report</li> <li>• Social work in Scotland</li> <li>• Review of activity to reduce fraud and error in housing benefit</li> <li>• The Impact of welfare reforms on</li> </ul>	To be presented to the Audit Committee when officers complete reports.

Task	Description	Progress
	Council rent arrears in Scotland	
Investigations / consultancies	Two consultancies and one investigation underway.	Summary to be included in Audit Manager's annual Report in May 2017
National Fraud Initiative	Complying with the requirements of Audit Scotland to participate in data matching.	Data down loaded and matches due to be provided in January 2017.

The following Audits from the 2016/17 have not yet commenced:

Task	Description
Insurance	Review the Council's arrangements for managing insurable risks including the monitoring of claims against established excesses, procurement of suppliers and the level of current cover.
Financial strategy and Delivering Excellence	Review the frameworks established for delivering the financial strategy including the Delivering Excellence model and testing a sample of service areas that are progressing through this model.
Accounts payable	This is the main system used by the Council to pay suppliers for goods and services.
Quality Assurance of Care Home providers	To assess the adequacy of the Council's internal quality control over third party care home providers
Social housing	To review the adequacy of the control framework established by management to allow successful delivery of the Social Housing Programme.
Sickness absence management	To review the controls in place to manage sickness absence across the Council including policy and procedures and monitoring of absence.
Continued support for the Integration Joint Board	Two audit reports to complete (Directions and Performance Management).

The following table details proposed changes to the plan approved by the Audit Committee on 15 March 2016:

Task	Proposed change
Children and Young People's Act – Named Person	There has been a delay in the implementation of this legislation following a legal challenge. It is proposed therefore to postpone this audit until this has been resolved.

### **3. Report Implications**

#### **3.1 Resource**

Based on the remaining work load and current internal resource there should be sufficient time remaining before the end of June 2017 to complete the 2016/17 plan.

The Internal Audit Manager will continue to monitor progress against the plan and report where required to the Audit Committee.

#### **3.2 Risk**

There is always a residual risk that investigations and consultancy could overtake risk based reviews and compliance checks on the main financial systems and limit the Audit Manager in providing an opinion on the internal controls of the Council. This risk is being controlled through the investigation / consultancy protocol.

Each internal audit assignment examines the control of risk and the perception of risk that the auditee has. 'Risk' is central to each internal audit report. This strengthens the Council's approach to risk management and the internal control system.

#### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

#### **3.4 Impact on Performance and Outcomes**

It is projected that there will be sufficient audits completed to allow the Internal Audit Manager to undertake an assessment of the strength of the internal controls operating within the Council.

#### **3.5 Adopting a Preventative Approach**

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

#### **3.6 Involving Communities and Other Stakeholders**

The Internal Audit Plan has been discussed with the Chief Executive, the Corporate Management Team and the Audit Committee (which includes representation from External Audit).

### **3.7 Ensuring Equalities**

For the internal audits completed to date, we found no equalities issues to report on.

### **3.8 Supporting Sustainable Development**

Internal Audit provides an independent assurance function which assists the sustainability of the Council's internal control system, governance and management of risk.

### **3.9 IT Issues**

There are no IT issues as a result of this report.

## **4. Recommendations**

The Audit Committee is requested to:

- (1) note the work completed by the Internal Audit Section since April 2016;
- (2) note the progress with the current plan;
- (3) note the suggested amendment to the audit plan; and
- (4) note that the Internal Audit Manager will continue to provide updates if there is a risk of non delivery of the plan.

**Date: 21 November 2016**

**Report Contact: Graham Herbert, Internal Audit**

**Tel: 0131 271 3517**

**E-Mail: [Graham.Herbert@midlothian.gov.uk](mailto:Graham.Herbert@midlothian.gov.uk)**



## **Internal Audit Recommendations**

### **Report by Internal Audit Manager**

#### **1 Purpose of Report**

The purpose of this report is to inform the Audit Committee of the number of recommendations raised by Internal Audit over the last 4 years and the Council's performance in addressing these issues by the agreed implementation dates.

#### **2 Background**

- 2.1 Internal Audit suggests recommendations for improving internal control and to assist the Council deliver best value. Where management and the Audit Committee agree these recommendations, the issues are updated to Covalent (the Council's performance management system) along with a date by which management should have completed the agreed action.
- 2.2 Each year, Internal Audit undertakes two follow up reviews on recommendations raised. The first samples recommendations which have been reported as complete and reviews the adequacy of the actions taken (reported to June 2016 Audit Committee). The second reports on the progress management have made in completing and closing the recommendations by the expected date (which is the subject of this report).

#### **3 Performance**

- 3.1 Over the period 2013/14 to October 2016, Internal Audit has raised a total of 497 recommendations. 406 of these are reported as having been completed (82%), 57 have not yet reached their due date (11%) and 34 are showing as overdue (7%).
- 3.2 The recommendations that have gone over their expected completion dates are detailed within Appendix 1 along with the current progress made against the action and the latest management update.
- 3.3 Contrasting this performance to the last Internal Audit report presented to the Audit Committee in December 2015 (covering the period 2012/13 to September 2015), Internal Audit had raised a total of 470 recommendations. 424 of these were reported as having been completed (90%), 28 had not reached their due date (6%) and 18 were showing as overdue (4%).

- 3.4 There is therefore an increase of 3% in overdue issues compared to last year's report. However, the majority of these recommendations are underway and a number are almost complete (as detailed in Appendix 1).

## **4 Report Implications**

### **4.1 Resource**

There are no direct resource implications arising from the report.

### **4.2 Risk**

The recommendations made by Internal Audit are directly related to reducing the level of risk that the Council is exposed to.

### **4.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☒ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

### **4.4 Key Priorities within the Single Midlothian Plan**

Internal Audit reports review internal controls across the Council including those that relate to the key priorities within the Single Midlothian Plan.

### **4.5 Impact on Performance and Outcomes**

The report identifies the performance of the Council in closing issues by the agreed implementation date.

### **4.6 Adopting a Preventative Approach**

Adoption of the Internal Audit recommendations assists in preventing risks facing Midlothian Council and delivery of best value and therefore provides a preventative approach.

### **4.7 Involving Communities and Other Stakeholders**

The results of this analysis have been discussed with the Chief Executive, the Corporate Management Team and the Audit Committee.

### **4.8 Ensuring Equalities**

There are no equalities issues with regard to this report.



#### **4.9 Supporting Sustainable Development**

There are no sustainability issues with regard to this report.

#### **4.10 IT Issues**

There are no IT issues with regard to this report.

### **5 Recommendations**

The Audit Committee is asked to note:

- the content of the report; and
- that Internal Audit will continue to monitor for completion of the outstanding issues and will provide reports to the Audit Committee.

**Date 16 November 2016**

#### **Report Contacts:**

Graham Herbert	Tel No 0131 271 3517 <a href="mailto:Graham.Herbert@midlothian.gov.uk">Graham.Herbert@midlothian.gov.uk</a>
Elaine Greaves	Tel No 0131 271 3285 <a href="mailto:Elaine.Greaves@midlothian.gov.uk">Elaine.Greaves@midlothian.gov.uk</a>
James Polanski	Tel No 0131 270 5646 <a href="mailto:James.Polanski@Midlothian.gov.Uk">James.Polanski@Midlothian.gov.Uk</a>

#### **Appendices:**

**Appendix 1** – Outstanding audit issues for Midlothian Council



## Performance Report - Overdue actions



Status: Overdue 34






### 2014 - Following the Public Pound

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.FTPP.07	The Following the Public Pound Policy should be available to all employees on the Council's intranet and regular reminders on the need to comply with the policy should be issued. The Midlothian Compact document should be linked with the policy on the Intranet.	31-Mar-2015	High		90%	<b>Q2 16/17:</b> Off Target Midlothian Compact is now available on the website. The FTPP policy has been redrafted and is awaiting approval.	Communities and Economy	Alasdair Mathers	Performance Officers
IA.FTPP.08	The Following the Public Pound Policy should be updated to ensure that it complies with the latest guidance. The policy should be updated to reflect the audit findings and appropriate training provided to relevant Council officers.	31-Mar-2015	High		90%	<b>Q2 16/17:</b> Off Target The FTPP policy has been redrafted and training will follow after its approval.	Communities and Economy	Alasdair Mathers	Performance Officers; Stephen Bermingham



### 2014 Internal Audit of Frameworki

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.FRAMEWORKI.11	For the Mosaic implementation a more detailed access grid should be developed and maintained by the Social Work Management Information System team. The grid should be kept up to date with changes to roles and the Council structure.	30-Nov-2014	Medium		75%	<b>Q2 16/17:</b> Off Target No further progress. Expected completion now Q4.	Adult and Social Care	Graham Kilpatrick; Mike O'Rourke	Performance Officers; Graham Kilpatrick


## 2015 - Payroll

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.PAYR.06a	Business Applications, Organisational Development; and Employment and Reward should ensure that data within ITrent, such as structure and reporting lines, is up to date and accurate which would allow easier and more efficient reporting, including the efficient distribution of reports.	30-Sep-2016	Medium		75%	<b>Q2 16/17:</b> Off Target Following Investing In Our Workforce Project, there is a requirement for a wider project looking at all processes associated with ITrent, efficient data capture, data quality control and quality, meaningful management information. To be scoped in Q3.	Finance and Integrated Service Support	Mike O'Rourke	Performance Officers; Mike O'Rourke
IA.PAYR.06b	The use of MiTeam should be developed and promoted throughout the Council and delivered to managers with training provided if required.	30-Sep-2016	Medium		75%	<b>Q2 16/17:</b> Off Target Following Investing In Our Workforce Project, there is a requirement for a wider project looking at all processes associated with ITrent, efficient data capture, data quality control and quality, meaningful management information. To be scoped in Q3.	Finance and Integrated Service Support	Jacqui Dougall; Mike O'Rourke	Performance Officers; Mike O'Rourke
IA.PAYR.12	The payroll finance reconciliation should be signed off (by electronic or manual means) to evidence review by a Senior Accountant and more details should be included in the workings for journal adjustments.	31-Dec-2015	Medium		85%	<b>Q2 16/17:</b> Off target Work is progressing and will be completed during Q3.	Finance and Integrated Service Support	David Gladwin	Performance Officers; David Gladwin
IA.PAYR.13	Business continuity procedures should be developed for the Employment and Reward Team and the Digital Services IT business continuity plan should be updated where relevant by Employment and Reward.	30-Apr-2016	Medium		40%	<b>Q2 16/17:</b> Off Target Initial report drafted, risk assessment and mitigations to be completed	Finance and Integrated Service Support	Janice Kali	Performance Officers; Janice Kali
IA.PAYR.16	Employment & Reward should carry out a cost/benefit analysis on whether it would be worthwhile to reclaim the VAT on employee expenses.	31-Mar-2016	Low		0%	<b>Q2 16/17:</b> Off Target Volume of work has seen this fall down the priorities.	Finance and Integrated Service Support	Janice Kali	Performance Officers; Janice Kali


### 2015 - Review of Controls Operating Over Cashless Catering; 2015

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.CCATER.06	Assess the practicalities, Data Protection Act and IT security implications of allowing the supplier remote access to primary schools to support the Cashless Catering app. Review this after the tendering exercise for the Epayments and Cashless Catering system.	31-Dec-2016	Medium		25%	<b>Q2 16/17:</b> Off Target Cashless system now tendered and project to be progressed.	Finance and Integrated Service Support; Property & Facilities Management	Margaret McKenzie; Ian Wragg	Performance Officers; Garry *Sheret; Ian Wragg
IA.CCATER.07	Education Services should review the need for updated procedures to allow common processes to be applied across all Midlothian schools and then liaise with Catering Services to establish relevant procedures.	30-Sep-2015	Medium		25%	<b>Q2 15/16:</b> Procedures for Cashless catering currently being reviewed. Update to new procedures and guidance will be made in due course.	Education, Communities and Economy	Julie Fox	Performance Officers; Julie Fox



### 2015 - Review of controls operating over commercial lets

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.CLETS.04	Once K2 (asset management system) has been fully implemented, assistance should be sought from Business Applications in developing debtors reporting which uses data from Integra and K2 to report accurately and more frequently on aged debt in line with the lease's terms.	31-Jul-2016	Medium		40%	<b>Q2 16/17:</b> Off Target Training with K2 has been undertaken. This has identified issues with K2 Integra interface which are being addressed to enable matters to move forward	Property & Facilities Management	Gareth Davies	Performance Officers; Gareth Davies




### 2015 - Review of Controls Operating Over Petty Cash






Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.CASH.05	As part of the Purchase to Pay Project, electronic petty cash forms and the scanning and attachment of receipts / vouchers to claims should be implemented across the Council (for areas with a petty cash imprest account).	31-Oct-2015	Medium		75%	<b>Q2 16/17:</b> Off Target Upgrade to Integra 2 scheduled for 21st October.	Finance and Integrated Service Support	Mike O'Rourke	Performance Officers; Mike O'Rourke



## 2015 - Review of Controls Operating Over Purchase to Pay

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.P2P.02	Functions of the Authorised Signatory System be migrated to Integra including allowing Senior Managers to electronically set their own team's authorisation limits with an audit electronic trail recording their decision.	31-Dec-2015	Medium		0%	<b>Q2 16/17:</b> Off Target Low priority for P2P Project, will not be looked at until Q4 at the earliest.	Finance and Integrated Service Support	Jacqui Dougall; Mike O'Rourke	Performance Officers; Mike O'Rourke
IA.P2P.05	Once the project has reached the stage of reviewing management information and there is sufficient information within Integra, the Project Team should consider introducing a range of meaningful management reports.	31-Oct-2015	Medium		50%	<b>Q2 16/17:</b> Off Target No further progress.	Finance and Integrated Service Support	Iain Johnston; Mike O'Rourke	Performance Officers; Iain Johnston; Mike O'Rourke



## 2016 - Internal Audit: Review of Controls Operating Over Developer Contributions

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.DEVCON.01	The Developer Contribution Steering Group should be re-established with a specific terms of reference developed that clearly identifies the responsibilities of each service involved in the process and its reporting line.	30-Jun-2016	High		50%	<b>Q2 16/17:</b> Off Target Key officers are meeting frequently – but roles and responsibilities need to be documented.	Communities and Economy	Peter Arnsdorf	Peter Arnsdorf
IA.DEVCON.02	The Group should meet regularly and provide periodic reporting to the Corporate Management Team.	30-Jun-2016	High		75%	<b>Q2 16/17:</b> Off Target The end of year annual report referenced below (IA.DEVCON.03.1) will be referred to Corporate Management Team.	Communities and Economy	Peter Arnsdorf	Peter Arnsdorf
IA.DEVCON.03.2	Management should implement regular reporting to the Developer Contribution Steering Group of: The infrastructure projects funded during	30-Jun-2016	High		25%	<b>Q2 16/17:</b> Off Target Procedures are in place to enable this to happen going forward. A separate Finance project is	Communities and Economy	Peter Arnsdorf	Peter Arnsdorf



Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
	the year and value of funding allocated; a breakdown of the balance held by agreement and infrastructure project; and highlight reports showing contributions that are approaching expiry.					underway to ensure existing and historical projects are correctly linked to developer contribution payments already made.			
IA.DEVC ON.04	Management should review the current risk score and develop a series of actions to reduce the risk level to within the Council's risk appetite.	30-Jun-2016	High		50%	<b>Q2 16/17:</b> Off Target Work in progress. The Service's S.75 Officer has taken action to reduce risk to acceptable levels	Communities and Economy	Ian Johnson	Ian Johnson
IA.DEVC ON.05	Management should undertake a review to determine the best way to maintain a central record of agreements, that will allow the Council to monitor: <ul style="list-style-type: none"> <li>the level of completion of developments and</li> <li>when developments are complete.</li> </ul>	30-Apr-2016	High		80%	<b>Q2 16/17:</b> Off Target A central record has been established and populated with agreements. The planning service is progressing towards the procurement of an electronic monitoring system and the appointment of a Compliance Officer to proactively monitor the agreements.	Communities and Economy	Peter Arnsdorf	Peter Arnsdorf
IA.DEVC ON.07.1	Management should: update the spreadsheet recording contributions received with the planning reference number and the expiry date of each contribution; review the developer contribution balance and analyse it by agreement and infrastructure project;	30-Apr-2016	High		80%	<b>Q2 16/17:</b> Off Target Work progressing and due for completion during Q3.	Finance and Integrated Service Support	David Gladwin	David Gladwin
IA.DEVC ON.07.2	Examine the individual contributions and identify any that may have expired and those that are nearing expiry; and more fully develop the schedule of estimated future payments for all signed agreements to enhance capital planning.	30-Apr-2016	High		80%	<b>Q2 16/17:</b> Off Target Work is progressing and will be completed during Q3.	Finance and Integrated Service Support	David Gladwin	David Gladwin
IA.DEVC ON.08	The Developer Contribution Steering Group should review any contributions	30-Jun-	High		80%	<b>Q2 16/17:</b> Off Target Work progressing and will be	Finance and Integrated Service Support	David Gladwin	David Gladwin

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
	which have passed or are approaching their contractual date to ensure that there is a clear audit trail from the contribution to the infrastructure.	2016				completed during Q3.			
IA.DEVC ON.09.1	Spreadsheet be prepared comparing capital and borrowing cost of assets procured with the contributions received to ensure sufficient contributions have been collected to meet the agreed proportion of costs on either fully or partially funded assets.	30-Apr-2016	Medium		80%	<b>Q2 16/17:</b> Off Target Work progressing and will be completed during Q3.	Finance and Integrated Service Support	David Gladwin	David Gladwin
IA.DEVC ON.11.2	The process should be outlined in the revised Supplementary Planning Guidance for the information of the developers (although this would not be required at the same level of detail as the council's procedure).	30-Jun-2016	Medium		50%	<b>Q2 16/17:</b> Off Target Developer contributions supplementary guidance (SG) cannot be concluded until the adoption of the Midlothian Local Development Plan, which will be late spring/early summer 2017. However work has commenced on the drafting of the SG.	Communities and Economy	Peter Arnsdorf	Peter Arnsdorf



### 2016 - Internal Audit: Review of Controls Operating Over Pre-School Provision Partnership Providers

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.NURS .01	For future commissions, checks should be extended to include a review of financial accounts, credit check, insurance, and standardisation of key policies and procedures.	30-Jun-2016	High		75%	<b>Q2 16/17:</b> Off Target Initial meeting held with procurement and meeting planned with Resources team. A council wide approach needs to be taken and supports established.	Education	Julie Fox	Performance Officers; Julie Fox
IA.NURS .03	The Quality Assurance team should liaise with Procurement Services to review the current process and ensure that the Council's process, such as the submission	30-Jun-2016	High		75%	<b>Q2 16/17:</b> Off Target Early Years team met with procurement in Sept 2016 to review NCA	Education	Julie Fox	Performance Officers; Julie Fox




Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
	of non-competitive action forms, is followed.								
IA.NURS.10	An annual check of the organisation's accounts, insurance and Information Commissioner Office registration should be introduced.	31-Aug-2016	Medium		75%	<b>Q2 16/17: Off Target</b> It has been identified that a Midlothian Council wide approach to this issue is required, talks are ongoing with Finance and Support services.	Education	Julie Fox	Performance Officers; Julie Fox
IA.NURS.11	It is recommended that Quality Improvement review the way actions are tracked and if this could be presented in a clearer manner. Additionally, Quality Improvement should review the feasibility of introducing standard Key Performance Standards for partner providers.	31-Aug-2016	Medium		75%	<b>Q2 16/17: Off Target</b> A working group to streamline processes has been established, Early Years Learning Community teams will have a key role in the process.	Education	Julie Fox	Performance Officers; Julie Fox




### 2016 - Internal Audit: Review of Controls Operating over Tendering of Contracts

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.TEND.08	Additional training and guidance should be provided to services across the Council to raise awareness of the risks of Procurement fraud.	31-Jul-2016	Medium		50%	<b>Q2 16/17: Off Target</b> Internal Audit have completed guidance and briefings to be programmed over the next few months	Finance and Integrated Service Support	Iain Johnston	Performance Officers; Iain Johnston
IA.TEND.16	The authorised signatories system should be updated to include the authority to open tenders and authorisation should be given to appropriate employees and Elected Members.	30-Jun-2016	Medium		40%	<b>Q2 16/17: Off Target</b> Work in Progress	Finance and Integrated Service Support	Iain Johnston	Performance Officers; Iain Johnston

## 2016 - Transformation Programme, Follow-up Review

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.TRAN SP.07	The Effective Working in Midlothian risk register should be updated fully and uploaded into Covalent. Updates should be made on the Covalent system on a quarterly basis.	31-Oct-2016	High		50%	<b>Q2 16/17:</b> Off Target Risk register has been fully updated but has not yet been uploaded to Covalent.	Property & Facilities Management	Darren Imrie	Darren Imrie

## 2017 - Recommendation Follow up Review (issues identified by Internal Audit where the issue had been closed where further action was required).

Action Code	Action	Due Date	Audit Priority	Icon	Progress	Notes	Service	Managed By	Assigned To
IA.FRAR 2016.03	The report highlighting new start information and changes to hours/grading should be reviewed by management to ensure it meets all the requirements, and once complete it should be checked by an independent officer on a monthly basis.	30-Sep-2016	High		90%	<b>Q2 16/17:</b> Off Target Initial report produced, team asked to audit. Need to tweak format.	Finance and Integrated Service Support	Janice Kali	Janice Kali
IA.FRAR 2016.05	More targeted reports should be developed (eg a report for checking compliance with the working time directive including overtime and for the exception reporting on employee numbers) and included with the payroll closedown file.	30-Sep-2016	High		20%	<b>Q2 16/17:</b> Off Target Specification has been created waiting to see revised report.	Finance and Integrated Service Support	Janice Kali	Janice Kali
IA.FRAR 2016.12	Procedures should be developed for the weekly reconciliation between cash collected through the system and deductions made for meals provided. Procedures should also be developed for dealing with returned cheques.	30-Sep-2016	Medium		90%	<b>Q2 16/17:</b> Off Target Working on procedural documents with recording in each school folder. In the meantime procedure is being implemented by management.	Property & Facilities Management	Margaret McKenzie	Margaret McKenzie



**Internal Audit Report**  
**Welfare Reform – Universal Credits**  
**Issued: November 2016**  
**Final**

<b>Level of Assurance</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
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Page 11	Terms of Reference (Appendix 2)

## Executive Summary

### 1.0 Introduction

The Welfare Reform Act 2012 introduced a new welfare benefit called Universal Credit. Universal Credit is administered by the Department for Work and Pensions (DWP) and is paid as a single monthly amount to support people on low income or who are unemployed. It replaces six current means tested benefits: Income-based Jobseeker's Allowance; Income-related Employment and Support Allowance, Income Support, Housing Benefit, Working Tax Credit and Child Tax Credit. The scheme was introduced to encourage people to prepare for work, increase their earnings and take responsibility for more elements of their household expenditure. The complexity of the project has delayed the full Universal Credit service. It was originally scheduled to be fully implemented by 2014 but the timescales for completion have changed a number of times.

Universal Credit was introduced in Midlothian (for newly unemployed single claimants) in April 2015. The total number of people on Universal Credit (as at 1 August 2016) was circa 500 and out of these 98 were Council tenants. The Council receives email notification from the DWP when a tenant makes a claim for Universal Credit which has a housing cost element. Revenues Service within Midlothian Council administers Discretionary Housing Payments (DHP) and Council Tax Reduction (CTR) which are applied for separately from Universal Credit. Total DHP made to Universal Credit claimants for housing costs in 2015/16 was £19K and 100 Universal Credit claimants (including both private and Council tenants) were claiming CTR (as at 17 August 2016).

'Alternative Payment Arrangements' are available for claimants who require budgeting support. An 'Alternative Payment Arrangement' can be requested and direct payment of the housing cost element to landlords can be made if the claimant has applied for the housing cost element and is 8 weeks or more in arrears with their rent payments. Landlords can also request for third party deductions from a claimant's Universal Credit to repay existing rent or water direct arrears and third party deductions will be made from the claimant's Universal Credit personal standard allowance. The amount deducted will be assessed by the DWP who will check if the claimant has any other deductions from their Universal Credit. Deductions from the personal standard allowance can vary between 10% (minimum) and 20% (maximum). 'Alternative Payment Arrangements' and third party deductions may not be approved by the DWP if the customer already has a number of existing deductions.

The Convention of Scottish Local Authorities (COSLA) regularly advises local authorities of any updates relating to Universal Credit and representatives from the Council attend forums and conferences where knowledge and best practice guidance is shared. Midlothian Council employees have also met with East Lothian Council who implemented the Full (digital) Universal Credit Service in April 2016.

The Council's Arrears section monitors Council tenants claiming Universal Credit. Between April 2015 and April 2016, rent arrears decreased from 8.68% to 8.53% and therefore Universal Credit has not had a big impact on arrears levels but may have a bigger impact when the number of claimants increases. Total rent arrears for tenants on Universal Credit were £85,266 as at 1 August 2016 which represents an average arrears level of £870 per claimant.

The Full (digital) Universal Credit Service is being rolled out nationally for all types of Universal Credit claimants and it is planned to be implemented in Midlothian from March 2017. Once this service has been completed across the UK (planned completion September 2018), the DWP will begin to migrate all remaining existing benefit claimants to the full Universal Credit service which is now due to take place between July 2019 and March 2022.

While the need for local authorities to administer Housing Benefit will gradually reduce, the DWP will only manage Housing Benefit for working age people and local authorities will still have to process benefits for pensioners and temporary accommodation claimants. Management have indicated that the number of people on Universal Credit with a housing cost element will increase substantially after the Full (digital) Service is implemented and they are liaising with the DWP regarding this. Additional resource may be required to manage the anticipated increase in Universal Credit claimants.

### 2.0 Objectives of the Audit

The objective of the audit was to review the adequacy of the controls in place over the implementation of Universal Credits.

A copy of the terms of reference for the review is attached at Appendix 2.

### 3.0 Conclusion

During the audit we focused on how the Council is currently managing the small number of claimants and how Universal Credit processing was implemented.

A number of key controls were seen to be operating and these include:

- a Delivery Partnership Agreement was agreed with the DWP. Funding arrangements and a data share agreement was included within the Agreement;

- a third party provider (Places for People) has been contracted to provide the personal budgeting support to Midlothian residents who are facing financial hardship;
- the Arrears section closely monitors Council tenants claiming Universal Credit and maintain a Universal Credit Claimant spreadsheet for this. They have a Universal Credit champion who focuses on Universal Credit tenants with arrears and an additional Universal Credit champion has also recently been appointed;
- a monthly Universal Credit management report detailing the number of Universal Credit claimants by arrears balance, the total number claiming Universal Credit and the number of claimants on 'Alternative Payment Arrangements' is submitted to the Revenue Services Manager;
- training was provided to staff before Universal Credit was implemented and guidance is available to staff on how to process Council Tax Reductions for Universal Credit claimants. Assistance and training was also provided by the DWP before Universal Credit was implemented;
- adequate procedures are in place to ensure that income collected from the DWP is processed through the cash receipting system (ICON) and posted to the House Rents system (CAPITA). The House Rents system is then reconciled and posted to the General Ledger;
- regular meetings are held between Midlothian Council and the DWP; and an electronic mailbox has been set up to receive Universal Credit notifications and information from the DWP; and
- adequate procedures are in place to ensure that the allowances and elements from the Universal Credit award notification received from the DWP are accurately updated on the Council Tax system.

The Revenues section has managed a number of national issues in relation to Universal Credit and the processes implemented by the DWP. Difficulties have included:

- the risks associated with 'Alternative Payment Arrangements'. Full housing cost payments are only received for those who were claiming a passported benefit (out-of-work means tested benefits or tax credits) meaning that if a claimant's monthly earnings fluctuate (due to being in and out of work) then the housing cost element of the 'Alternative Payment Arrangement' may only cover part of the house rent payment. Therefore, 'Alternative Payment Arrangements' have to be closely monitored to ensure that the claimant makes arrangements to pay the full amount of rent due;
- third party deductions can be claimed for Universal Credit Claimant's who have rent or water direct arrears but this cannot be claimed for electronically and decision letters from the DWP have to be posted resulting in delays. Third party deductions can also be unpredictable depending on the claimant's circumstances;
- a payment file from the DWP is received on a 4 weekly basis but the file cannot be automatically imported into the cash receipting system as the reference number used by the DWP varies from that used by the Council;

- housing benefit overpayments are currently not being recovered by the DWP from Universal Credit claimants however, a project is underway and new software is due to be implemented by the DWP to rectify this issue;
- Universal Credit claimants are required to submit details of their housing costs directly to the DWP. Due to the low number of Universal Credit cases, the Council is currently sending house rent increase letters directly to the DWP (freepost address). Management have advised that this may not be feasible when the number of claimants increase and an up-rating solution that does not involve manual intervention will need to be agreed with the DWP; and
- the DWP has no obligation to advise the Council who is claiming Universal Credit so there can be a lack of information on Council tenants on Universal Credit particularly those tenants that have not applied for the housing cost element. The Council has to make best use of the information available and normally receive an early indication that the tenant may be applying for Universal Credit when they request a rent verification statement.

Some areas where improvements could be made have been identified which include:

- the need to improve the information and processes that are used to produce management information relating to Universal Credit;
- interface system issues with the new DHP system module needs to be rectified and implemented on the Open Revenues benefit system; and
- the need to ensure that leavers are removed promptly from Council systems.

These issues are detailed more fully in the Audit issues and Management Action plan in section 4 of the report.

Given that the control framework is of a good standard with only minor elements of risks identified we have rated the strength of the internal controls over Universal Credit as **Good**. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

### 4.0 Audit Issues and Management Action Plan

#### 4.1 Management Information

Various management information is produced to monitor the impact of welfare reform which includes the implementation of Universal Credits. Regular reports are sent to Council committees, a Corporate and Service risk register have been created and a 'Universal Credit Claimant monitoring' spreadsheet (detailing the number of Council tenants claiming Universal Credit and the current arrears position) is maintained and monitored by the Arrears section. A monthly monitoring report is also generated by the Arrears section and provided to the Revenue Services Manager.

##### 4.1.1 Universal Credit Claimant Monitoring Spreadsheet

The 'Universal Credit Claimant Monitoring' spreadsheet is mainly used to monitor Council tenants' rent payments who are claiming Universal Credit. If a claimant fails to pay their rent, an arrears officer will contact the tenant and may set up an 'Alternative Payment Arrangements' (if legitimate) or apply the standard arrears recovery process.

Internal Audit testing found that the 'Universal Credit Claimant Monitoring' spreadsheet did not contain all tenants that were claiming Universal Credit and had applied for a housing cost element. Testing identified 3 Universal Credit claimants that were missing from the spreadsheet. Further testing on these 3 accounts found that 1 of the claimants went back into employment after claiming Universal Credit for 8 months and 2 of the accounts were not identified as a tenant with housing costs as the Claimant only applied for Council Tax Reduction and did not have a high rent arrears balance.

The total arrears balance for the 3 claimants amounted to approximately £900 and therefore a minor arrears balance was omitted from the monthly monitoring report figures.

##### 4.1.2 Monthly Monitoring reports

Monthly monitoring reports are generated by the Arrears section which details the number of tenants claiming Universal Credit and their rent arrears position. The monthly monitoring reports are prepared manually at the end of each month which involves an arrears officer collating information from the Capita housing system on each individual claimant. This process is not considered sufficiently robust as it is time consuming to produce and it will not be a feasible process when the number of Universal Credit claimants increase.



## 4.1.3 Risk Registers

The Revenues risk register does not detail the controls that are currently undertaken in the Arrears section and it does not acknowledge all the current risks that management are aware of such as:

- the impact of the Full (digital) Universal Credit service due to be implemented in March 2017 and the risks associated with the number of claimants increasing. There is a risk that there may not be adequate resource to continue with the current practice of closely monitoring Universal Credit claimants. Management reported that extra resource has been allocated to the Arrears section to assist the service with the anticipated increase of Universal Credit claims;
- the risk of setting 'Alternative Payment Arrangements'. Management have indicated that there is no guarantee of payments if the claimant's monthly earnings fluctuates which means the housing cost element may only cover part of the claimant's house rent payment. Therefore, the Arrears section need to monitor accounts and when necessary advise the claimant to pay the full amount of rent due before they spend their Universal Credit payment. There is a high risk of arrears increasing if accounts are not monitored. Management reported that they need to make best use of the information that is available within the Council and may need to communicate with claimants more frequently;
- other issues that are affecting Universal Credit claimants or processes eg. system issues with processing benefits such as DHP and recovering outstanding overpayments from claimants (these issues are reported more fully in sections 4.2.1 and 4.3 of the report); and
- the full Universal Credit service has been further delayed by the Government and will not be fully operational until March 2022. There is no information on whether this has any impact on the Council.

No	Recommendation	Priority	Manager	Target Date
1	<p>An automated process for monitoring Council tenants claiming Universal Credit should be introduced.</p> <p><u>Management Comment:</u> Monitoring claimants from a spreadsheet is not deemed to be feasible in the long term. Therefore, we are liaising with the Business Services team to create a marker on the housing system highlighting claimants on Universal Credit and enable automated management reports to be generated.</p> <p>The Universal Credit champion officer has been given access to the Universal Credit mailbox</p>	High	Revenues Services Manager	31/03/17

No	Recommendation	Priority	Manager	Target Date
	so that all Council tenants claiming Universal Credit can be flagged on the Council's housing system.			
2	The Revenues service risk register should be updated to include more comprehensive information on the risks associated with Universal Credit and the controls embedded in the service.	Medium	Head of Customer and Housing Services	31/12/16

## 4.2 System issues

### 4.2.1 Discretionary Housing Payments (DHP)

Historically, DHP were paid in blocks of 13 weeks payments but in the current financial year, a new system module was implemented which enables DHP payments to be paid on a weekly basis and allows information to be produced on a real time basis. However, it was reported that due to interfacing system issues between the housing (Capita) and benefit (Open Revenues) systems, DHP cannot be processed and therefore the housing system is not showing an accurate rent balance for those eligible for this benefit. Management reported that once the issue is rectified, they will back-date all DHP payments from the start of the current financial year.

### 4.2.2 Leaver access

A copy of the leavers' report is regularly sent to the System Administrator (who controls access to the Revenues systems) by Human Resources and this is used to identify employees with access to the council tax, housing and scanning systems and their system access is subsequently removed. Internal Audit testing identified one leaver with access to the scanning system who left the Council in January 2016 but the account was not deactivated until July 2016.

No	Recommendation	Priority	Manager	Target Date
3	Interfacing issues between the Capita and Open Revenues systems in respect of the new DHP system module should be rectified and implemented.	High	Revenues Services Manager	Complete
4	Leavers' access rights to systems should be removed promptly.	Medium	Business	Complete

No	Recommendation	Priority	Manager	Target Date
	<u>Management Comment:</u> The monthly leavers' report from Human Resources is now checked against the live users on each system.		Applications Manager	

#### 4.3. Housing Benefit Overpayments

Housing Benefit overpayments are currently not being recovered by the DWP from Universal Credit claimants however, a project is underway and new software is due to be implemented by the DWP to rectify this issue.

No	Recommendation	Priority	Manager	Target Date
5	An action has been raised to enable us to track that the system for recovery of housing benefit overpayments is implemented effectively.	Medium	Revenues Services Manager	31/03/2017

**APPENDIX 1**

**Definitions of Ratings**

**Audit Opinion**

<b>Level of Control</b>	<b>Reason for the level of Assurance given</b>
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent financial loss or reputational damage to the Council.

**Recommendation Rating**

<b>Priority</b>	<b>Risk Definition</b>
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

### **Distribution**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Director, Health and Social Care
- Kevin Anderson, Head of Customer and Housing Services
- Gary Fairley, Head of Finance and Integrated Service Support
- Ken Pike, Revenues Services Manager
- Jackie Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager
- Ernst and Young, External Auditors

### **Audit Team**

Author: Amber Ahmed, Auditor

Reviewer: Elaine Greaves, Internal Audit Manager

**TERMS OF REFERENCE:**

Audit Objective

The objective of the audit is to review the adequacy of the controls in place over the implementation of Universal Credits.

Scope of Audit

The review will focus on the following areas:

1. plans exist with regards to the implementation of Universal Credit and the future impact on the Council is regularly monitored (eg rent arrears);
2. council tax reductions are accurately updated on the system;
3. interfaces between the DWP and the Council are working effectively. This includes receiving information in a timely manner to ensure housing benefits are cancelled and the process of setting up and monitoring Alternative Payment Arrangements ;
4. ensuring rent payments received via DWP are correctly allocated to House rent accounts;
5. management and financial information, including the risk register, is relevant, accurate and timely; and
6. access to systems is controlled effectively.

Excluded from the Scope of the Audit

The following areas will not be included within the Audit:

- calculation and the award of housing benefits;
- calculation and claimant's entitlement to Discretionary housing payments; and
- all other aspects of the Welfare Reform that have not been specifically stated within the scope.

<b>Potential Risks</b>
<p>The main risks associated with Universal Credit are:</p> <ul style="list-style-type: none"> <li>• increased demand or costs for Council services if the number of Universal Credits claimants significantly increase;</li> <li>• notifications from DWP not received timeously resulting in housing benefit overpayments or delays in processing Council tax reductions;</li> <li>• Council tax reductions are inaccurately calculated or are incorrectly raised, cancelled or applied late resulting in reputational damage or financial loss to the Council;</li> <li>• inadequate or inaccurate records, audit trails and reporting leading to the potential for financial loss and reputational damage;</li> <li>• unauthorised access, amendments to or loss of data due to ineffective controls within the system resulting in financial loss or reputational damage;</li> <li>• customers facing financial hardship which results in increased rent arrears; and</li> <li>• levels of homelessness and arrears increasing due to non payment of rent.</li> </ul>
<b>Audit Approach</b>
<p>The audit approach consists of:</p> <ul style="list-style-type: none"> <li>• fact finding interviews with relevant employees;</li> <li>• review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;</li> <li>• interrogation of any relevant systems and sample testing as required;</li> <li>• closure meeting with local management to discuss the findings and any recommendations from the review;</li> <li>• draft and final reporting; and</li> <li>• presentation of the final report to the Audit Committee.</li> </ul>
<b>Timescales &amp; Reporting</b>
<p>The audit will commence in mid May 2016 and is expected to be completed by June 2016 and be reported to the Audit Committee in September 2016.</p> <p>Any issues arising will be communicated directly to local management as they are identified during the course of the audit. A formal audit report</p>

will be produced summarising the findings and recommendations of the review and will be presented to the Audit Committee.

### Information Requirements

Access to all relevant systems, documentation and employees.

### Audit Staff

Amber Ahmed, Internal Auditor  
Elaine Greaves, Internal Audit Manager





**Internal Audit Report**

**Tyne Esk LEADER**

**Issued: 24 October 2016**

**Final**

<b>Level of Assurance</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
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Page 10	Definitions of Ratings and Distribution List (Appendix 1)
Page 12	Terms of Reference (Appendix 2)

## Executive Summary

### 1.0 Introduction

This report has been prepared following an internal audit of the Tyne Esk LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) Programme. This report covers the work of the Tyne Esk LEADER programme from the signing of the Service Level Agreement (SLA) between Midlothian Council and the Scottish Government on 30 December 2015 to the close out of this year's Internal Audit review in October 2016. The SLA requires that Internal Audit undertake an assessment annually of the extent of observance by the Accountable Body (Midlothian Council) of the requirements of the SLA.

The Tyne Esk LEADER Programme is part of the Scottish Rural Development Programme (SRDP) aimed at promoting economic and Community development within rural areas in Midlothian and East Lothian. The SRDP is part of the EU Common Agricultural Policy and is funded by the European Commission and the Scottish Government. LEADER is a bottom-up method of delivering support to communities for rural development. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme.

At the close of the 2007-2013 LEADER Programme it was proposed that Midlothian Council would pursue the role as lead Accountable Body for the new 2014-2020 Programme. This decision was supported by the previous LAG and Midlothian and East Lothian Council. As the Accountable Body, Midlothian Council has delegated responsibility for a range of processing, payment, and administration functions as set out in the SLA. This includes all aspects associated with the implementation of the approved Local Development Strategy, such as the presentation, assessment and clearance of applications through the LAGs, and the subsequent approval and post approval case management functions.

There are a total of 21 LEADER programmes established throughout Scotland, and each of these is governed by a separate Local Action Group. The Tyne Esk Local Action Group for the new 2014-2020 programme has 15 individual members (maximum size of 16) and these were selected through a competitive process. The LAG has a minimum 51-49% split between private and public sector in line with Scottish Government guidance. The chair and vice chair have been elected through a democratic process. In order for the LAG to be quorate there must be a minimum of 9 members, with at least 5 drawn from the private sector.

Midlothian Council has received an indicative funding allocation from the Scottish Government of £3,490,769 to administer a LEADER Programme throughout the rural areas of Midlothian and East Lothian. This programme will deliver the priorities set in the Tyne Esk LEADER Local Development Strategy (LDS).

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

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The Scottish Government informed the Council on 14 September 2016 that due to the uncertainty following the vote to leave the EU, the LEADER Programme will be temporarily paused from 23 November until January 2017. This was so that the Scottish Government could take on board any developments arising from the UK Government's Autumn Statement on the 24 November and reassess all EU funding programmes. However, the Scottish Government has now informed the LEADER Programmes that they will honour any grant commitments made and the pause to the programme announced earlier will no longer apply. While the LEADER Programmes still do not know the exact end date of the programme, the Scottish Government has confirmed that they intend to honour grant commitments for the foreseeable future. The teams anticipate this to be at least until Spring 2019.

The LAG has met 5 times since its first meeting on 25 November 2015 with the chair of the LAG being elected on this date.

The application process for LEADER is as follows:

- the applicant will submit an Expression of Interest form through the Scottish Rural Network website. Through this website the applicant will select their LAG area (eg Tyne Esk);
- a member of the LEADER staff team will then meet with the applicant to discuss the project in more detail;
- a summary of the Expression of Interest will be sent to the LAG for initial evaluation;
- the LEADER team will provide further guidance to the applicant so the applicant can prepare to make a full application to the LAG;
- the LEADER team will provide a username and password to the applicant to the Local Actions in Rural Communities system (LARCs). LARCs is the grants management system provided by the Scottish Government which covers the process of applying for LEADER funding and for the completion of claim forms for the drawdown of funds;
- the applicant will then complete their application and provide to the LEADER team appropriate information as required by the guidance (eg financial accounts or planning permission where relevant);
- LEADER staff will work with applicant to develop the project before submitting to the LAG for an assessment and decision; then
- the project will be submitted to the LAG for approval.

As at 30 September 2016, a total of 52 Expression of Interests have been received for the Tyne Esk Leader Programme. It is anticipated that 4 applications will be presented to the October LAG, and a further 3 in November. A total of £16,362 has been claimed back from the Scottish Government for the program, but this figure is wholly made up of administration costs (mainly advertising and salaries) as no grants have yet been awarded.

No applications had been submitted to the LAG for approval at the time of the audit (September 2016), therefore this audit focussed on providing assurance that adequate processes and governance were in place in preparation for projects being funded.

### 2.0 Objectives of the Audit

The audit objective is to provide assurance on the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme.

A copy of the terms of reference for the review is attached on page 12.

### 3.0 Conclusion

Our audit identified that management have made good progress in implementing systems, internal controls, and procedures for the Tyne Esk LEADER Programme. However, as noted above, as no grants have yet been awarded our testing was limited to reviewing the programme's governance and internal processes. No grant applications were reviewed as part of the audit.

During the course of the audit we noted the following strengths:

- adequate arrangements have been established to ensure that compliance with the SLA is monitored;
- clear governance arrangements have been established for the Council and the LAG;
- satisfactory arrangements are in place for reviewing funding applications, handling enquiries, and initial project application development,
- appropriate processes are in place for the processing of LEADER administration grant applications and claims, including information and evidence compilation, records management, separation of duties, compliance with grant claim regulations, and communication with the Scottish Government team.

Some areas were identified with scope for improvement. These were:

- the register of interests form has not been completed by employees and all LAG members;
- there is currently inadequate storage facilities within the Economic Development team to store all physical files and many are currently being held in employee's personal lockers. Storage of detailed physical files for each grant applicant is a mandatory requirement in the Scottish Government's guidance;
- Midlothian's LEADER team needs to seek further clarification from the Scottish Government on some aspects of the programme, including: whether the Key Performance Indicators (KPIs) for the Tyne Esk LEADER programme have been formally accepted; if further refinement is required on the Local Development Strategy (LDS); clarification on the Data Sharing Agreement between the Council and the Scottish Government; clarification if the LEADER team has any requirements in relation to ISO 27001 (an international standard that

describes best practice for an information security management system) as the standard is referenced to in an EU regulation included in the SLA, and the process to follow if a grant recipient is in financial difficulties;

- it was noted that although the website provides a range of useful information, more information could be provided including, for example, minutes of LAG meetings and names of LAG members. Also, the Tyne Esk LEADER website should limit access of LAG members to 'read-only' and ensure passwords are of adequate strength; and
- whilst the minutes are to a good standard, it was identified that they could be improved by making it clearer within the body of the minutes as to whether a policy or new procedure was approved on that day by the LAG.

Given that the control framework is of a good standard with only minor elements of risks identified we have rated the strength of the internal controls over the Tyne Esk LEADER Programme as **Good**. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

## 4.0 Findings

### 4.1 Register of Interests

The SLA requires that an up to date register of interests must be held for LAG members. The Council has to ensure that:

- No close relative of an individual applicant or an employee or representative of an organisation applying for funding can:
  - participate in the LAG decision making process; or
  - score an application from that applicant (which, for the avoidance of doubt, may include the Council).
- Additionally, the Council must ensure that no close relative of an individual applicant be involved in any monitoring or inspection activities relating to the applicant.

A satisfactory register of interests form has been drafted and distributed to LAG members in order for the Council to create an up to date register of interests. However, not all LAG members have completed and returned this form. In addition employees associated with the administration and monitoring of applications have not been requested to complete a register of interests form.

Also, it was noted that the SLA provides clear guidance on Conflicts of Interest but the LAG Operating Protocol and Code of Conduct uses different guidance which could result in inconsistencies and the requirements of the SLA not being adhered to.

No	Recommendation	Priority	Manager	Target Date
1	<p>As a matter of urgency all LAG members and LAG observers must complete and return their register of interests form.</p> <p>LAG members should be prevented from voting until this has been completed and returned.</p> <p>Additionally, LAG members who fail to keep their register of interest up to date should be barred from voting on applications until this is returned.</p>	High	LEADER Programme Co-ordinator	30/11/2016
2	The register of interest form should be completed by relevant employees as they will be undertaking project development and monitoring duties.	High	LEADER Programme Co-ordinator	Complete
3	In order for the conflicts of interest register to remain up-to-date, members should be requested to complete a register of interest form on an annual basis. LAG members	High	LEADER Programme	30/11/2016

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

No	Recommendation	Priority	Manager	Target Date
	should be advised to inform the LEADER Programme Co-ordinator if there are changes in the interim.		Co-ordinator	
4	The Honesty & Integrity (and Conflicts of Interest) section within the LAG Operating Protocol and Code of Conduct should be updated to include the specific wording and conditions included within the SLA.	Medium	LEADER Programme Co-ordinator	31/12/2016

### 4.2 Records Management

The Scottish Government Animation and Administration Guidance notes that while grant applications and supporting documentation will be recorded and held on LARCS, any documents that are intended to create legal rights and obligations – such as grant award letters, contracts and undertakings etc – which are still physically signed, must be retained as hard copies.

The guidance requires that a detailed physical file must be kept for every application. The master file (hard copy) must contain the audit trail of all key original documents as described above. This includes all documents that were part of the decision-making process leading to funding approval, withdrawal or rejection of a LEADER case, and any decisions thereafter (e.g. change requests and inspections). An index must be kept in the front of the file that identifies key documents such as the LAG assessment and the signed copy of the contract.

Currently there are inadequate facilities in Economic Development for the storage of physical files. Files for applicants are being stored in employee's personal lockers instead of a secure cabinet.

No	Recommendation	Priority	Manager	Target Date
5	Steps must be taken immediately to ensure there is adequate storage for all LEADER files. Storage must be secure due to the sensitive nature of the information held.	High	Head of Communities and Economy	30/11/2016

### 4.3 Governance and Communication

A LAG protocol has been established setting out the role, management responsibilities, and functions of the group. Minutes are prepared for all LAG meetings and a check is carried out by the LEADER Programme Co-ordinator at the start of each meeting to ensure that the LAG is quorate. It was noted that although the minutes are of a good standard, more clarity could be added to the minutes of when specific policy items have been agreed (eg the group protocol and the scoring framework being approved).

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

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A new website with a user-friendly design has been launched for the Tyne Esk LEADER programme. The website is being used as the primary means of communication with potential applicants. It includes the latest news on the programme, successful case studies, details on how to apply and relevant contact information.

It was agreed with the Tyne Esk Leader Co-ordinator that more relevant information could be provided on the website. To improve transparency of decision making, consideration should be given to including minutes of meetings, the LAG protocol (the document which states the purpose and terms of reference of the LAG) and names of LAG members in an effort to improve transparency and minimise potential Freedom of Information requests.

It would be helpful to applicants if the website detailed the types of funding LEADER cannot fund (a standard list has been included in the LEADER guidance). Also, as LEADER requires match funding for various types of projects (ie LEADER is only funding part of the project) it would be helpful if the website provided a list of potential match funders.

The website provides additional information to LAG members and Midlothian LEADER employees in the member's section of the website. It was noted that all users with access to the member's section could edit the website as they have been provided with 'update' access rather than 'read-only' access. Additionally, it was noted that the strength of the password provided to Internal Audit for access to the website was deemed to be weak.

No	Recommendation	Priority	Manager	Target Date
6	The LEADER Programme Co-ordinator should ensure that for all LAG minutes it is clearly noted when a specific decision has been made by the LAG (eg for the approval of a policy or any other decision made by the LAG).	Medium	LEADER Programme Co-ordinator	Complete
7	Consideration should be given to including minutes of meetings (provided they are not confidential eg individual LAG member decisions on grants), the LAG protocol (the document which states the purpose and terms of reference of the LAG) and names of LAG members on the website.  Additionally, the website should include sections on the types of projects LEADER can fund and a list of potential match funders to assist applicants	Medium	LEADER Programme Co-ordinator	31/12/2016
8	Amendments should be made to the website so the access provided to LAG members is read-only. Minimum password strength standards should be enforced for access to	High	LEADER Programme	31/12/2016



## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

No	Recommendation	Priority	Manager	Target Date
	the member's area of the website.		Co-ordinator	

### 4.4 Risk Register and Issues Log

A risk register has been drafted for the programme. The risk register accurately captures the key risks of the programme, but the following was noted:

- the risk register has not been uploaded to the Council's Performance Management and Risk Management system, Covalent;
- the risks have not yet been rated;
- the register has not yet been presented to the LAG; and
- an issue on the risk register requires feedback from the Scottish Government (the correct approach to take if a grant recipient is in financial difficulties).

Additionally, it is best practice that an issues log of the key issues the programme is currently working on is compiled and communicated to LAG members.

No	Recommendation	Priority	Manager	Target Date
9	The LEADER programme risks should be uploaded to Covalent, rated and the register presented to the LAG on a regular basis.	Medium	LEADER Programme Co-ordinator	31/12/2016
10	Feedback should be obtained from the Scottish Government on what to do if the grant recipient is in financial difficulties and appropriate internal guidance updated.	Medium	LEADER Programme Co-ordinator	31/12/2016
11	A project issues log should be drafted and communicated to LAG members.	Medium	LEADER Programme Co-ordinator	31/12/2016

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

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### 4.5 Clarification on Aspects of the Programme

During the course of the audit some areas were identified where further clarification is needed on the correct approach for Midlothian's LEADER team to take. Clarification needs to be provided on the following:

- the Local Development Strategy (LDS) outlines the priorities of the Tyne Esk LEADER fund. The LDS is the strategic document for the utilisation of LEADER funds by the LAG and must be well understood by LEADER employees and LAGs. The application guidance notes that this is a live document and may evolve over the lifetime of the project and that formal changes must be notified to the Scottish Government. The LEADER team should clarify if that means that a formal review is required for the LDS during the lifetime of the programme;
- although a range of guidance has been received from the Scottish Government for the management of the programme, clarity needs to be provided from the Scottish Government that this is the full list of guidance and that these are the most up-to-date versions;
- the LARCS system has been updated with the Key Performance Indicators that the LEADER team and LAG have decided to proceed with for reviewing the success of projects. Formal confirmation should be obtained from the Scottish Government's LEADER contact that they are satisfied with the KPIs selected;
- at the most recent Accountable Bodies meeting on 9 June 2016 various queries were raised on the Data Sharing Agreement between the Councils involved in LEADER programmes and the Scottish Government. The LEADER team should keep up to date with developments on this and contribute where appropriate; and
- the SLA references an EU regulation which seems to place requirements in relation to ISO 27001 accreditation for information systems security (an international standard that describes best practice for an information security management system). The LEADER team should liaise with LEADER Scottish Government contacts to confirm if the Council has to review any aspects of compliance with this for the purpose of the LEADER programme as the Council does not have ISO27001 accreditation. This is an issue for most Scottish Local Authorities and was discussed at the 9 June 2016 Accountable Bodies Group Meeting.

No	Recommendation	Priority	Manager	Target Date
12	The LEADER team should clarify with the Scottish Government the queries raised by Internal Audit and take appropriate action if required.	Medium	LEADER Programme Co-ordinator	31/12/2016

## APPENDIX 1

### Definitions of Ratings

#### Audit Opinion

Level of Control	Reason for the level of Assurance given
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

#### Recommendation Rating

Priority	Risk Definition
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

### **Distribution**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- Mary Smith, Director, Education, Communities and Economy
- Ian Johnson, Head of Communities and Economy
- John Beveridge, Economic Development Manager
- Neil Ramsay, LEADER Programme Co-ordinator

### **Audit Team**

Author:	James Polanski	Auditor
Reviewer:	Graham Herbert	Internal Audit Manager
	Elaine Greaves	Internal Audit Manager

## APPENDIX 2

### TERMS OF REFERENCE:

#### Audit Objective and Scope

##### Audit Background:

The LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) programme is one element of the Scotland Rural Development Programme 2014-2020 (SRDP) which aims to promote economic and community development within rural areas of Scotland.

On approval from the Scottish Government, Midlothian Council as the Accountable Body for the Tyne Esk LEADER programme has been issued with a Service Level Agreement (SLA). This details the relationship between the Council and the Scottish Government and also the requirements, responsibilities and accountabilities of each for the Programme period 2014-20.

The SLA between the Scottish Government and Midlothian Council requires an annual internal audit of the functions and services undertaken by the Council in fulfilment of its role as the Accountable Body. This internal audit assessment includes the extent of observance by the Accountable Body of the requirements of the SLA.

In the case of Tyne Esk LEADER, the SLA was signed on 30 December 2015. The annual reporting date for the SLA is 15 October. The funding allocation for the Tyne Esk Leader Programme is £3,490,768, with 25% of this budget being for administration of the programme.

##### Primary Activities Over Course of Year:

The primary focus of the LAG over the course of the year in relation to its role in LEADER has been:

- Contribution to national work in developing LEADER systems and processes;
- recruitment of administration staff to oversee the delivery of the Programme;
- development of internal governance procedures and administrative systems;
- establishment of the LAG and 3 subgroups looking at Communications, Governance and Farm Diversification and Rural Enterprise; and
- promotion of the Programme throughout the area and responding to Expressions of Interest by those interested in applying to the Tyne Esk LEADER Fund.

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At the time of writing this specification, there has been no activity in terms of formal approval of LEADER projects and therefore no grant awards, nor claims submitted to the LAG's team, nor flow of finance to applicants. The closing date for the first round of grant applications is 5 September 2016. Grants will start being awarded after this date. The projects funded will be for a period of up to two years.

Midlothian Council, as the Accountable Body, has not yet submitted claims to the Scottish Government for the administration component of LEADER grants, but will submit two claims during the fieldwork stage of the audit.

### **Audit Objective:**

The audit objective is to provide assurance on the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme.

In light of the stage of development of the LEADER programme nationally and within Tyne Esk, the internal audit for year 1 of the operation of the SLA will cover the following:

1. Review of the terms of the SLA and arrangements in place within Midlothian Council to cover these terms, and any associated European Union Regulations.
2. Review of the clarity of governance and management processes in place to establish the roles of the LAG and the Council.
3. Review of the administration processes implemented within the Tyne Esk LEADER team, including all aspects of records management and information sharing undertaken by the Accountable Body and the LAG / LEADER team.
4. Review of processes for consideration of project and funding applications: handling of enquires; consideration of expressions of interest; any initial project application development; scoring and decision making processes by the LAG; and the adequacy of the framework for monitoring the performance grant recipients.
5. Review of the LEADER administration grant claim processes, to include adequacy of:
  - a. information and evidence compilation;
  - b. records management systems;
  - c. separation of duties;
  - d. compliance with grant claim regulations;
  - e. effectiveness of communications between the Accountable Body and the Scottish Government team.

### Regulatory Framework

The areas for internal audit review set out here should, through delivery of requirements under the SLA, satisfy the requirements of the following European Union Regulations:

- The eligibility requirements of Common Provisions Regulation 1303/2013 and specifically article 34 sets out the design and implementation of the LAG, including the selection of the Accountable Body, quorate balance of the LAG and the receiving and assessing of applications.
- Admin and control compliance requirements of Regulation 809/2014: covers all the admin checks, including in situ visits, On the Spot and Ex Post checks and how penalties are applied (although these latter aspects are not relevant to the current phase of LEADER delivery).
- Accreditation Annex of supplementing regulation 907/2014: Sets out the control activities for payments and penalties, monitoring and control activities and the requirement to keep an audit trail. (This year 1 audit is likely to be limited to consideration of arrangements in place to support appropriate audit trails and planned control activities as there are unlikely to be any live project samples at the time of audit.)
- Eligibility requirements of Rural Development Regulation 1305/2013 and specifically articles 42, 43 and 44: details the additional tasks referred to in article 34 that can be carried out by the LAGs i.e. co-operation.
- The financing management and monitoring requirements of 1306/2013: Covers the management and control systems put in place by member states.

In making any audit recommendations arising from consideration of the regulatory framework, the audit report should specify whether the internal systems established by Midlothian Council and the Tyne Esk Local Action Group require action and / or whether changes are required to the SLA document itself.

### Exclusions and Limitations

No specific exclusions.

### Potential Risks

Potential risks include:

- non-compliance with the EU monitoring requirements resulting in fines, non-payment of grant, or reputational damage;
- grants are awarded to organisations that fail to meet their planned objectives; and

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

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- lack of effective controls may lead to errors or irregularities occurring.

### **Audit Approach**

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to Midlothian Council's Audit Committee; and
- submission of the final report to the LAG and the Scottish Government.

The Internal Audit Report will be expected to inform:

- the LAG in its responsibility for delivering the Tyne Esk LEADER programme;
- Midlothian Council in its role as Accountable Body and in delivering the SLA; and
- the Scottish Government in their management of the SLA.

### **Timescales & Reporting**

The Audit will commence in July 2016 and is anticipated to be reported to the September 2016 Audit Committee.

### **Information Requirements**

Access to all relevant systems, documentation and employees.

### **Audit Resource**

<b>Auditor:</b>	<b>James Polanski</b>	<b>0131 270 5646</b>
<b>Reviewer:</b>	<b>Elaine Greaves</b>	<b>0131 271 3285</b>
	<b>Graham Herbert</b>	<b>0131 271 3517</b>



**Financial Monitoring 2016/17 and Financial Strategy 2017/18 to 2021/22****Report by John Blair, Director, Resources****1 Purpose of Report**

The purpose of this report is to bring to the Committee's attention to the reports presented to Council on 8 November 2016 by the Head of Finance and Integrated Service Support, in relation to Financial Monitoring and Financial Strategy. The reports are available on the Council website and can be accessed using the link below and specifically relate to:

[Audit Committee Meeting - 13 Dec 2016](#)

- **Financial Monitoring 2016/17 – General Fund Revenue**
- **General Services Capital Plan 2016/17**
- **Housing Revenue Account**
- **Financial Strategy 2017/18 to 2021/22**
- **Treasury Management Mid-Year Review Report**

**2 Background**

These reports were considered by the Council on 8 November 2016 as detailed above.

**3 Report Implications**

These remain unchanged from those highlighted in the Head of Finance and Integrated Service Support's reports.

**4 Recommendations**

The Committee is invited to scrutinise for its interest the reports by the Head of Finance and Integrated Service Support.

**Date 16 November 2016****Report Contact:**

Name Janet Ritchie Tel No 0131 271 3158

[janet.ritchie@midlothian.gov.uk](mailto:janet.ritchie@midlothian.gov.uk)



**Financial Monitoring 2016/17 – General Fund Revenue****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

The purpose of this report is to provide Council with information on performance against revenue budget in 2016/17 and details of the material variances.

**2 Background****2.1 Budget Performance**

The detailed budget performance figures shown in appendix 1 result in a net overspend of £1.496 million which is 0.74% of the revised budget for the year. This is a deterioration of £0.938 million on the quarter 1 position reported to Council on 27<sup>th</sup> September.

The main areas of variance are outlined below:

**Pressures**

- Demand led pressures in Adult Social Care, particularly the Community Care Resource Panel and in Home Care packages. They are currently projected to overspend by £1.727 million which is £0.976 million more than reported at quarter 1. The increasing projection is related to new pressures across the remit of the panel. Projections of spend in this area can be very volatile given the fluidity of demand and potential high value of individual packages of care;
- Running costs for Care Homes for Older people of £0.227 million;
- Slippage in the opening of Pentland House which has put additional pressure on Bed and Breakfast budgets for Homeless clients. An overspend of £0.390 million is currently projected;
- Loan charges are currently projected to be £0.283 million over budget due to less slippage in the General Services Capital Plan than anticipated;
- Achievement of Council Transformation Targets for procurement savings and for tactical reductions in contracted hours has slipped and is projected to overspend by £0.300 million.

### Favourable Movements

- Demand for Residential and Day Care placements for children is lower than budgeted and some high value placements are now being provided in a different way. Spend in this area is now projected to be £1.003 million less than the budget of £3.900 million but is very volatile in its nature;
- A continued growth of properties in Midlothian will generate an improvement on budget of £0.500 million for Council Tax Income.

Detailed information on material variances is contained in appendix 2 which identifies each variance, explains why it happened, outlines what action is being taken to control variances and details the impact of that action.

## **2.2 Council Transformation Programme**

Council approved utilisation of £8.018 million of General Fund Reserve to fund costs associated with the ongoing transformation programme.

At the report date £3.265 million of this has been applied with future commitments of £0.453 million identified for 2017/18 and 2018/19. This leaves £4.300 million as uncommitted.

## **2.3 General Fund Reserve**

The projected balance on the General Fund as at 31 March 2017 is as follows:

	£ million	£ million
Reserve as at 1 April 2016		24.625
Less earmarked reserves utilised in 2016/17		(5.947)
<b>General Reserve at 1 April 2016</b>		<b>18.678</b>
<i>Planned movements in reserves</i>		
Planned Utilisation	(2.668)	
Supplementary Estimates	(0.473)	
Council Transformation Programme Costs	(0.315)	
One-off costs of VSER	(0.042)	
Other	(0.012)	
		(3.510)
Overspend per appendix 1		(1.496)
<b>General Fund Balance at 31 March 2017</b>		<b>13.672</b>

An element of the General Fund is earmarked for specific purposes and this is shown below:

	£ million
<b>General Fund Balance at 31 March 2017</b>	<b>13.672</b>
<i>Earmarked for specific purposes</i>	
Approved contingency level of General Fund Reserve	(8.000)
Budgets earmarked for Council Transformation	(4.300)
Borders Rail Economic Development Opportunities	(0.027)
<b>Available General Reserve at 31 March 2017</b>	<b>1.345</b>

The uncommitted General Fund Reserve at 31 March 2017 is £9.325 million of which £8 million is earmarked as a contingency in the context of the continuing challenging financial outlook, the uncertainty associated with future years grant settlements, pay awards, the economic impact of Brexit and also the potential costs to come from the historic child abuse enquiry. This leaves the remaining £1.325 million as uncommitted.

### **3 Report Implications**

#### **3.1 Resource**

Whilst this report deals with financial issues there are no financial implications arising directly from it.

#### **3.2 Risk**

Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs.

The assessment of performance against budgets by services is underpinned by comprehensive financial management and budgetary control arrangements. These arrangements are central to the mitigation of financial risk.

Ensuring that adequate systems and controls are in place minimises the risk of significant variances arising, and where they do arise they help to ensure that they are identified and reported on and that appropriate remedial action is taken where possible. The primary purpose of this report is to provide information on historic performance, however the material variances detailed in appendix 2 highlight that the financial management and budgetary control arrangements require continual review and enhancement if financial risk is to be effectively mitigated.

#### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

#### **3.4 Impact on Performance and Outcomes**

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

### **3.5 Adopting a Preventative Approach**

The proposals in this report do not directly impact on the adoption of a preventative approach.

### **3.6 Involving Communities and Other Stakeholders**

No consultation was required.

### **3.7 Ensuring Equalities**

There are no equality implications arising directly from this report.

### **3.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

### **3.9 IT Issues**

There are no IT implications arising from this report.

## **4 Recommendations**

It is recommended that Council note the contents of this report and consider the financial position in the context of the Financial Strategy for 2017/18 to 2021/22.

13th October 2016

**Report Contact:**

**David Gladwin Tel No 0131 271 3113**

**E mail [david.gladwin@midlothian.gov.uk](mailto:david.gladwin@midlothian.gov.uk)**

**Background Papers:**



# MIDLOTHIAN COUNCIL

## Appendix 1

### GENERAL FUND OVERVIEW 2016/17

Function	Revised Budget £	Outturn £	(Underspend) / Overspend £
Management	1,634,196	1,634,196	0
<u>Education Communities and Economy</u>			
Childrens Services	15,556,928	14,657,928	(899,000)
Communities and Economy	4,620,133	4,810,133	190,000
Education	83,372,587	83,482,587	110,000
<u>Health and Social Care</u>			
Adult Social Care	38,526,505	40,014,505	1,488,000
Customer and Housing Services	12,208,117	12,247,117	39,000
<u>Resources</u>			
Commercial Services	16,159,892	16,200,892	41,000
Finance and Integrated Service Support	12,394,783	12,641,783	247,000
Properties and Facilities Management	13,604,559	13,638,559	34,000
Lothian Valuation Joint Board	555,551	555,551	0
Central Costs	1,946,196	2,109,196	163,000
Non Distributable Costs	1,338,436	1,338,436	0
<b>GENERAL FUND SERVICES NET EXPENDITURE</b>	201,917,884	203,330,884	1,413,000
Loan Charges	6,582,639	6,865,639	283,000
Investment Income	(300,475)	(300,475)	0
Council Transformation Programme savings target	(2,104,873)	(1,804,873)	300,000
Allocations to HRA, Capital Account etc.	(4,781,596)	(4,781,596)	0
	201,313,579	203,309,579	1,996,000
less Funding:			
Scottish Government Grant	151,516,000	151,516,000	0
Council Tax	40,600,000	41,100,000	(500,000)
<b>Utilisation of Reserves</b>	9,197,579	10,693,579	1,496,000



**Financial Monitoring 2016/17 – General Fund Revenue – Material Variances****Education, Communities and Economy****Children's Services**

<b>Description of Variance</b>	<b>Reason for Variance</b>	<b>Quarter 1 £000</b>	<b>Quarter 2 £000</b>	<b>Additional information / Action taken</b>
Employee performance factor	Non achievement of performance factor offset by some part vacant posts.	181	181	
Supernumerary staff within the practice teams	High levels of demand are currently being experienced requiring the use of supernumerary agency staff.	94	94	Service Management will review the need for these posts on a regular basis. A new service structure will be implemented in December 2016.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Children's Services budget.	3	3	No impact on frontline service.
<b>Gross Overspend</b>		<b>278</b>	<b>278</b>	
<i>Offset by:</i>				
Residential and Day Education Placements	The requirement for residential placements is lower than anticipated and provided for in the budget. Demand for new placements was low for the first half of the 2016 calendar year.	(912)	(1,003)	This represents a 26% underspend on the Multi Agency Resource Group budget of £3.9 million. The group continue to challenge new demand to keep costs under control and has recently been successful in its work to progress children in secure placements to allow them to move to other forms of care.
Family Placements	Slippage in plans for the usage of additional Scottish Government Grant.	(174)	(174)	The service is developing plans to utilise this funding. This will take place alongside the implementation of the new service structure during the course of 2016/17.
<b>Net Underspend</b>		<b>(808)</b>	<b>(899)</b>	

## Communities and Economy

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Building Standards Income	There was an artificially high level of income received in 2015/16 as a result of changes to Building Regulations in October 2015. This created a high level of application activity before the new regulations came into force. As a result the numbers and related fee income of warrants in 2016/17 are lower than budgeted.	84	84	The income received for Building Warrants is highly variable and is influenced by the timings of building works.
Planning Income	Applications for planning consent are lower than budgeted.	64	64	The income received for planning applications is highly variable and is influenced by the timing of major developments.
Landlord Registration income	Fewer registrations are due to be renewed in 2016/17 than budgeted.	25	25	Registrations run in a three year cycle.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Communities and Economy budget.	17	17	No impact on frontline service.
<b>Gross Overspend</b>		<b>190</b>	<b>190</b>	

## Education

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Lifelong Learning and Employability Income	The Skill Development Scotland Employability Fund has been reduced nationally by 40%. As a consequence Midlothian's funding was significantly reduced for 2016/17.	167	167	
Vacancies and Performance Factor	Non achievement of employee performance factor.	36	36	
<b>Gross Overspend</b>		<b>203</b>	<b>203</b>	
<i>Offset by:</i>				
PPP Contracts	Insurance costs are lower than provided for in the	(67)	(67)	Windfall Income.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
	contract which leads to a refund from the contractor.  Contractual refund of funding paid to cover reparation of malicious damage that was not utilised.	(17)	(17)	This will be addressed in the 2017/18 budget setting process.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Education Service budget.	(9)	(9)	No impact on frontline service.
<b>Net Overspend</b>		<b>110</b>	<b>110</b>	

## **Health and Social Care**

### Adult Social Care

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Community Care Resource Panel	Assessed needs are currently more than budgeted. The budget is £30 million, demand led and subject to demographic pressures. Individual packages of care sometimes in excess of £100k per annum and as a consequence projections in this area can be volatile.	497	1,453	<p>An underlying over-commitment of around £900k at the start of the financial year has been partially addressed through the review of high cost packages.</p> <p>The increasing projection in 2016/17 is due to a combination of demand led pressures covering Physical Disabilities, Learning Disabilities, Older People and Mental Health.</p> <p>A review team is in place and has begun work to review existing packages of care with a view to reducing the existing level of commitments whilst still meeting critical and substantial need and also keeping in year spend within budget. At this stage it is too early to factor in any reductions arising from the review.</p>
Home Care / Midlothian Enhanced Rapid Response and Intervention Team (MERRIT)	Additional employee costs due to the volume of care packages being provided.	254	274	The service continues to prioritise hospital discharges. There are currently some additional complexities associated with moving packages of care to external providers.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Care Homes for Older People	Projected overspend on running costs, including cleaning materials and first aid supplies, at both Highbank and Newbyres.	108	83	Additional supply costs associated with increased complexity of residents. A review of budgets is now underway.
	Projected overspend on staffing costs to cover gaps in the rota.	120	144	Sickness absence levels at Highbank have been high particularly at the start of the financial year. Managers are working closely with HR to address this issue and some improvements have been seen. Plans are underway to recruit to the locum bureau to ensure that when extra staff are required this can be done in the most cost effective manner.
<b>Gross Overspend</b>		<b>979</b>	<b>1,954</b>	
<i>Offset by:</i>				
Public Protection	Scottish Government funding provided specifically for Adult Support and Protection requirements. Some spend relevant to this funding is in the form of care packages and is met from the Resource Panel budget.	(150)	(140)	No impact on frontline service but underspend offsets care and support costs related to protection issues.
Learning and Development	Spend continues to be constrained to counter pressures elsewhere in the service.	(128)	(102)	No impact on frontline service and offsets cost of essential cover for front-line staff with mandatory training requirements.
Joint Equipment Store and Aids and Adaptations	Demand is currently less than budgeted but spend level tends to vary over the course of the year.	(79)	(124)	No impact on frontline service.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Adult Social Care budget.	(44)	(100)	No impact on frontline service.
<b>Net Overspend</b>		<b>578</b>	<b>1,488</b>	

## Customer and Housing Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Homelessness accommodation	Specialist treatment required in the conversion works to re-use Pentland House has led to delays in the project, with completion now targeted for 1 <sup>st</sup> April 2017. The saving against the Bed and Breakfast budget will therefore not be made.	229	390	The budget provided for an average 82 B and B places per week until 1 <sup>st</sup> August 2016 and 36 spaces thereafter once Pentland House was available for use. Average occupancy is currently 85 places.
Other non material variances	Miscellaneous over and underspends covering the remaining areas of the Customer and Housing Services.	13	11	No impact on frontline service.
<b>Gross Overspend</b>		<b>242</b>	<b>401</b>	
<i>Offset by:</i>				
Housing Benefit Subsidy	It is anticipated that income will be higher than budgeted for.	(193)	(163)	The 2016/17 budget was set based on the experience of previous years. However, in 2016/17 the subsidy receivable is now anticipated to be higher.
Customer Services Staffing	Customer Services is currently under review so current vacancies are being held until the review runs its course.	(123)	(131)	It is anticipated that vacancies will be filled once the review reaches its later stages.
Revenues Service Vacancies	Vacancies in the Revenues Processing Team that were unfilled for a period or remain unfilled in addition to some maternity savings.	(43)	(68)	No impact on frontline service.
<b>Net Overspend / (Underspend)</b>		<b>(117)</b>	<b>39</b>	

## Resources

### Commercial Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Waste Disposal Charges	Movement in tonnage and price.	119	119	Market conditions in the recycling market have resulted in issues with disposing of recyclate. A report to Council on 9 <sup>th</sup> February 2016 covered this in more detail and efforts continue to resolve the situation.  This is partly offset by lower than anticipated residual tonnages in the early part of the year.
Burials Income	Income from the Burials Service is lower than the original year to date forecast.	90	71	The number of burials varies throughout the year.
Zero Waste	Procurement and transition costs for the Zero Waste project exceeds the remaining budget	0	33	An update report is scheduled for November.
Taxi-cards	The taxi-card scheme was closed to new entrants in 2015/16 but usage by remaining participants is higher than budgeted.	26	26	
<b>Gross Overspend</b>		<b>235</b>	<b>249</b>	
<i>Offset by:</i>				
Street Lighting Electricity	Spend is lower than at the same point last year.	0	(82)	Conversion to LED lighting leads to lower consumption but this is offset by growth from new Housing Developments.
Staff Vacancies	Vacancies across the service have exceeded the performance factor.	(76)	(52)	This predominantly relates to Waste Services due to changes in the service provided and delays in recruiting to new posts.
Fuel Costs	Waste Services vehicles have lower fuel usage than was anticipated when setting the budget.	(68)	(68)	This will be reflected in future years budgets.
Other non-material variances	Miscellaneous variances covering the remaining areas of the service.	16	(6)	No impact on frontline service.
<b>Net Overspend</b>		<b>107</b>	<b>41</b>	

## Finance and Integrated Service Support

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Mi-Future	The costs of staff in SWITCH during the year are projected to exceed budget.	130	133	6 months budget is moved to Switch with displaced employees. The Mi-Future team continues to work towards a satisfactory resolution for each employee in SWITCH and when compared to severance costs SWITCH remains a cost effective solution.  As at 30 <sup>th</sup> September 2016 there were 16 people in SWITCH on placements, some of whom are funded by services.
Central Postages	The volume and cost of postages exceeds budget of £122k.	49	45	Despite changing suppliers and securing better prices the volume and mix of postages continues to exceed budget. Work continues to address this by reducing postage volumes, avoiding all unnecessary postage costs and maximising compliance with contractual requirements.
Photocopying	Costs associated with the new centralised Council wide contract are greater than estimated due to higher than anticipated volume of use. The budget is £129k.	33	33	A review of activity is underway with the aim of minimising volumes and reducing reliance on paper in accordance with EWIM principles.
Bank Charges	The shift towards electronic payments has led to increased transaction costs.	24	23	A review of bank charges is underway with the aim of negotiating lower rates with service providers.
Occupational Health	A change to the external provider has resulted in an unexpected cost. The budget is £86k.	15	13	The previous provider was very competitive but is no longer operating. Budgets for future years will be revised to incorporate the new terms.
<b>Gross Overspend</b>		<b>251</b>	<b>247</b>	

### Properties and Facilities Management

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Energy Costs	The price mix between standing charges and for consumption has changed for electricity supply.	0	41	Standing charges have increased.
Loanhead Leisure Centre – loss of income	Loanhead Leisure Centre will close temporarily in January 2017 before re-opening as part of the new Loanhead Community Hub in August 2017.	34	38	Work is ongoing to identify alternative locations for various activities and classes currently held at the centre.
<b>Gross Overspend</b>		<b>34</b>	<b>79</b>	
<i>Offset by:</i>				
Catering Staffing	Difficulty recruiting to vacant posts.	(30)	(45)	Efforts continue to recruit to vacant posts targeting entry level applicants where appropriate.
<b>Net Overspend</b>		<b>4</b>	<b>34</b>	

### Other

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional Information / Action taken
Loan Charges	The 2016/17 budget provided for planned slippage in the General Services Capital Plan. To date slippage has been less than planned.	283	283	
Central Costs	Insurance costs – an increase in the likely settlement costs of existing claims.	112	163	Detail of these claims is being reviewed and any mitigating action required will be put in place. A review of likely settlement costs since quarter 1 gave rise to increased exposure to one high value claim.
Transformation Savings - Procurement	A target of £350k for procurement savings was set for 2015/16 which mainly reflected slippage in targeted savings for previous years. It is projected that £200k of this will be achieved.	150	150	Procurement plans are currently being refreshed and this may identify further savings in 2016/17.  Contract savings have been made or are planned for 2016/17 which impact on the Capital Account and the Housing Revenue Account.



Transformation Savings – Tactical Reductions in contracted hours	The target of £150k will not been achieved in 2016/17	150	150	Progress in taking forward a voluntary reduction in hours initiative and promoting flexible retirement options have been delayed because of the focus on low pay. Work in the remainder of the year is expected to deliver a part year saving.
Council Tax Income	A continued growth in Band D equivalents results in a higher than budgeted Council Tax yield.	(452)	(500)	The continued growth in Band D equivalents will be factored into Council Tax income budgets for future years.



**Financial Strategy 2017/18 to 2021/22****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

This report provides Council with an update on the Financial Strategy encompassing the years 2017/18 to 2021/22.

It includes:-

- An update Scottish Government Grant timing and prospects;
- Updated budget projections for 2017/18 to 2021/22;
- A sensitivity analysis reflecting the potential impact of different scenarios;
- An assessment of the indicative level of resources which would be provided to the Midlothian Integration Joint Board in 2017/18;
- An update on the existing and proposed change programmes aimed at addressing the projected budget shortfalls;
- An update on reserves.

**2 Background**

The core objective of the Financial Strategy is that of securing the Council's continued financial sustainability during what is expected to be an ongoing period of financial constraint coupled with continuing service demand pressures and increasing customer expectations.

On 27 September 2016 Council was provided with an updated assessment of projected budgets shortfalls through to 2021/22 which, based on the assumptions set out in that report, projected a budget shortfall for 2017/18 of £9.858 million rising to £40.731 million. Encompassing the savings targets for the change programme and assuming a 3% per annum increase in Council Tax resulted in a remaining budget gap to be addressed of £5.867 million for 2017/18 rising to £31.712 million in 2021/22.

Scottish Government grant accounts for 80% of external funding. As in previous years the prospects for and the timing of future years grant settlements are a major factor which dominates the financial projections set out in this report. The Grant Settlement will continue to dominate the remainder of the 2017/18 budget setting cycle and future Financial Strategy reports and will also dictate the timing of and the extent to which Council has to reshape and reduce service budgets in order to maintain financial sustainability.

**3 Scottish Government Grant Settlement**

Since the last report to Council it has been confirmed that Scottish Government intends to publish its 2017/18 draft budget on 15 December 2016 and at the same time publish the Finance Circular which sets out individual Council Grant settlements.

The prospects for the 2017/18 grant settlement and also that for later years remain challenging. The projections set out below are based on a the central planning assumption, adopted on 27 September 2016, of a £1 million reduction in Government Grant support per annum with specific conditions and direction of resources continuing to be a feature of future years grant settlements.

It is stressed that the grant figures set out in table 1 below are only projections and will remain so until the Scottish Government budget and announcements on grant support are published on 15 December 2016.

#### **4 Council Tax**

The budget shortfalls set out in table 1 are based on the current Band D Council Tax of £1,210 and reflect the additional income from an increase in the number of properties together with the anticipated income generated by the reform of Council Tax as set out in the Financial Strategy report on 27 September 2016.

The additional income arising from reform is estimated at £109 million nationally, £1.7 million for Midlothian. It is anticipated that this will in effect be removed from the general grant provided to Councils with Government indicating that £9 million will be distributed to offset the additional Council Tax reduction costs with the remaining £100 million distributed based on Free School Meals eligibility directly to Schools. On this basis it is estimated that Midlothian schools allocation will be in the region of £0.500 million.

As previously reported it is expected that Scottish Government will include conditions in the 2017/18 and future years grant settlements to cap the annual increase for Council Tax to 3%. For Midlothian a 3% increase is estimated to generate £1.2 million per annum and would result in Band D Council Tax rising to £1,246 in 2017/18 and to £1,403 by 2021/22. Given the grant prospects set out in section 3 of this report the Financial Strategy incorporates a 3% increase to address the projected budget shortfalls.

#### **5 Cost of Services**

The assessment of the projected cost of services for 2017/18 to 2021/22 set out in this report reflects the latest information available. Table 2 provides an analysis of the principal year on year budget changes which include the following key assumptions and cost drivers:

- Pay inflation of 1% per annum. The Local Government Workers Trade Unions have submitted a one year pay claim for 2017/18 of a flat £1,000 per annum

across all grades. For Midlothian this equates to 4.5% and an indicative cost of £3.5 million. £2.700 million more than reflected in table 2;

- The cost of the Review of Pay and Grading and subsequent incremental pay progression;
- The impact of Pension Reform and anticipated changes in the Council's contribution towards employee pensions;
- That the Apprenticeship levy of 0.5% of the pay bill, which would equate to £0.500 million, is compensated by additional grant or other funding to offset its impact ;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- An initial provision for future years costs of maintain pay levels for procured care services at or above the living wage;
- Impact of current demand for services;
- Demographic impact of future demand for services;
- The additional cost of delivering the statutory 25 hours of teacher contact each week in primary schools.
- Future interest rate forecasts provided by the Council's Treasury Advisers;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant;
- Council Tax income continues to grow in line with previous trends and planned future housing growth.

Work will continue through the budget cycle to review and update the projections. This will include the projected forward purchasing prices for energy costs and the anticipated impact of contracts due for renewal during the period of this model.

The projected budget shortfalls reflecting the assumptions set out in sections 3 to 5 are therefore as follows:-

**Table 1: Budget Shortfalls 2017/18 to 2021/22– 8 November 2016**

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cost of Services	202.284	209.271	217.026	224.274	231.847
Less: Council Tax	(43.450)	(44.100)	(44.750)	(45.400)	(46.050)
Less: Scottish Government Grant	(148.816)	(147.816)	(146.816)	(145.816)	(144.816)
<b>Budget Shortfall</b>	<b>10.018</b>	<b>17.355</b>	<b>25.460</b>	<b>33.058</b>	<b>40.981</b>

The budget shortfall in 2017/18 equates to 4.9% of the net cost of services and is projected to rise to 17.6% by 2021/22.

As Council is aware, significant elements of the budget are either fixed or are challenging to change for a number of reasons including:-

- Historic decisions, for example, loan charges and unitary charge contractual payments;
- Specific conditions, for example the maintenance of teacher numbers and teacher pupil ratio; and
- Growing demand for services through demographic pressures.

These elements of the budget equate to £112 million in 2017/18 and are projected to rise to £140 million by 2021/22. Consequently the budget shortfall expressed as a percentage of the remainder of the budget equates to 11% for 2017/18 potentially rising to 45% for 2021/22.

Whilst the projected cost of service provision Council Tax and Scottish Government grant has been projected forward until 2021/22 the projections are very much indicative, especially so for the later years, and will undoubtedly change. However the projections do provide Council with an assessment of the key factors which influence income and expenditure and the overall impact of these on the Council's financial position for future years and highlight the extent of the challenge ahead.

It is stressed that the cost of services set out in table 1 above and the analysis set out in table 2 are only projections based on an analysis of a range of information sources. The projections and planning assumptions on which they are based will be updated and reported to Council as new information becomes available.

The budget shortfalls set out in table 1 arise for the following reasons:

**Table 2: Analysis of Shortfalls – 8 November 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Opening Shortfall / (surplus)	<b>2.668</b>	<b>10.018</b>	<b>17.355</b>	<b>25.460</b>	<b>33.058</b>
Pay Inflation and Progression	2.350	1.893	2.344	2.297	2.451
Pensions Reform	0.350	0.000	0.000	0.000	0.000
Contractual Inflation	0.465	0.547	0.637	0.571	0.652
Demographics: Care	1.120	1.040	1.040	1.040	1.040
Demographics: School Rolls	2.098	2.260	2.770	2.798	3.083
25 Hours in Primary Schools	0.160	0.090	0.000	0.000	0.000
Demand pressures: Children	0.000	0.324	0.024	0.024	0.024
School Estate Investment	0.311	0.381	1.126	0.033	0.036
Waste Disposal Costs	0.049	0.213	(0.285)	0.125	0.125
Non Domestic Rates	0.128	0.132	0.135	0.138	1.142
Borrowing Costs	0.864	(0.003)	(0.089)	0.123	(0.007)
Scottish Government Grant					
- Council Tax Reform	1.700	0.000	0.000	0.000	0.000
- Reduction	1.000	1.000	1.000	1.000	1.000
Council Tax Income	(2.850)	(0.650)	(0.650)	(0.650)	(0.650)
Other Movements	(0.395)	0.110	0.053	0.099	(0.973)
<b>Totals</b>	<b>10.018</b>	<b>17.355</b>	<b>25.460</b>	<b>33.058</b>	<b>40.981</b>

The principal movement from the figures set out in the 27 September 2016 report are as follows.

**Table 3: Movement from 27 September 2016 – 8 November 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
<b>Shortfalls 27 Sept 2016</b>	<b>9.858</b>	<b>17.105</b>	<b>25.210</b>	<b>32.808</b>	<b>40.731</b>
25 Hours in Primary Schools	0.160	0.250	0.250	0.250	0.250
<b>Shortfalls 8 Nov 2016</b>	<b>10.018</b>	<b>17.355</b>	<b>25.460</b>	<b>33.058</b>	<b>40.981</b>

## 6 Sensitivity Analysis

Given the level of uncertainty associated with the 2017/18 grant settlement and budget table 4 provides an updated sensitivity analysis reflecting the potential impact of different scenarios/outcomes for the two key aspects of the budget. The level of grant support and pay awards.

Scenario 1, a more optimistic scenario continues to assume a 1% pay award in each of the years together with a cash flat grant settlement. Otherwise all other assumptions remain as set out in section 3.

Scenario 2, a more pessimistic scenario assumes a 4.5% pay award for Local Government Staff and 2% for Teachers in 2017/18 reducing to 2% for all staff in later years and continues to assume a 3.3% reduction in government grant.

**Table 4: Sensitivity Analysis – 8 November 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
<b>Scenario 1</b>					
Central Assumption	10.018	17.355	25.460	33.058	40.981
Cash Flat Government Grant	(1.000)	(2.000)	(3.000)	(4.000)	(5.000)
<b>Amended Shortfall</b>	<b>9.018</b>	<b>15.355</b>	<b>22.460</b>	<b>29.058</b>	<b>35.981</b>
<b>Scenario 2</b>					
Central Assumption	10.018	17.355	25.460	33.058	40.981
Revised Pay Award Assumption	3.600	5.500	7.400	9.300	11.200
<b>Amended Shortfall</b>	<b>13.618</b>	<b>22.855</b>	<b>32.860</b>	<b>42.358</b>	<b>52.181</b>

As the scenarios demonstrate changes from the central planning assumption could have a dramatic effect on the projected budget shortfalls.

## 7 Midlothian Integration Joint Board

The Council delegated £37.086 million of the 2016/17 budget to The Midlothian Integration Joint Board in respect of the Services included in the Integration

Scheme. The IJB subsequently issued directions and a resource allocation to the Council in respect of Social Care services to be delivered by the Council.

The equivalent sum for 2017/18 included in the cost of services set out in table 1 is £38.476 million. This includes £1.120 million uplift for demographic. The £38.476 million will be reduced by the Integrated Health and Social Care transformation programme savings of £1.550 million to arrive at an indicative allocation to the IJB for 2017/18 of £36.926 million.

As further the savings options are considered through the budget process these may impact on the level of resources which are formally offered to the IJB. In the meantime The Chief Officer and Chief Financial Officer of the IJB have been advised of the figures set out above to enable the IJB to begin consideration of its 2017/18 financial plan and the directions it will issue to The Council and NHS Lothian.

## **8 Change Programme**

The strands of work that are necessary to address the projected budget shortfalls represent a change programme, encompassing:-

- The Delivering Excellence programme, incorporating the Shaping our Future consultations;
- The delivery of savings approved in 2016/17 and the continued control over expenditure in the current year;
- The Transformation programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2017/18 and beyond.

### **8.1 Delivering Excellence**

The Delivering Excellence framework approved by Council on 23 June 2015 supports the repositioning of services to ensure they have a greater emphasis on and achieve better outcomes for those most disadvantaged and vulnerable in the community. The framework focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability.

The framework sets out an approach that provides the means to:

- Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services;
- To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms



or approaches; and

- To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners.

Actions which contribute to the Financial Strategy continue to be developed through the framework. The Shaping our Future strand of the Delivering Excellence framework has focussed on engaging with the community and stakeholders on the challenge the Council faces and the current consultation which runs until 7 November 2016 will also provide a means to gauge public opinion on the service areas that the Council may have to change as it responds to the projected budget position.

## 8.2 Transformation Programme

The existing Transformation Programme is essential to the delivery of sustainable change and delivery of the Council's Financial Strategy. It remains a major focus with a continued drive towards delivering on the agreed outcomes and targets.

The future year's savings targets incorporated in the Financial Strategy are derived from those set out in the Council Transformation Programme update reports to Business Transformation Steering Group (BTSG) and are set out in table 5 below.

**Table 5: Council Transformation Programme Additional Savings – 8 November 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Children's Services	0.532	0.806	0.806	0.806	0.806
Services to Communities	0.200	0.800	0.800	0.800	0.800
Education	0.329	0.560	0.595	0.595	0.595
Customer Service	0.175	0.175	0.175	0.175	0.175
Health & Social Care	1.555	1.555	1.555	1.555	1.555
<b>Totals</b>	<b>2.791</b>	<b>3.896</b>	<b>3.931</b>	<b>3.931</b>	<b>3.931</b>

The savings targets set out in table 5 exclude those already reflected in the 2016/17 approved budget and are predicated on the outcomes of the reviews and any subsequent decisions taken by Council and so remain indicative.

## 8.3 Asset Management

The position remains as reported on 28 June 2016.

## **8.4 Capital Strategy and Reserves Strategy**

The General Services Capital Plan reported to Council on 27 September 2016 set out the Capital Investment requirements for the period to 2021/22 and is reflected in the revenue budget forecast in this report.

A Reserves Strategy was approved by Council on 27 September 2016. Section 10 of this report provides an update on the available reserves based on the Financial Monitoring 2016-17 report on today's agenda.

## **8.5 Operational Savings**

The budget projections set out in tables 1 and 2 already reflect the operational savings reported in previous year's budgets. Further operational savings will be reflected in the update to Council on 20 December 2016.

## **8.6 Savings Options**

Taking cognisance of the extent of savings anticipated to secure a balanced budget for 2017/18 and the continued challenge for later years the Chief Executive instructed each Director to bring forward as minimum savings options of £5 million, £15 million in total for consideration by the Strategic Leadership Group (SLG) in September 2016. On 25 October 2016 a working draft of the options developed to date by SLG, and which amount to approximately £16 million, was provided to the Leader of The Council, Councillor Johnstone, The Leader of the Labour Group, Councillor Milligan and also Councillor Baxter.

The options, which remain confidential at this point, will be further refined by SLG over the coming weeks. A final set of proposals, once agreed by SLG, will then be presented to the Business Transformation Steering Group (BTSG) for their consideration before being presented to Council. The timetable agreed by Council on 28 June 2016 provides for savings proposals to be considered by Council on 20 December 2016.

## **8.7 Summary of Financial Strategy**

The final projections incorporating impact of the various strands of the Financial Strategy and assuming a 3% per annum increases in Council Tax are as follows.

**Table 6: Financial Strategy 2017/18 to 2021/22 – 8 November 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Budget Shortfall (Table 1)	10.018	17.355	25.460	33.058	40.981
Less Strands:					
Transformation Programme (8.2)	(2.791)	(3.896)	(3.931)	(3.931)	(3.931)
Asset Management (8.3)	0.000	0.000	(0.288)	(0.288)	(0.288)
Operational Savings (8.5)	0.000	0.000	0.000	0.000	0.000
Savings Options (8.6)	0.000	0.000	0.000	0.000	0.000
Council Tax Increase	(1.200)	(2.400)	(3.600)	(4.800)	(4.800)
<b>Remaining Budget Gap</b>	<b>6.027</b>	<b>11.059</b>	<b>17.641</b>	<b>24.039</b>	<b>31.962</b>

It is stressed that ultimately the achievement of savings will be dependent on decisions taken by Council.

## 9 Governance and Timetable

Each element of the Financial Strategy continues to have clear governance in place to ensure the timely delivery of the work stream, with proposals being reported through Business Transformation Steering Group and then to Council as appropriate.

Table 7 sets out the remaining elements of the timetable which was agreed by Council on 28 June 2016 to support the delivery of the Financial Strategy and specifically the determination of the 2017/18 budget and Council Tax levels.

**Table 7: Timetable – Key Events**

Date	Event	Action
November 2016	BTSG	<ul style="list-style-type: none"> <li>Consideration of change Programme and savings options.</li> </ul>
20 December 2016	Council	<ul style="list-style-type: none"> <li>Consideration of update report and consideration of savings options.</li> </ul>
7 February 2017	Council	<ul style="list-style-type: none"> <li>Consideration of update report, reflecting grant settlement.</li> <li>Recommendations to set Council Tax and determine a budget for 2017/18.</li> </ul>

Members are reminded that Council has a duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended) to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

## 10 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the key priorities of:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities and the Financial Strategy sets out for partners the parameters the Council is working within and provides a means to better facilitate the sharing of budget and resource planning information. The Delivering Excellence framework and Transformation Programme have a key role in ensuring that resources are directed towards the priorities set out in the Midlothian Single Plan.

## 11 Reserves

The Financial Monitoring 2016-17 report on today's agenda projects that the available element of the General Fund Reserve at 31 March 2017 will be £1.345 million as detailed in table 8 below.

**Table 8: Available General Fund Reserve 31 March 2017 – 8 November 2016**

	<b>£million</b>
<b>General Fund Balance at 31 March 2017</b>	<b>13.672</b>
<i>Earmarked for specific purposes</i>	
Approved contingency level of General Fund Reserve	(8.000)
Budgets earmarked for Council Transformation	(4.300)
Borders Rail Economic Development Opportunities	(0.027)
<b>Available General Reserve at 31 March 2017</b>	<b>1.345</b>

## 12 Report Implications

### 12.1 Resources

Whilst this report deals with financial issues there are no financial implications arising directly from it.

### 12.2 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge. The following key risks and issues are highlighted in the context of this report:

- The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution;
- Given the nature of the savings options incorporated in the budget proposals the increase risk of non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Outstanding pay award settlements and the implications of the proposed National Living Wage;
- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Cost pressures exceeding budget estimates;
- Impact of Welfare Reform and pension changes;
- The costs of implementation of national policies varying from the resources provided by government; and
- Capital investment requirements and associated cost.

The Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the change programmes setting out the early identification of future saving proposals.

### **12.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

### **12.4 Impact on Performance and Outcomes**

The Financial Strategy is central to the way Council allocates and uses its limited resources and as such has fundamental implications for service performance and outcomes. The budget projections indicate that in 2021/22 the Council will have available in the region of £191 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

### **12.5 Adopting a Preventative Approach**

Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, an effective Financial Strategy in turn allows resources to be prioritised to support prevention.

### **12.6 Involving Communities and Other Stakeholders**

Shaping our Future, the consultation strand of the Delivering Excellence Framework has and will continue to focus on informing the community and other stakeholders of the financial and service challenges and to consult on a range of options as the change programme develops. The response to the current consultation, which concludes on 7 November 2016, will be available to inform the 2017/18 budget decisions.

In addition, there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges.

### **12.7 Ensuring Equalities**

There are no equality implications arising directly from this report. As part of the development of savings proposals to address the projected budget gap EQIA's have been prepared.

An overarching EQIA encompassing the revenue budget for 2017/18 will be prepared and incorporated in the report considered by Council when it takes decisions on savings proposals on 20 December 2016 and updated when Council sets the 2017/18 budget and Council Tax.

### **12.8 Supporting Sustainable Development**

There are no direct sustainability issues arising from this report.

### **12.9 IT Issues**

There are no direct IT implications arising from this report.

## **13 Summary**

The report provides:-

- An update on Scottish Government Grant timing and prospects;
- Updated budget projections for 2017/18 to 2021/22;
- An sensitivity analysis reflecting the potential impact of different scenarios;
- An assessment of the indicative level of resources which would be provided to the Midlothian Integration Joint Board in 2017/18;
- An update on the existing and proposed change programmes aimed at addressing the projected budget shortfalls;
- An update on reserves.

## **14 Recommendations**

Council is recommended to:-

- a) Note the update in respect of the Scottish Government Grant Settlement as set out in section 2;
- b) Note the updated projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3 and continue to endorse the key assumptions on which the budget projections are based;
- c) Note the continuing uncertainties and the potential impact of differing scenarios as set out in section 6;
- d) Note the indicative level of resources which would be provided to the Midlothian Integration Joint Board to deliver the Strategic Plan as set out in section 7;

- e) Note the role the current and developing strands of the Change Programme , including the development of savings options and relevant impact on the Financial Strategy as set out in tables 5 and 6;
- f) Note that the strands of the Change Programme will provide the means to identify options to address projected budget shortfalls;
- g) Note that the updated projections at this time indicate that a budget gap of £6.027 million for 2017/18 rising to £ 31.962 million by 2021/22, though these are heavily dependent on the assumptions detailed in the report;
- h) Otherwise note the contents of the report.

**Date** 2 November 2016

**Report Contact:**

Gary Fairley Tel No 0131 271 3110

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





**General Services Capital Plan 2016/17****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

The purpose of this report is to provide Council with information on the projected performance of the General Services Capital Plan against budget for 2016/17.

**2. Background****2.1 2016/17 Budget**

The Quarter 1 monitoring position for the General Services Capital Plan for 2016/17 was presented to Council on 27 September 2016 and, after accounting for known rephasing of projects, budgeted for expenditure of £35.954 million and funding of £13.995 million, therefore giving a budgeted in-year borrowing requirement of £21.959 million.

**2.2 Adjustments to 2016/17 Budget**Expenditure

The budgeted expenditure of £35.954 million, as reported at Quarter 1, has been adjusted as outlined in Tables 1, 2 and 3 below:-

*Table 1: New Projects already approved*

<b>Project</b>	<b>Description of amendment to budget</b>	<b>Previous Budget £000's</b>	<b>Revised Budget £000's</b>	<b>Budget Movement £000's</b>
Borders Rail – Economic Development Projects	Central budget for capital works associated with economic development of the Borders Rail line.	0	250	+250
<b>Total</b>		<b>0</b>	<b>250</b>	<b>+250</b>

Table 2: New Projects for approval

<b>Project</b>	<b>Description of amendment to budget</b>	<b>Previous Budget £000's</b>	<b>Revised Budget £000's</b>	<b>Budget Movement £000's</b>
Inspiring Learning Spaces	Improvements to Learning Spaces across 20 primary school. Fully funded by Scottish Futures Trust.	0	310	+310
Digital Services for GoreGlen & Bilston Primary Schools	Inclusion of Digital Services equipment and infrastructure for the new GoreGlen and Bilston Primary Schools	0	174	+174
Mayfield Park Amenities	New play area and improvements to the existing amenity of Mayfield Park. Part funded by the Central Scotland Green Network and the Suez Communities Trust	0	81	+81
<b>Total</b>		<b>0</b>	<b>565</b>	<b>+565</b>

Table 3: Rephasing of project budget

<b>Project</b>	<b>Description of amendment to budget</b>	<b>Previous Budget £000's</b>	<b>Revised Budget £000's</b>	<b>Budget Movement £000's</b>
Paradykes & Roslin Primary Schools	Acceleration of build from both contractors	11,743	11,974	+231
Vehicle & Plant Replacement Programme	Additional vehicles requiring replacement in 2016/17	1,492	1,512	+20
Homecare	The phasing of the project has been rebalanced, with the mobile element pushed forward to 2017-18	110	35	-75
Lasswade High School MUGA	Anticipated underspend against project budget	577	479	-98
Member's Environmental Improvements	Revised profile of spend based on in-year spend to date	280	140	-140
Bilston & GoreGlen Primary Schools	Revised cashflows for remainder of project life	8,276	8,104	-172
Other	Minor variances	2,458	2,527	+69
<b>Total</b>		<b>24,936</b>	<b>24,771</b>	<b>-165</b>

This therefore gives a revised budgeted expenditure of £36.605 million for 2016/17.

### Funding

In line with this, the budgeted level of funding available to finance the plan has also been adjusted from the Q1 budgeted funding of £13.995 million to £13.898 million, to reflect:-

- An increase of £0.366 million in Other Contributions, reflecting the £0.310 million award from Scottish Government towards Inspiring Learning Spaces and the two £0.028 million contributions from Central Scotland Green Network and the Suez Communities Trust towards the Mayfield Park project.
- The rephasing of £0.462 million in Early Year's Childcare grant into 2017/18.

### Borrowing

The budgeted level of borrowing reported at Quarter 1 was £21.959 million. Based on the rephased expenditure and funding levels outlined above, the rephased budgeted borrowing required has increased to £22.707 million.

## **2.3 Quarter 2 Projected Performance against Budget**

### Expenditure

Expenditure to 11 September 2016 is £11.480 million with a projected expenditure outturn of £36.669 million. At this stage it is anticipated that budgets for the projects detailed in Appendix 1 will be fully spent in the current year with the following exceptions:-

*Table 4: Adjustment to expenditure budget of projects*

Item	Description	Projected (Underspend)/ Overspend £000's
<b>Waste Service Review Collection Vehicles</b>	Additional costs due to price inflation on purchase costs	+64
<b>Total</b>		<b>+64</b>

It is therefore expected that there will be a net overspend against budget for the year of £0.064 million.

### Funding

Funding received to 11 September 2016 is £3.359 million with a projected total funding available to finance the capital plan in 2016/17 of £13.898 million, in line with the rephased budget.

### Borrowing

The rephased budgeted level of borrowing for 2016/17 was £22.707 million. Based on the revised expenditure and funding levels as

outlined above, the projected estimate of the level of borrowing required to fund the investment identified in Appendix 1 is £22.770 million, an increase of £0.064 million. The impact of this on the Council's borrowing costs is reflected in the Financial Monitoring 2016/17 – General Fund Revenue report elsewhere on today's agenda.

## 2.4 Overall Position 2016/17

Based on the above, the projected performance against budget for 2016/17 is shown in the table below:-

Item	2016/17 Budget At Q1 £000's	Rephased 2016/17 Budget At Q2 £000's	Actual To 11/09/16 £000's	2016/17 Projected Outturn £000's	2016/17 Variance £000's	2016/17 Carry Forward £000's
Expenditure	35,954	36,605	11,480	36,669	64	234
Funding	13,995	13,898	3,359	13,898	0	
Borrowing Required	21,960	22,707	8,121	22,770	64	

## 3. Capital Fund

The Capital Fund at the start of the 2016/17 financial year was £15,378 million. Capital Receipts of £7.318 million are forecast to be received in 2016/17 (£0.224 million to 11/09/2016), and will be transferred to the capital fund. This will increase the balance in the Capital Fund to £22.696 million. Council, on 27 September 2016, approved the medium to long-term strategy for the Capital Fund, specifically, to maintain the current arrangements for crediting all capital receipts for the disposal of assets to the Capital Fund, and for £12.000 million to be earmarked from the Capital Fund for the Edinburgh and South East Scotland City Region Deal.

## 4. Report Implications

### 4.1 Resource

The borrowing required to finance the planned investment in 2016/17 is projected to be £22.770 million. The loan charges associated with this borrowing are reported to Council in the Financial Monitoring 2016/17 – General Fund Revenue report presented elsewhere on today's agenda.

### 4.2 Risk

The inherent risk in the Capital Plan is that projects will cost more than estimated thus resulting in additional borrowing. The monitoring procedures ensure that significant variations are reported at an early stage so that remedial action can be taken to mitigate this risk.

There is also a risk that the wrong projects are prioritised, however there is an additional risk that the revenue budget cannot afford the level of borrowing currently reflected.

### 4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

#### **4.4 Impact on Performance and Outcome**

There are no issues arising directly from this report.

#### **4.5 Adopting a Preventative Approach**

There are no issues arising directly from this report

#### **4.6 Involving Communities and Other Stakeholders**

No external consultation has taken place on this report.

#### **4.7 Ensuring Equalities**

There are no equalities issues arising directly from this report.

#### **4.8 Supporting Sustainable Development**

There are no sustainability issues arising directly from this report.

#### **4.9 IT Issues**

There are no IT implications arising from this report.

### **5 Recommendations**

Council is asked to:

- a) Note the General Services Capital Plan Quarter 2 monitoring position for 2016/17;
- b) Approve the following projects as outlined in Table 2 in Section 2.2 to be added to the General Services Capital Plan: (a) Inspiring Learning Spaces, (b) GoreGlen & Bilston Primary Schools Digital Services, and (c) Mayfield Park Amenities.

**Date 25 October 2016**

#### **Report Contact:**

Name Gary Thomson

Tel No 0131 271 3230

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

#### **Background Papers:**

Appendix 1 – Detailed General Services Capital Plan Expenditure 2016/17

## Appendix 1

### Detailed General Services Capital Plan Expenditure 2016/17

	Rephased	Rephased				
	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17
GENERAL SERVICES CAPITAL PLAN	Budget	Budget	Actual	Forecast	Variance	Carry
2016/17 Q2 MONITORING	Q1	Q2	to P6	Outturn Q2	Q2	Forward Q2
	£000's	£000's	£000's	£000's	£000's	£000's
<b>RESOURCES</b>						
<b>Customer Services</b>						
Front Office - Device & Interactive Asset Upgrades	481	481	163	481	0	0
Back Office - Anti Virus Upgrades	0	0	0	0	0	0
Back Office - Server Replacement	26	26	194	26	0	0
Back Office - UPS Devices	1	1	1	1	0	0
Network Enterprise - Network Connection	0	0	0	0	0	0
Network Enterprise - Network Assets (Power & Data)	157	157	8	157	0	0
IGS - Compliance - Data Encryption	0	0	0	0	0	0
IGS - Compliance - PCI	39	39	0	39	0	0
Disaster Recovery	0	0	0	0	0	0
Service Desk - ITMIS Service Improvement	150	150	32	150	0	0
Committee Management System	3	3	0	3	0	0
Paperless Meetings	16	16	0	16	0	0
Business Application Upgrades inc. mobile working	139	139	0	139	0	0
Interactive White Board Replacement	813	813	0	813	0	0
SWAN Programme	208	208	0	208	0	0
New GoreGlen & Bilston		174	0	174	0	0
<b>Commercial Operations</b>						
Street Lighting Upgrades	728	728	135	728	0	0
Street Lighting LED Upgrade (Salix Funded)	0	0	0	0	0	0
Footway & Footpath Network Upgrades	1,122	1,122	354	1,122	0	0
Road Upgrades	1,524	1,524	354	1,524	0	0
Millerhill Access Road / Site Services	0	0	-237	0	0	0
Zero Waste Capital Contribution	0	0	0	0	0	0
Cycling, Walking & Safer Streets Projects	189	189	79	189	0	0
Ironmills Park Steps	185	185	0	185	0	0
Emily Bing	13	13	0	13	0	0
New recycling facility - Penicuik	281	281	11	281	0	0
Waste Collection Vehicles	140	140	0	204	64	0
Food Waste Collection	0	0	0	0	0	0
Vehicle & Plant Replacement Programme	1,492	1,512	208	1,512	0	-20
Electric Vehicles - Powerpoint Installation	73	73	0	73	0	0
Install Geogrid - Barleyknowe Lane	68	68	17	68	0	0
Loanhead Memorial Park	5	5	3	5	0	0
20mph Limits	12	12	0	12	0	0
Vogrie Car Parking Barriers	33	33	0	33	0	0
Webcasting Council, Cabinet & Committee Meetings	0	0	0	0	0	0
Mayfield Park Amenities	0	81	0	81	0	0
<b>Property &amp; Facilities</b>						
Stobhill Depot Upgrade	569	569	1	569	0	0
Stobhill Depot Replacement	1,631	1,631	0	1,631	0	0
Straiton Bing Site Investigation		70	0	70	0	-70
Property Upgrades inc. Lighting/Lightning	1,866	1,866	39	1,866	0	0
Purchase of 7 Eskdail Court, Dalkeith	285	285	0	285	0	0
Primary 1-3 Free School Meals	3	3	0	3	0	0
<b>TOTAL RESOURCES</b>	<b>12,251</b>	<b>12,597</b>	<b>1,364</b>	<b>12,661</b>	<b>64</b>	<b>-90</b>

	Rephased		Rephased			
	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17
	Budget	Budget	Actual	Forecast	Variance	Carry
<b>EDUCATION, COMMUNITY AND ECONOMY</b>	<b>Q1</b>	<b>Q2</b>	<b>to P6</b>	<b>Outturn Q2</b>	<b>Q2</b>	<b>Forward Q2</b>
<b>Early Years</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Woodburn Family Learning Centre	180	180	11	180	0	0
Gorebridge Development Trust (EYG Funded)	100	100	0	100	0	0
Gorebridge Development Trust	116	116	0	116	0	0
Gorebridge Development Trust (EYG Funded)	70	70	0	70	0	0
Further Early Years Provisions	0	0	0	0	0	0
<b>Primary</b>						
New Bilston Primary	3,573	3,459	2,976	3,459	0	114
New Gorebridge North Primary	4,703	4,645	4,205	4,645	0	58
Cornbank Primary Extension	19	19	0	19	0	0
St Andrews Primary Extension	-18	-18	0	-18	0	0
Newtongrange Primary Extension	20	20	0	20	0	0
Paradykes & Roslin Primaries Preparatory Works	436	436	183	436	0	0
Paradykes Primary Replacement	8,500	8,661	1,584	8,661	0	-161
Roslin Primary Replacement	3,243	3,313	867	3,313	0	-70
Former Hopefield Primary School	500	500	0	500	0	0
Inspiring Learning Spaces	0	310	0	310	0	0
<b>Secondary</b>						
Lasswade High School inc. 2nd MUGA	577	479	247	479	0	98
Newbattle High School Preparatory Works	395	395	5	395	0	0
Newbattle High School - Future Extension	0	0	0	0	0	0
<b>General</b>						
Online Payments for Schools	45	45	0	45	0	0
Bright Sparks	0	0	0	0	0	0
PPP1 Land Acquisition	27	27	0	27	0	0
<b>Children and Families</b>						
<b>Planning &amp; Development</b>						
Environmental Improvements	280	140	22	140	0	140
Borders Rail - Economic Development Projects	0	250	0	250	0	0
Property Asset Management System	6	6	4	6	0	0
East High Street Public Realm & Burns Monument	120	120	1	120	0	0
<b>TOTAL EDUCATION, COMMUNITY AND ECONOMY</b>	<b>22,892</b>	<b>23,273</b>	<b>10,104</b>	<b>23,273</b>	<b>0</b>	<b>179</b>
<b>HEALTH AND SOCIAL CARE</b>						
<b>Adult &amp; Social Care</b>						
Assistive Technology	355	355	26	355	0	0
Travelling Peoples Site Upgrade	17	17	0	17	0	0
Homecare	110	35	0	35	0	75
<b>Customer &amp; Housing Services</b>						
<b>TOTAL HEALTH AND SOCIAL CARE</b>	<b>482</b>	<b>407</b>	<b>26</b>	<b>407</b>	<b>0</b>	<b>75</b>
<b>COUNCIL TRANSFORMATION</b>						
Purchase to Pay	21	21	0	21	0	0
EDRMS	0	0	0	0	0	0
EWIM	0	0	0	0	0	0
EWIM Phase 2	0	0	-97	0	0	0
Online Housing Applications	27	27	0	27	0	0
Corporate Telephony Services Upgrade	9	9	0	9	0	0
EWIM - Buccleuch House Ground Floor	33	33	0	33	0	0
Website Upgrade	239	239	83	239	0	0
City Deal	0	0	0	0	0	0
<b>TOTAL COUNCIL TRANSFORMATION</b>	<b>328</b>	<b>328</b>	<b>-14</b>	<b>328</b>	<b>0</b>	<b>0</b>
<b>GENERAL SERVICES CAPITAL PLAN TOTAL</b>	<b>35,953</b>	<b>36,605</b>	<b>11,480</b>	<b>36,669</b>	<b>64</b>	<b>164</b>





**Housing Revenue Account  
Revenue Budget and Capital Plan 2016/17****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

The purpose of this report is to provide Council with a summary of expenditure and income to 23<sup>rd</sup> September 2016 for the Capital Plan and a projected outturn for both the Housing Revenue Account and Capital Plan for 2016/17.

**2 Background****2.1 Capital Plan 2016/17**

The revision of the Capital Plan reported to Council on 27<sup>th</sup> September 2016 allowed for investment of £22.449 million in 2016/17 as shown in Appendix 1. At this stage there are no material variances to be reported for 2016/17.

**2.2 Revenue Account 2016/17**

Since the revision of the Revenue Budget reported to Council on 27<sup>th</sup> September 2016 an underspend of £0.290 million is projected for 2016/17 which is shown in Appendix 2.

The underspend is primarily due to delays in the refurbishment of Pentland House, due to additional repair works taking longer than anticipated, this will result in a saving of £0.256 million for Housing Support and Caretaker costs, offset by shortfall in rental charge of £0.118 million.

These delays will also result in a shortfall in Service charge income of £0.035 million, however this is offset by additional Service Charge income from Private Registered Social Landlord properties not budgeted for resulting in additional income of £0.100 million.

The cost of borrowing will also be reduced by £0.043 million due to favourable interest rates on long-term borrowing.

The HRA reserve balance is projected to be £29.207 million at 31<sup>st</sup> March 2017. The longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments to 2030/31.

### **3 Report Implications**

#### **3.1 Resource**

There are no direct resource implications arising from this report.

#### **3.2 Risk**

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents.

Whilst the HRA reserve balance is projected to be £29.207 million at 31 March 2017, the longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments.

#### **3.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

#### **3.4 Impact on Performance and Outcomes**

This report links to the Corporate Priority 1a. "Provide quality, affordable housing including increasing homelessness accommodation".

#### **3.5 Adopting a Preventative Approach**

There are no issues arising directly from this report.

#### **3.6 Involving Communities and Other Stakeholders**

No external consultation has taken place on this report.

#### **3.7 Ensuring Equalities**

There are no equality issues arising directly from this report.

#### **3.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

#### **3.9 IT Issues**

There are no IT issues arising directly from this report.

#### **4 Summary**

The summarised financial performance for 2016/17 is:

- Capital Expenditure is anticipated to be £22.449 million for the year;
- A net undersend of £0.290 million is projected on the Revenue Account;
- The HRA reserve at 31<sup>st</sup> March 2016 is projected to be £29.207 million.

#### **5 Recommendations**

Council is recommended to note the contents of this report.

**Date 10<sup>th</sup> October 2016**

**Report Contact:**

Name Lisa Young Tel No 0131-271-3111

[lisa.young@midlothian.gov.uk](mailto:lisa.young@midlothian.gov.uk)

**Background Papers: HRA Capital Plan and Revenue Budget**

**HOUSING REVENUE ACCOUNT CAPITAL PLAN 2016/17**

	<b>Revised Budget</b>	<b>Actuals to Date</b>	<b>Projected Outturn</b>	<b>Variation (Under)/Over</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>FUNDING</b>				
Net Receipts from Sales	2,155	1,962	2,155	0
Grants				
-Incentivising New Build	764	764	764	0
-Mortgage to Rent	168	0	168	0
-Buy Backs Funding	300	0	300	0
Council Tax on Second Homes	118	0	118	0
Developer Contributions	1,000	0	1,000	0
Borrowing Required	17,944	3,939	17,944	0
<b>TOTAL AVAILABLE FUNDING</b>	<b>22,449</b>	<b>6,665</b>	<b>22,449</b>	<b>0</b>

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>APPROVED EXPENDITURE</b>				
New Build Houses Phase 1	162	(124)	162	0
New Build Houses Phase 2	13,019	3,694	13,019	0
Buy Backs	1,603	657	1,603	0
Aids & Adaptations	300	125	300	0
Energy Assistance	1,000	82	1,000	0
Homelessness - Mortgage to Rent	303	0	303	0
Homelessness - Pentland House Refurbishment	472	26	472	0
Homelessness - Midfield House Refurbishment	39	8	39	0
Environmental Works - McNeill Terrace	0	(27)	0	0
Scottish Housing Quality Standard				
-Upgrade Central Heating Systems	650	247	650	0
-Kitchen Replacement Programme	201	29	201	0
-Sanitary Ware Replacement Programme	950	292	950	0
-SHQS Repairs	3,750	1,656	3,750	0
<b>Total Expenditure</b>	<b>22,449</b>	<b>6,665</b>	<b>22,449</b>	<b>0</b>

# MIDLOTHIAN COUNCIL

## HOUSING REVENUE ACCOUNT 2016/17

## Appendix 2

	<b>Revised Budget</b>	<b>Projected Outturn</b>	<b>Variation (Under)/Over</b>
<b>Average No of Houses</b>	<b>6,864</b>	<b>6,864</b>	<b>0</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Repairs and Maintenance</b>			
Decant/Compensation	5,400	5,391	(9)
General Repairs	40	40	0
Grounds Maintenance	574	574	0
	<b>6,014</b>	<b>6,005</b>	<b>(9)</b>
<b>Administration and Management</b>	4,842	4,842	0
<b>Loan Charges</b>	8,649	8,606	(43)
<b>Other Expenses</b>	2,488	2,232	(256)
<b>TOTAL EXPENDITURE</b>	<b>21,993</b>	<b>21,685</b>	<b>(308)</b>
<b>Rents</b>			
Houses	24,882	24,764	118
Garages	529	529	0
Others	586	686	(100)
<b>TOTAL RENTS</b>	<b>25,997</b>	<b>25,979</b>	<b>18</b>
<b>NET EXPENDITURE/(INCOME)</b>	<b>(4,004)</b>	<b>(4,294)</b>	<b>(290)</b>
<b>BALANCE BROUGHT FORWARD</b>	<b>(24,913)</b>	<b>(24,913)</b>	<b>0</b>
<b>BALANCE CARRIED FORWARD</b>	<b>(28,917)</b>	<b>(29,207)</b>	<b>(290)</b>



**Treasury Management Mid-Year Review Report 2016/17****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

The purpose of this report is to inform members of the Treasury Management activity undertaken during the first half of 2016/17, the forecast activity for the second half of 2016/17, and update the Prudential Indicators for 2016/17.

**2 Background**

Council, on 08 March 2016, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2016/17.

**3 Economic update for first half of 2016/17**

The key points from economic activity in the first half of 2016/17 are as follows:-

- The referendum vote for Brexit in June has seen a reduction in borrowing rates whereby Public Works Loan Board (PWLB) long-term loan rates dropped to around the 2.00% mark during mid-summer;
- The bank of England, on 4<sup>th</sup> August 2016, cut the Bank of England Base Rate from 0.50% to 0.25% with both new fixed term and variable rate investment opportunities broadly reducing in line with this 25bps reduction;
- Borrowing rate forecasts over the short-medium term have been adjusted in light of the economic outlook and show a gradual rise from current levels, with projected longer-term interest rates forecast to rise to c. 2.50% for by June 2019;
- At the time of writing, current forecasts for Bank Base Rate include a further cut to 0.10% in November this year and a first increase from this level in May 2018, back to 0.25%;
- The forecast for Consumer Price Inflation shows a sharp rise to around 2.40% for 2018 and 2019.

An economic update for the first part of the 2016/17 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2.

#### 4. Treasury Activity during first half of 2016/17

The main points arising from treasury activity in the year to 07 October 2016 were:-

- Long-term borrowing of £20.000 million was sourced:-
  - £10.000 million maturity loan drawn on 04 July 2016 at an interest rate of 2.32% for a 49 year tenor; and
  - £10.000 million maturity loan drawn on 08 July 2016 at an interest rate of 2.28% for a 46.5 year tenor;

The borrowing was sourced from PWLB, taking advantage of the Council's certainty rate discount of 0.20% from the standard PWLB rates and the historically low borrowing rate environment;
- Long term borrowing of £2.090 million matured, this being £2.000 million PWLB maturities, £0.061 million Salix maturities and £0.029 million PWLB Annuities;
- A £10.000 million deposit was placed with a German bank, Heleba<sup>1</sup>, on 04 April 2016, for a fixed term of 1 year, at 0.94%, continuing the policy of cash backing reserves, whilst adding value to the portfolio with minimal risk.
- The average interest rate earned on external investments was 0.82%, exceeding the benchmark rate of 0.52%.

The Council's loan and investment portfolio as at 07 October 2016 is shown in tables 1 and 2 below (position at 31 March 2016 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2016 and 07 October 2016

Loan Type	31 March 2016		07 October 2016	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
PWLB Annuity	768	8.90%	754	8.90%
PWLB Maturity	179,224	4.01%	197,224	3.77%
LOBO	20,000	4.51%	20,000	4.51%
Temporary Market Loans	36,880	0.48%	35,000	0.25%
Other Loans	400	0.00%	357	0.00%
<b>Total Loans</b>	<b>237,272</b>	<b>3.51%</b>	<b>253,335</b>	<b>3.35%</b>
<b>Underlying Borrowing Requirement*</b>	<b>254,024</b>		<b>262,718</b>	
<b>Internal Borrowing</b>	<b>16,752</b>		<b>9,383</b>	

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

<sup>1</sup> Landesbank Hessen-Thüringen Girozentrale, domiciled in Germany



Table 2: Council's Investment Portfolio at 31 March 2016 and 07 October 2016

Investment Type	31 March 2016		07 October 2016	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
Money Market Funds	13,355	0.50%	8,153	0.42%
Bank Notice Accounts	24,985	1.03%	24,985	0.78%
Bank Fixed Term Deposits	30,000	0.87%	50,000	0.84%
<b>Total Investments</b>	<b>68,340</b>	<b>0.86%</b>	<b>83,138</b>	<b>0.78%</b>

## 5. Expected Treasury Activity during second half of 2016/17

### Borrowing

It is expected that further long-term borrowing will be undertaken in the latter half of 2016/17, given both (a) the historically low interest rate environment and (b) the capital expenditure forecasts for 2016/17 presented to Council elsewhere on today's agenda (and summarised in Section 6 below).

Consideration will also continue to be given as to whether borrowing now (for capital expenditure in 2017/18 or beyond) to secure historically low PWLB rates offers value compared with forward interest rate projections. Equally, consideration will continue to be given as to whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher. This would eliminate the majority of the cost of carry).

Appendix 3 provides forecasts for interest rates from the Council's Treasury Management advisor, Capita.

As with all long-term borrowing decisions, an option appraisal will be undertaken prior to executing any loan transaction, to ensure that any loans taken offer best value to the Council.

### Investments

As noted in Section 3 and detailed in Appendix 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate, with a further cut in Bank Base Rate to 0.10% in November expected to reduce investment returns further. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

£40.000 million of the Council's investments are held in fixed term deposits which mature in late March / early April 2017 and £24.985 million in bank notice accounts (with the notice period equating to

broadly 6 months). Given the current low interest rate environment and the expected further reduction in Bank Base Rate, it is proposed that Council officers, in conjunction with Capita Asset Services, continue to review the range of investment options available to the Council within its stated investment policy in order to select only the most creditworthy counterparties to ensure the security of Council funds, and from that list select the range of investment products that offer best value to the Council's investment portfolio.

#### Expected Loan & Investment Portfolio at 31 March 2017

Taking all of the above into account, the expected loan and investment portfolio at 31 March 2017 is shown in Tables 7 and 8 below:-

Table 7: Council's forecast Loan Portfolio at 31 March 2017

Loan Type	31 March 2017	
	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	739	8.90%
PWLB Maturity	208,482	3.70%
LOBO	20,000	4.51%
Temporary Market Loans	40,170	0.25%
Other Loans	337	0.00%
<b>Total Loans</b>	<b>269,728</b>	<b>3.26%</b>
<b>Underlying Borrowing Requirement</b>	<b>287,493</b>	
<b>Internal Borrowing</b>	<b>17,765</b>	

Table 8: Council's forecast Investment Portfolio at 31 March 2017

Investment Type	31 March 2017	
	Principal Outstanding £000's	Weighted Average Rate
Money Market Funds	5,000	0.25%
Bank Notice Accounts	24,985	0.63%
Bank Fixed Term Deposits	40,000	0.69%
<b>Total Investments</b>	<b>69,985</b>	<b>0.64%</b>

## 6. Prudential Indicators 2016/17

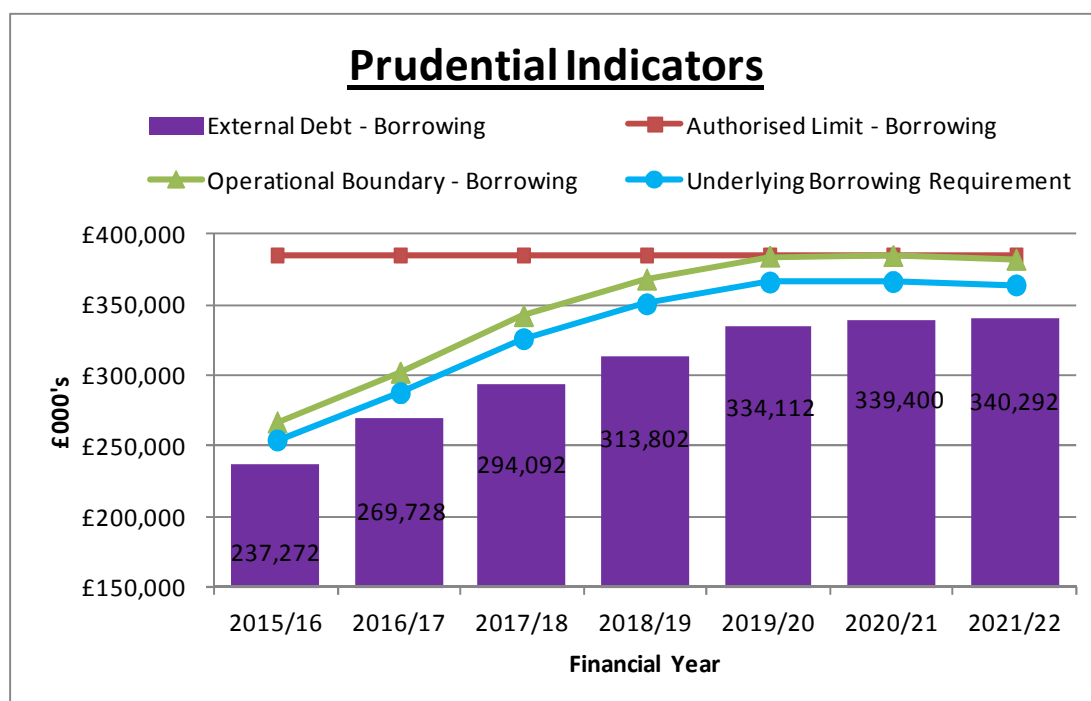
The following prudential indicators have been refreshed from those reported to Council on 08 March 2016 in the original Treasury Management and Annual Investment Strategy Statement 2016/17, based on the actual outturn for 2015/16 and the Council's Capital Plans for 2016/17 to 2021/22, and are shown in Table 9 and in graphical form below (see also Appendix 4):-

Table 9: Prudential Indicators 2016/17 – Mid Year Update

Indicator	2016/17 Original Estimate £000's	2016/17 Current Position £000's	2016/17 Revised Estimate £000's
2016/17 Capital Expenditure	72,501	18,145	59,118
2016/17 Required Borrowing	59,341	12,060	40,714
2016/17 Underlying Borrowing Requirement*	310,697	262,718	287,493
2016/17 Gross External Borrowing	285,736	253,335	269,728
Operational Boundary – Borrowing	310,727	275,854	301,868
Authorised Limit – Borrowing	334,260	384,844	384,844
2016/17 Capital Financing Requirement**	365,699	318,340	342,495

\* Excludes "On balance sheet" PPP schemes.

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



The **Capital Financing Requirement (CFR)** denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's two PPP contracts. The Underlying Borrowing Requirement strips out the latter of these (long-term liability arising from the two PPP 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. This was recommended to be £334.260 million in the Treasury Strategy report presented to Council on 08 March 2016 and subsequently agreed by Council.

Rather than restrict external borrowing in the remainder of 2016/17 to:-

- the expected Underlying Borrowing Requirement for this year (£287.493 million); or
- the Authorised Limit for Borrowing of £334.260 million approved by Council on 08 March 2016;

it is proposed that permission be granted to borrow up to the authorised limit for borrowing of £384.844 million (as shown in the table below), if market conditions supported this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2022 remains achievable.

Table 10: Authorised Limit for Borrowing: Calculation

Indicator	2016/17 Original Estimate £000's	2016/17 Revised Estimate £000's
CFR – General Services (31 March 2021)	121,652	129,163
CFR – HRA (31 March 2021)	202,464	236,914
Unrealised Capital Receipts & Developer Contributions 2016/17	2,084	4,708
Forecast level of Capital Receipts & Developer Contributions 2016/17 to 2020/21	8,060	14,059
<b>Proposed Authorised Limit</b>	<b>334,260</b>	<b>384,844</b>

## 7 Report Implications

### 7.1 Resource

Expenditure from Treasury Management activity i.e. loan charges, is reported in quarterly financial positions to Council, with Quarter 2 monitoring reflected in the Financial Monitoring 2016/17 – General Fund Revenue report elsewhere on today's agenda.

### 7.2 Risk

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved and these have recently been reviewed and updated.

### 7.3 Single Midlothian Plan and Business Transformation

Themes addresses in this report:-

- ☐ Community safety
- ☐ Adult health, care and housing

- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

#### **7.4 Impact on Performance and Outcomes**

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

#### **7.5 Adopting a Preventative Approach**

The proposals in this report do not directly impact on the adoption of a preventative approach.

#### **7.6 Involving Communities and Other Stakeholders**

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

#### **7.7 Ensuring Equalities**

There are no equality issues arising from this report.

#### **7.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

#### **7.9 Digital Issues**

There are no Digital Services implications arising from this report.

### **8 Summary**

Treasury Management activity during the year to 07 October 2016 has been effective in minimising borrowing costs and maximising investment income within the parameters set by the strategy for the year.

Further long-term borrowing is forecast for the remainder of 2016/17, reflective of the General Services and HRA capital plans reported elsewhere on today's agenda.

The investment climate remains challenging given the low interest rate environment and creditworthiness concerns. Officers will continue to review the investment opportunities available to the Council.

The Prudential Indicators have been updated to reflect current capital expenditure and income projections and the extension of the General Services Capital Plan to 2021/22.

## **9 Recommendations**

It is recommended that Council:-

- a) Note the report and the treasury activity undertaken in the period to 07 October 2016, as outlined in Section 4;
- b) Note the forecast activity during the second-half of the year as outlined in Section 5;
- c) Approve the revisions to the Prudential Indicators in Section 6 of this report.

**25 October 2016**

**Report Contact:** Gary Thomson

**Tel No** 0131 271 3230

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

## **Appendices**

Appendix 1: Economic Update for first part of 2016/17 financial year

Appendix 2: PWLB Borrowing Rates 1 April 2016 to 30 September 2016

Appendix 3: Capita Asset Services Interest Rate Forecasts

Appendix 4: Prudential Indicators Detail

## **Appendix 1: Economic Update for first part of 2016/17 financial year**

### **UK**

UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

### **US**

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

## **Eurozone**

In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.

## **Rest of World**

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

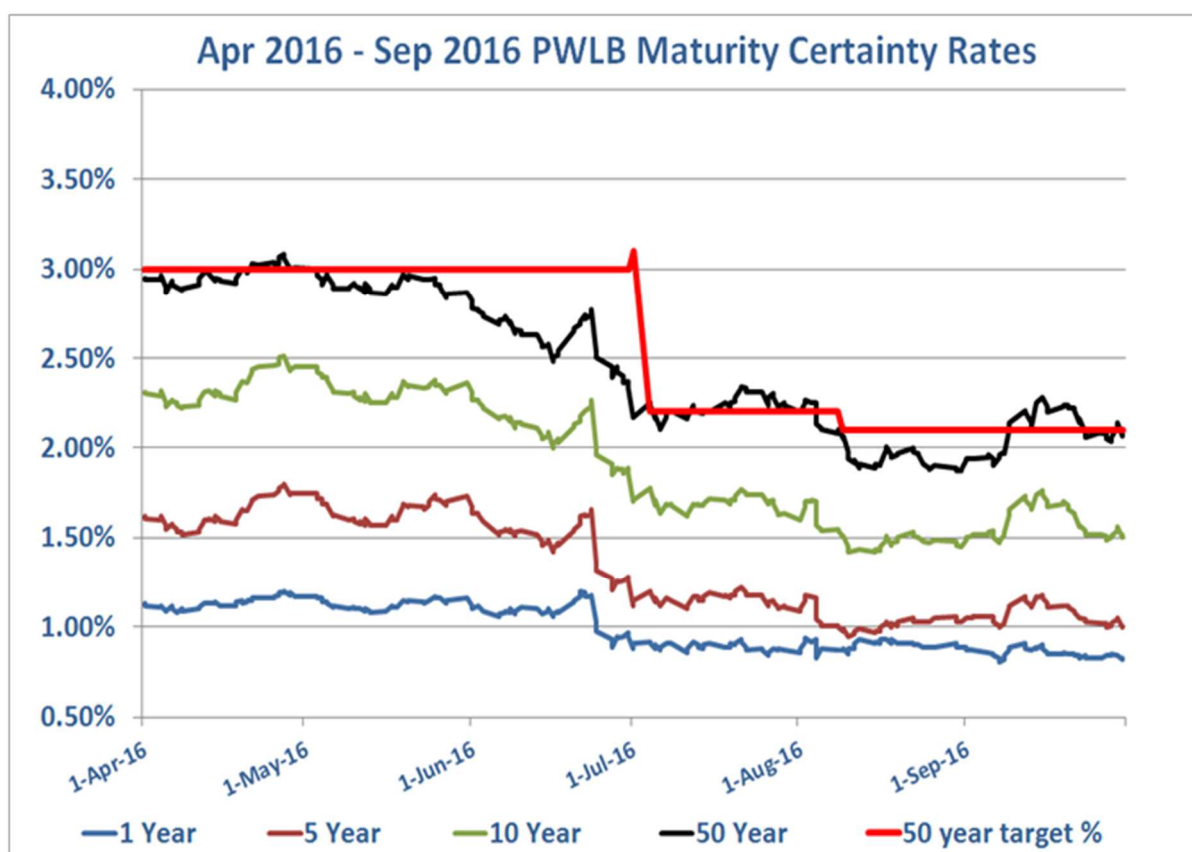


## Appendix 2: PWLB Borrowing Rates 1 April 2016 to 30 September 2016

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

### PWLB certainty rates 1 April 2016 to 30TH September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



### Appendix 3: Capita Asset Services Interest Rate Forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure;
- Weak capitalisation of some European banks;
- A resurgence of the Eurozone sovereign debt crisis;
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows;
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds);
- UK economic growth and increases in inflation are weaker than we currently anticipate;

- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities;
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

## Appendix 4 Prudential Indicators Detail

### Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget:-

<b>Capital Expenditure by Service</b>	<b>2016/17 Original Estimate £000's</b>	<b>Current Position £000's</b>	<b>2016/17 Revised Estimate £000's</b>
Resources	6,178	1,364	12,661
Education, Community & Economy	22,342	10,104	23,273
Health & Social Care	105	26	407
Council Transformation	87	(14)	328
Unallocated	976	0	0
HRA	42,813	6,665	22,449
<b>Total</b>	<b>72,501</b>	<b>18,145</b>	<b>59,118</b>

Forecast levels of capital expenditure on:-

- Resources has increased compared to budget, with the inclusion of approved budgets for the following projects: Stobhill Depot Replacement, SWAN programme, Digital Services Requirements for the new GoreGlen & Bilston Primaries, Straiton Bing Site Investigation and Mayfield Park Amenities; together with a £4.556 million rephasing of budgets from 2015/16 / 2017/18 to/from 2016/17;
- Education, Community & Economy has increased by £0.931 million with the inclusion of approved budgets for the following projects: Inspiring Learning Spaces and the Borders Rail Economic Development Projects, and an acceleration in the forecast level of spend for the Paradykes & Roslin Primary School projects;
- Health & Social Care has increased by £0.302 million to reflect the approval of the Homecare budget and the rephasing of spend for the Assistive Technology project;
- Council Transformation has increased by £0.241 million to reflect rephasing of project spend from 2015/16 to 2016/17;
- HRA has decreased by £20.364 million to reflect the rephasing of the Phase II and III programmes.

### Prudential Indicator for the Financing of the Capital Programme & Borrowing

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (principal repayments). This direct borrowing need is also supplemented by maturing debt and other treasury requirements.

<b>Capital Financing</b>	<b>2016/17 Original Estimate £000's</b>	<b>Current Position £000's</b>	<b>2016/17 Revised Estimate £000's</b>
<b>Total Capital Expenditure</b>	<b>72,501</b>	<b>18,145</b>	<b>59,118</b>
Capital Grants	8,222	3,793	8,428
Capital Receipts	1,148	1,962	2,155
Capital Reserves	0	0	0
Developer Contributions	3,265	497	5,012
Other Contributions	526	(167)	2,809
<b>Total Financing</b>	<b>13,160</b>	<b>6,085</b>	<b>18,403</b>
<b>Borrowing Required</b>	<b>59,341</b>	<b>12,060</b>	<b>40,714</b>

Total expected financing has increased from £13.160 million to £18.403 million, reflecting:-

- An increase in the forecast level of capital receipts applied to the HRA capital plan;
- an increase in the forecast level of developer contributions that can be applied to finance the capital plan;
- an increase in the level of “other contributions”, reflecting the application of the insurance receipt for Hopefield, the funding from NHS Lothian for the Paradykes project and the funding from Scottish Futures Trust for the Inspiring Learning Spaces project.

