

Notice of Meeting and Agenda



Audit Committee

Venue: Virtual Meeting,

Date: Wednesday, 29 June 2022

Time: 11:00

Executive Director : Place

Contact:

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

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

4.1 Minute of Meeting 14 March 2022 Submitted for Noting 5 - 12

4.2 Audit Committee Action Log 13 - 14

5 Public Reports

5.1 Membership, terms of reference and appointment of interim chair - Report by: Executive Director: Place 15 - 22

5.2 Counter Fraud Annual Report 2021/22 - Report by: Chief Internal Auditor 23 - 34

5.3 Internal Audit Work to May 2022 - Report by: Chief Internal Auditor 35 - 48

5.4 Internal Audit Annual Assurance Report 2021/22 - Report by: Chief Internal Auditor 49 - 62

5.5 Draft Annual Governance Statement 2021/22 – Report by: Chief Executive 63 - 74

5.6 Unaudited Annual Accounts 2021/22 - Report by: Chief Officer Corporate Solutions (Appendix B to follow) 75 - 82

5.7 Annual Treasury Management Report 2021/22 - Report by: Chief Officer Corporate Solutions 83 - 112

5.8 Risk Management Update, Quarter 4 2021/22 - Report by: Chief Officer Place 113 - 148

5.9 Financial Governance – Financial Directives - Report by: Chief Officer Corporate Solutions 149 - 218

5.10 Local Government in Scotland Overview 2022 - Report by: Chief Officer Corporate Solutions 219 - 230

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 27 September at 11.00am

Minute of Meeting



Audit Committee

Date	Time	Venue
Tuesday 14 March 2022	14.00 pm	Virtual Meeting by MS Teams

Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Parry
Councillor Small
Peter de Vink (Independent Member)

In Attendance:

Councillor Alexander	
Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children, Young People and Partnerships
Alan Turpie	Legal Services Manager
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
Myra Forsyth	Continuous Improvement Officer
Saty Kaur	Executive Business Manager
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair, Mike Ramsay welcomed everyone to the meeting. Apologies for absence were intimated on behalf of Gary Fairley, Chief Officer Corporate Solutions.

2. Order of Business

It was noted the order of business was amended with Item 5.4 External Audit Annual Plan 2021/22 taken as the first item under Public Reports and Item 5.1 Internal Audit Work to February 2022 was taken after item 5.5 on the Agenda.

3. Declarations of interest

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

4. Minutes of Previous Meetings

- 4.1 The minutes of the meeting of 25 January 2022 were submitted and approved as a correct record having been proposed by Councillor Muirhead seconded by Councillor Cassidy.

Matters Arising: It was noted that Jill Stacey, Chief Internal Auditor's contract had been extended to the first quarter of the next financial year and the Chair highlighted that he was not aware of this post being advertised. The Chief Executive confirmed that the advert had just been finalised and would be going live. The Chief Internal Auditor also assured the Committee that arrangements were in place so the level of expertise would still be at the Committee's disposal. Following a comment from Mr de Vink the Chief Executive confirmed that a paper had been presented to the last Audit Committee advising of the way forward for 2022/23 and that they had taken into account the Chief Internal Auditor's workload in a sustainable way.

- 4.2 The Action log was submitted and the actions points to be actioned by today was discussed and the following agreed:

1. Risk Management Strategy - on today's Agenda – close off.
2. Property Maintenance - Kevin Anderson provided an update on the advising that this would be discussed at the next BTSG and then forwarded on to Audit Committee. Agreed that this would change to May/June.

Councillor Smail raised further comments with regards to shared services and the Chief Executive highlighted the success with Mid and East public protection committee and also advised on the issues with regards to Audit shared services. The Chief Executive also assured the Committee that the Council were still committed to pursuing shared services.

5. Public Reports

Report No.	Report Title	Presented by:
5.4	External Audit Annual Plan 2021/22	EY, External Auditors
Outline of report and summary of discussion		
<p>Mr Reid expressed his thanks for re-ordering the Agenda to accommodate him and confirmed that Grace Scanlin would be in attendance throughout the meeting.</p> <p>Mr Reid advised the Committee that this Annual Audit Plan prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit for the year 2021/22, the sixth and final year of their appointment. Mr Reid explained that the planning work remains ongoing but that they had sufficient knowledge and had carried out sufficient work to allow them to present this plan, he also advised that if there were any material changes to the plan this would be reported as in previous years to this Committee. Mr Reid then advised that their obligations remained the same which was to provide an opinion on the truth and fairness of the financial statements and to consider the wider scope aspects of the public audit in line with code of audit practice. Mr Reid continued to provide an outline of the details contained within his report with regards to the financial statements and their key areas of focus.</p> <p>Following his presentation of the External Audit Annual Plan 2021/22 Mr Reid responded to questions and comments raised by members of the Committee.</p>		
Decision		
The Committee noted the contents of the report.		

Report No.	Report Title	Presented by:
5.2	Risk Management Q3 Update 2021/22	Chief Officer Place
Outline of report and summary of discussion		
<p>The purpose of this report was to provide the Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 3 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.</p> <p>The Risk Manager highlighted the main sections contained within the report.</p>		
Decision		
The Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 3 2021/22.		

Report No.	Report Title	Presented by:
5.3	Audit Committee Annual, End of Term Report 2021-22	Chair of Audit Committee
Outline of presentation and summary of discussion		
<p>The purpose of this report was to provide Members with the Audit Committee Annual / End of Term Report 2021/22, which sets out how the Audit Committee has performed against its remit and the effectiveness of the Audit Committee in meeting its purpose based on the annual self-assessments of the Committee against best practice, and provides assurances to the Council. It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.</p> <p>Mr Ramsay highlighted the main sections contained within the report and outlined the appendices attached. He further advised that at the end of the report there was a recommendation for the new Council to consider the membership requirements to achieve proper scrutiny and to mitigate any risk there might be.</p>		
Decision		
The Audit Committee approved the Audit Committee Annual / End of Term Report 2021/22 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agreed that the Audit Committee Annual / End of Term Report 2021/22 would be presented to Council.		
Action		
Democratic Services		

Report No.	Report Title	Presented by:
5.5	Risk Management Policy and Strategy	Chief Officer Place
Outline of presentation and summary of discussion		
<p>The Report advises that Midlothian Council understands that it is important to recognise and manage the many risks which are inherent in its activities, and in the services which it provides for the benefit of the community. The Council has therefore adopted this policy on risk management, has established the attached Risk Management Strategy and has implemented procedures in support of the policy and strategy.</p> <p>Mr Oliver in presenting the Risk Management Strategy apologised that a cover report was not presented with this document. He then provided a brief update on the key points contained within the Risk Management Strategy and presented this to the Audit Committee for approval.</p> <p>Thereafter Mr Oliver responded to questions and comments from the Committee confirming the governance structure as detailed within the Strategy and further advised that if anything escalated during the quarterly cycle the risk and resilience group would be convened as required.</p>		
Decision		
The Audit Committee approved the Risk Management and Policy Strategy and noted that it would be reviewed in 2 years.		

Report No.	Report Title	Presented by:
5.1	Internal Audit Work to February 2022	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements</p> <p>Jill Stacey presented this report updating the Committee on some of the challenges and provided the key highlights of the work in progress.</p> <p>Following the presentation and comments from Officers the Chair commented on how well the Council had performed during the pandemic and that he wished to pass on the Committees' appreciation to the teams who had continued to deliver services during this time.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> a) Considered the Executive Summaries of the final Internal Audit assurance reports issued; b) Noted the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; c) Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. 		

Report No.	Report Title	Submitted by:
5.6	Counter Fraud Annual Plan 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to gain approval from the Audit Committee for the proposed Counter Fraud Annual Plan 2022/23 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement.</p> <p>Jill Stacey provided a brief outline of the planned counter fraud activity for the coming year to support the change in approach and culture for the Council for tackling fraud and corruption.</p>		
Decision		
<p>The Audit Committee approved the Counter Fraud Annual Plan 2022/23 (Appendix 1).</p>		

Report No.	Report Title	Submitted by:
5.7	Internal Audit Charter	Chief Internal Auditor
Outline of report and summary of discussion		
<p>This report provides the Audit Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Audit Executive to prepare annual Internal Audit opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.</p> <p>Jill Stacey advised on the importance of this document which sets out the requirements of the Internal Audit standards and the annual review of the Internal Audit Charter and highlighted that the cover report outlines some of the changes within the Internal Audit Charter.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> (a) Noted the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with PSIAS; (b) Approved the revised Internal Audit Charter shown at Appendix 1; and (c) Noted that the Internal Audit Charter will be reviewed annually. 		

Report No.	Report Title	Submitted by:
5.8	Internal Audit Strategy and Annual Plan 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2022/23 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Health and Social Care Integration Joint Board (MIJB).</p> <p>The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.</p> <p>The Internal Audit Annual Plan 2022/23 at Appendix 2 has been developed by the shared Chief Internal Auditor and the Principal Internal Auditor. It sets out the proposed range and breadth of audit activity and sufficient work within the audit programme of work to enable the Chief Internal Auditor to prepare the independent and objective audit opinions for Midlothian Council and MIJB. A separate Internal Audit Annual Plan 2022/23 for the MIJB will be presented to its Audit and Risk Committee. Key components of the audit planning process include a clear</p>		

understanding of each organisation's functions, associated risks, and assurance framework.

Jill Stacey presented this report highlighting the main sections contained within the report and appendices.

Decision

The Audit Committee:

- (a) Noted the changes to the Internal Audit Strategy outlined in section 4 of this report;
- (b) Noted the outline of the Internal Audit planning process outlined in section 5 of this report;
- (c) Approved the Internal Audit Strategy (Appendix 1); and
- (d) Approved the Internal Audit Annual Plan 2022/23 (Appendix 2).

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

To be confirmed.

The Chair echoed what a number of Members had expressed at the beginning of the meeting in that the Audit Committee were very appreciative of all the work Jill Stacey had done to support the Audit Committee over the last 5 years and she would be missed. He then personally thanked her for the assistance she had provided to him during this time and also expressed thanks on behalf of the Audit Committee for all her support and wished her well in the future.

Jill Stacey highlighted while the formal shared services arrangements will cease she advised that there is a wider Audit family and she will continue to assist the Internal Audit Team informally behind the scenes where required.

The Chair closed the meeting and thanked all the Members and Officers for their involvement and wished everyone the very best for the future.

The meeting terminated at 15.43 pm

Action Log



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Property Maintenance	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.	Executive Director Place	May/June2022	14/03/2022: Due to a delay in this being presented to the BTSG – A further BTSG to be arranged, following this it will be presented to Audit Committee.
2	Treasury Management and Investment Strategy 2022-23 & Prudential Indicators	25/01/2022	Training for Audit Committee members	Continuous Improvement Manager	May/June 2022	To be addressed as part of the elected Member training package being put in place for delivery following the May 2022 Local Government elections.

Membership, Terms of Reference and Appointment of Interim Chair

Report by Kevin Anderson, Executive Director Place

Report for Decision

1 Recommendations

The Committee is invited to:-

- (a) Note its membership and terms of reference; and
- (b) Appoint an interim Chair who is a non Cabinet member.

2 Purpose of Report/Executive Summary

This report brings the Committee's attention to its Membership, Terms of Reference and the appointment of an Interim Chair.

Date: 14 June 2022

Report Contact:

Andrew Henderson, Democratic Services Officer
Andrew.Henderson@Midlothian.gov.uk

3 Membership, Independent Chair and Terms of Reference

3.1 Membership

On 24 May 2022, the Council agreed that membership of the Audit Committee be Councillors McEwan, McKenzie, Milligan, Scott and Smail. The Council further agreed that an independent Chair and a non-voting Independent Member of the Committee be appointed.

3.2 Independent Chair

Steps are being taken to recruit a suitable individual to chair meetings of the Committee but in the interim it will be necessary for the Committee to appoint a Chair. The Chair of the Committee may not be a member of the Cabinet as set out in the Council's Standing Orders.

3.3 Terms of Reference

The Audit Committee is responsible for the following:-

Statement of purpose

1. The audit committee is a key component of Midlothian Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the audit committee is to provide independent assurance to elected members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

3. To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances, relating to the council's service delivery models including partnership and collaboration, to ensure that the highest standards of probity, public accountability and ethical standards are demonstrated.
4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and

control.

5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the council's framework of assurance, relating to the council's service delivery models including partnership and collaboration, and ensure that it adequately addresses the risk and priorities of the council.
7. To monitor the effective development and operation of risk management in the council relating to the council's service delivery models including partnership and collaboration.
8. To monitor progress in addressing risk-related issues reported to the committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud corruption.
11. To monitor the counter-fraud strategy, actions and resources.
12. To monitor controls operating over Treasury Management, through the scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, and the Council's approach to establishing ethical standards.

Internal audit

13. To approve the internal audit charter.
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
15. To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
17. To make appropriate enquiries of both management and the Chief Internal Auditor to determine if there are any inappropriate scope or resource limitation.
18. To consider reports from the Chief Internal Auditor on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
19. To consider the Chief Internal Auditor's annual report:
- a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the Annual Governance Statement.
20. To consider summaries of specific internal audit reports as requested.
21. To receive reports outlining the action taken where the Chief Internal Auditor has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
22. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
23. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.
24. To support the development of effective communication with the Chief Internal Auditor.

External audit

- 25. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 26. To consider specific reports as agreed with the external auditor.
- 27. To comment on the scope and depth of external audit work and

to ensure it gives value for money.

28. To commission work from internal and external audit.
29. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

30. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
31. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

32. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
33. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Meetings

The Council will decide on the schedule of meetings for the Audit Committee, usually on a rolling annual basis which will be published.

Quorum

The quorum for meetings of the Audit Committee will be 3 Members, which may include the Independent Chair (when appointed).

Minutes

The Minutes of the Audit Committee will be recorded by the Officer clerking the meeting and submitted to the next ordinary meeting of the Committee for approval. They will also be submitted to the Council both for information and to allow the Council to consider any recommendations contained in them. Meetings of the Audit Committee will also be audio cast subject to the exemptions contained within the Local Government (Scotland) Act 1973

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There are no resource implications arising directly from this report.

4.2 Digital

Not applicable.

4.3 Risk

In accordance with the Scheme of Administration the Council is required to appoint Members to the various Committees, etc. Failure to do so could impede the discharge of business.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

An equalities impact assessment has not been required in connection with this report

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Insert text here

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

There are no direct implications related to this report.

A.5 Involving Communities and Other Stakeholders

The report does not directly relate to involving communities.

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting a Sustainable Development

Not applicable

Counter Fraud Annual Report 2021/22

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2022 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2021/22.

2 Purpose of Report/Executive Summary

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

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

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

Date 20 May 2022

Report Contact:

Jill Stacey

jill.stacey@midlothian.gov.uk

3 Background

- 3.1** The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft, corruption and crime. The Council at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group and the Counter Fraud Annual Plan 2021/22.
- 3.2** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Specific changes associated with the refreshed Counter Fraud Strategy include: a focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime; and ensure these are embedded preventative practices.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with Management. The Integrity Group is an officer forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud, and it is chaired by the Executive Director Place. The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). It oversees the policy framework, agrees and monitors the implementation of improvement actions, raises awareness as a method of prevention, and performs self-assessments against best practice.
- 3.4** Internal Audit is required to give independent assurance on the efficacy of processes put in place by Management to manage the risk of fraud. The Internal Audit Annual Plan 2022/23, approved by the Audit Committee on 14 March 2022, includes an audit of the Council's Counter Fraud Controls and Whistleblowing Arrangements.
- 3.5** Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.
- 3.6** Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.

4 Counter Fraud Activity during 2021/22

- 4.1** The Counter Fraud Annual Plan 2021/22, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 22 June 2021. All elements of the Counter Fraud planned work were carried out, relating to activity at a high level as follows:
- a) Contract Management
 - b) Corporate Fraud Enquiries
 - c) National Fraud Initiative
 - d) Social Housing
 - e) Council Tax
 - f) Corporate Fraud Policy Framework
 - g) Fraud Risk Assessments
 - h) Fraud Awareness Training
 - i) Integrity Group
- 4.2** As specialist investigators, the Corporate Fraud Officers have conducted significant and comprehensive work in respect of Contract Management, liaised with Police Scotland as required, and recommended improvements to reduce risks. Monthly meetings have been held with the Chief Internal Auditor, Principal Internal Auditor and Chief Procurement Officer to foster collaborative working on fraud risks and counter fraud controls over the Council's end-to-end procurement and contract management processes and procedures.
- 4.3** The Corporate Fraud Team has dealt with 97 enquiries including 25 from the Midlothian Council website page "Report a possible crime, fraud or similar concern" which is available to staff or the public for whistleblowing purposes. Fraud Response Group meetings are held to share learnings and progress actions with relevant Management.
- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2020/2021 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Principal Internal Auditor acts as the Council's Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date with input from relevant Services across the Council and City of Edinburgh Council for those relating to Covid-19 support grants. These outcomes are detailed in Appendix 2.
- 4.5** The Corporate Fraud Team has received referrals from Housing Officers during the year to investigate potential subletting or abandonment of Council owned properties; 52 allegations of potential tenancy fraud were investigated.
- 4.6** The Corporate Fraud Team responded to 19 notifications of alleged fraud associated with Council Tax Discounts and Exemptions during the year to determine whether these discounts and exemptions are claimed legitimately, including Council Tax Reduction Scheme (CTRS) and Single Person Discount (SPD).

- 4.7** It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection.
- 4.8** An assessment has been carried out during 2021/22 of the Council's counter policy framework against best practice, the CIPFA Counter Fraud guidance, as set out in the table below:

The CIPFA Counter Fraud guidance states the minimum policy framework will include:	Associated Policies across the Council (latest approved date and responsible officer in brackets):
Counter Fraud Policy	Counter Fraud Policy and Strategy (August 2020; Chief Internal Auditor)
Whistleblowing Policy	Whistle Blowing – Public Interest Disclosure Policy (August 2017; Chief Internal Auditor/HR Manager)
Anti-Money Laundering Policy	Anti-Money Laundering Policy (October 2019; s95 Officer)
Anti-Bribery & Corruption Policy	Anti-Bribery Policy (December 2016; s95 Officer)
Gifts & Hospitality Policy and register	Gifts & Hospitality Policy and register (March 2019; HR Manager)
Conflict of Interest Policy and register	Outside Employment and Other Interests Policy (April 2019; HR Manager)
Codes of Conduct and Ethics	Employee Code of Conduct (2019; HR Manager)
Information Security Policy	Information Security Policy incorporates the subset of cyber security policy (October 2017; Information Governance / Security Services Lead)
Cyber Security Policy	

- 4.9** The Integrity Group commissioned a review and update of the Whistleblowing Policy, which is well progressed, and of the Anti-Bribery Policy. The Information Security Policy is currently under review and update as part of the Council's cyber security arrangements.
- 4.10** The Corporate Fraud Officers are members of the Scottish Local Authority Investigators Group (SLAIG) to represent Midlothian Council. They join SLAIG's quarterly virtual meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring their knowledge of emerging fraud risks and issues is up to date. Any insights on fraud risk assessments are shared on a regular basis with the Integrity Group. The Corporate Fraud Officers liaise throughout the year with the Internal Audit Team to provide their view on the potential fraud risk aspects of areas under review.
- 4.11** The Chief Internal Auditor has delivered virtual presentations every 2-3 months to new starts as part of the Induction programme to raise awareness of their responsibilities in tackling fraud, to highlight who to contact in the Corporate Fraud team for assistance, and to encourage reporting of suspected frauds through the existing whistleblowing arrangements. Two eLearning modules on Procurement Fraud Awareness and on Bribery Act 2010 are available on the LearnPro system for staff training purposes.

- 4.12** Bi-monthly meetings of the Integrity Group were held during the year 2021/22 to undertake its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and has representatives from HR, Finance, Legal, IT, Procurement, Internal Audit and Corporate Fraud.
- 4.13** The Integrity Group considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' on 27 October 2021 to determine any Management Actions required in response for improvement and assurance purposes. It noted the similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland. It revisited the Counter Fraud Controls Assessment carried out during 2020/21 and received a progress update on the Action Plan from each of the Action Owners, along with further information on additional practices that have been introduced. The Counter Fraud Controls Assessment 2021/22 was presented to the Corporate Management Team on 12 January 2022 and to the Audit Committee on 25 January 2022 for assurance purposes.

5 Outcomes of Counter Fraud Activity 2021/22

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of counter fraud activity a total savings value of £842,467 has been identified during 2021/22. The types of referrals and the outcomes are summarised in the table in Appendix 1, with details provided below.
- 5.2** As a result of the collaboration between Housing Officers and the Corporate Fraud Team, 9 of the 52 allegations of potential tenancy fraud that were investigated resulted in the return of a property to the Council's housing stock, which were subsequently made available to those in genuine need of social housing. For each of the properties identified the calculation, according to Audit Scotland guidance, is £93k over 4 years, thus resulting in a saving of £837k.
- 5.3** Three referrals associated with Council Tax Discounts and Exemptions, relating to an undeclared person residing in the property, were investigated and subsequently resulted in the removal of Council Tax Single Person Discount (SPD) (£5,467).
- 5.4** The outcomes of the Council's continuing participation in the National Fraud Initiative 2020/2021 total £680,190, the conclusion of the 2-year exercise during the year 2021/22 as at 11 April 2022. These outcomes are detailed in Appendix 2.
- 5.5** In conclusion, the Corporate Fraud Team in collaboration with other Services have been successful in delivering the range of activity set out in the Counter Fraud Annual Plan 2021/22 and achieving the above outcomes during 2021/22 to support the Council's objectives. The Integrity Group has met regularly during the year to undertake activity within its remit associated with the Counter Fraud Strategy. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes.

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

6.1 Resource

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

The staff resource set out in the Counter Fraud Annual Plan 2021/22 relates to two Corporate Fraud Officers, plus some management and supervision provided by the Principal Internal Auditor and the Chief Internal Auditor. The Corporate Fraud Officers collaborate with other managers and staff across the Council to carry out the activity, and support the Integrity Group.

6.2 Digital

None.

6.3 Risk

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

The Counter Fraud Policy sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team during 2021/22 in collaboration with other Services is aligned to the Policy and Strategy.

The report on the Integrity Group's assessment of counter fraud controls 2021/22 presented to the Corporate Management Team on 12 January 2022 and to the Audit Committee on 25 January 2022 was designed to provide assurance on the efficacy of Midlothian Council's arrangements, and set out the actions that are ongoing or required to enhance the Council's resilience to fraud.

The Integrity Group will carry out a further review of these fraud risks and any other emerging fraud risks in due course, to ensure the controls continue to be effective in mitigating the risks.

6.4 Ensuring Equalities

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

6.5 Additional Report Implications (See Appendix A)

Appendices:-

Appendix A - Additional Report Implications

Appendix 1 - Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2021/22

Appendix 2 - Outcomes from Midlothian Council's participation in The National Fraud Initiative 2020/2021 (to 11/04/2022)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised by staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

None.

Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2021/22

Type of Referral	No of Referrals				No. with Fraud Detected	£ value Fraud Detected	Comments
		Web	Telephone	Email/letter			
Corporate Fraud (Internal)	9	1	6	2			Investigations in response to referrals from various sources. Disciplinary or other action taken, as appropriate. Currently 2 criminal cases from previous years are with Police Scotland, 1 of which is due to be heard at Edinburgh High Court in January 2023 and the other case is currently being investigated by the Economic Crime Unit.
Housing Tenancy Fraud	52	15	1	36	9	£837,000	52 referrals resulting in investigations which recovered 9 Council houses which were returned to the available housing stock. Value for each property as per Audit Scotland guidance (£93,000 over 4 years each).
Council Tax Discounts & Exemptions, CTRS / SPD	19	7	4	8	3	£5,467	3 investigations relating to undeclared persons residing in the property, subsequently resulting in removal of Council Tax Single Persons Discounts.
Scottish Welfare Fund	2		2				Investigations carried out and currently seeking direction on how these allegations will be decided upon.
Housing Benefits	9	1	7	1			9 Referrals submitted to DWP SFIS to investigate further.
DPA/SOCG enquiries	2			2			2 Enquiries received from Police Scotland.
Other	4	1	1	2			Investigations resulting in referrals being submitted to external partners and internal services including City of Edinburgh Council, Trading Standards and Economic Development.
Total	97	25	21	51	12	£842,467	

Appendix 2 – Outcomes from Midlothian Council’s participation in The National Fraud Initiative 2020/2021 (to 11/04/2022)

Type	No of Matches in 2020/2021	No of matches reviewed	Fraud or Errors Detected	Outcome (overpayment)	Estimated Savings	Total Savings	Comments
Council Tax (SPD)	3,305	1,250	211	£154,044	£153,479	£307,523	Previous years NFI matches excluded. 3 SPD data sets reviewed by Corporate Fraud (2) & Revenues (1). There is still a number of referrals to be decided upon by Revenues; however due to backlogs the final outcomes may not be known for some time.
Housing Benefit	69	14	1	£1,774	£966	£2,740	15 Data sets received; however only 1 data set was reviewed as Revenues could not provide a resource due to other priorities and staff capacity. The review was carried out by Corporate Fraud.
Council Tax Reduction Scheme (CTRS)	428	0	0				13 Data sets received; however none reviewed as Revenues could not provide a resource due to other priorities and staff capacity.
Payroll	144	112	0				11 Data sets were received. 6 of which were reviewed by Corporate Fraud, as the matches related to Council Tax SPD and secondary employment.
Disabled Parking Blue Badges	309	309	219		£125,925	£125,925	219 badges had not been cancelled when badge holder had passed away, resulting in notional saving of £575 per badge cancelled.
Housing Tenants	649	649	31		£190,200	£190,200	30 errors resulting in Housing applicant being removed from housing list with notional savings of £3,240 per applicant removed. 1 property recovered and returned to Housing stock. Value for each property as per Audit Scotland guidance (£93,000 over 4 years each).
Creditors	1,034	73	0				The large number of matches is as a result of the volume of creditors’ information. Creditors Officer excluded previous years’ matches and carried out a dip sample review of remaining matches which did not indicate any errors.
Covid-19 support grants	36	36	8	£17,934	£35,868	£53,802	2 new Data sets relating to Covid-19 grants. The data sets were reviewed by City of Edinburgh Council as the grants were linked to Non Domestic Rates. 8 cases were found to be either fraudulent or paid in error, subsequently resulting in the recovery of £17,934.
Total Savings				£173,752	£506,438	£680,190	

Internal Audit Work to May 2022

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2021/22;
- b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Date 21 June 2022

Report Contact:

Jill Stacey Tel No

jill.stacey@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 26 February to 31 May 2022 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017), including the production of this report to communicate the results.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Learning Disabilities and Physical Disabilities Services
 - Capital Investment
 - Adult Social Care Contract Monitoring
 - Information Governance
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- a) In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, Information Management Group, and Cyber Defence Group.
 - b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings. This has included the Chief Internal Auditor joining CIIA Local Authority Forum and webinars on the topics of Culture and Data Analytics to share good practice and to keep knowledge of new Internal Audit developments up to date.

Recommendations

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

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.8 The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	6
Low	7
Sub-total reported this period	13
Previously reported	57
Total	70
Recommendations agreed with action plan	70
Not agreed; risk accepted	0
Total	70

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

4.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

4.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

4.5 Additional Report Implications (See Appendix A)

Appendices:-

**Appendix A - Additional Report Implications
Appendix 1**

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

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

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Learning Disabilities and Physical Disabilities Services</p> <p>Category: Assurance – Risk (brought forward from 2020/21)</p> <p>Date issued: 28 April 2022 Draft; 11 May 2022 Final</p> <p>Level of Assurance: Substantial (overall governance, the decision making process for packages of care, budget monitoring arrangements and payments to providers); and Limited (commissioning arrangements within Adult Health and Social Care, and contract monitoring arrangements within Children Services and Adult Health and Social Care).</p>	<p>The purpose of this assurance audit was at a high level to review the decision-making process for packages of care, the provision and cost of the service provided, funding and transition to ensure obligations are met to deliver services.</p> <p>The Council provides a range of Community Care support services to individuals with varying levels of support needs. Access to this support is determined by agreed eligibility criteria, with funding being made available where an individual has been assessed as requiring support. Information on Adult Services and Children’s Services’ clients is recorded on the case management system, Mosaic. There are 3 different Resource Panels within Children Services that review assessments for children with complex needs; and 1 Resource Panel within Adult Health and Social Care which reviews assessments for adults with learning disabilities and physical disabilities.</p> <p>Internal Audit considers that the level of assurance is Substantial for overall governance, the decision making process for packages of care, budget monitoring arrangements and payments to providers, and Limited for commissioning arrangements within Adult Health and Social Care, and contract monitoring arrangements within Children Services and parts of Adult Health and Social Care.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Policies and Procedures relating to Learning Disabilities and Physical Disabilities should be reviewed and updated and should be available on the Intranet. (Low) • Resource Panels should have a Terms of Reference describing the roles and responsibilities of panel members. (Low) • Management within Children Services need to provide more breakdown on the types of spend. In addition, a breakdown of the cost of services should be recorded on the Assessment Form. (Low) • As part of the decision making process for packages of care, reasons for selecting a provider should be noted on the Assessment Form. (Low) • Within Children Services, provider’s performance reports and meetings should be reinstated and adequate resource should be provided to support the quality assurance process. (Medium) 	0	1	4	Management have agreed the factual accuracy and findings of the report, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Capital Investment</p> <p>Category: Assurance – Risk</p> <p>Date issued: 22 April 2022 Draft; 21 June 2022 Final</p> <p>Level of Assurance: Limited (principally because of the lack of adequate asset management planning and the need for adequate project prioritisation in later years. There is evidence of improvement in the strategic governance provided by the CPAMB and defined processes during the year, although it is recognised that these are still evolving).</p>	<p>The purpose of this assurance audit was to assess compliance with good practice established by the Accounts Commission including: scrutiny and challenge of the capital plan and its delivery; capital financial budget monitoring; management, monitoring and reporting of high value capital projects and their delivery.</p> <p>A Capital Investment Strategy and Capital Plan that cover appropriate time horizons are in place. The Capital Investment Strategy acknowledges that in its current form it is unaffordable and undeliverable, principally due to inadequate project prioritisation in later years. The Capital Plan outlines the expected programme and project costs; however there is a risk to delivery of this due to inflationary pressures. There are processes in place to prioritise projects, but the findings from our sample projects indicate that they are not consistently followed in practice, although Management did not consider that this one project reviewed was representative of the operation of the CPAMB. Asset Management Plans, that ensure a proper balance between investment in new assets and maintenance of existing assets, are not in place and the overall condition and suitability of the Council's properties is not fully understood. Capital investment cannot be effectively prioritised until Asset Management Plans are in place for all asset classes. A board has been created which is tasked with developing new plans. Condition surveys will take place over the next few years due to resource constraints.</p> <p>Governance arrangements are in place to develop, oversee and deliver the capital programme. The Capital Plan and Asset Management Plan Board (CPAMB) is established with a comprehensive Terms of Reference supplemented by detailed guidance. Capital investment is commissioned through the CPAMB with final approval of projects by Council. The functioning of the CPAMB continues to improve, particularly in terms of strategic focus with the introduction of the Capital Plan Monitoring Group, although there is more to do. Management have advised that the Strategic Infrastructure Investment Framework developed will integrate key principles to be applied to all capital projects. The refresh of the Learning Estate Strategy that is underway will be a key element of this although a funding gap exists that needs to be overcome. It was also advised that there has been a significant improvement during 2021/22 over financial monitoring and project evaluation across all capital projects.</p>	0	2	0	<p>Management have accepted the recommendations.</p> <p>The audit on 'Construction projects / social housing programme' within the Internal Audit Annual Plan 2022/23 will present a further opportunity to assess the improvements made and review the level of assurance.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Capital Investment (Cont'd)	<p>Capital financial budget monitoring, management and monitoring of high value capital projects and their delivery outside of the projects themselves is inconsistent and as a consequence there is insufficient evidence that all projects are subjected to appropriate levels of scrutiny. Financial reporting has been enhanced latterly by the modification of themed programme dashboards.</p> <p>Quarterly capital project and programme reporting is provided to the CPAMB and elected Members to enable them to make decisions on the Council's capital investment activity.</p> <p>Internal Audit considers that the level of assurance is Limited principally because of the lack of adequate asset management planning and the need for adequate project prioritisation in later years. There is evidence of improvement in the strategic governance provided by the CPAMB and defined processes during the year, although it is recognised that these are still evolving.</p> <p>Internal Audit have made the following recommendations which are designed to improve the fundamentals of capital investment planning and implementation and ensure consistency of the Council's approach to capital investment across all capital projects:</p> <ul style="list-style-type: none"> • Asset Management Plans, based on up-to-date condition surveys, should be developed and used to ensure effective prioritisation of projects. (Medium) • Current projects should be adequately prioritised and effective scrutiny should be undertaken to ensure all projects have the appropriate governance controls in place. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Adult Social Care Contract Monitoring</p> <p>Category: Risk</p> <p>Date issued: 10 May 2022 Draft; 26 May 2022 Final</p> <p>Level of Assurance: Substantial (some aspects of the Adult Social Care Contract Monitoring arrangements including the regular oversight processes established by the C&CG and the monitoring arrangements established for the Council's most significant Self-Directed Support Option 3 providers; and Limited (the monitoring of Self-Directed Support Option 2 and Out-of-Area providers; the formal risk-assessment framework for provider monitoring and central guidance to contract owners; the Learning and Physical Disabilities commissioning arrangements; and the completeness of contract register information reported to the C&CG).</p>	<p>The purpose of this assurance audit was to review at a high level the governance of the contract monitoring arrangements in place with suppliers for the provision of services for adult social care. This included the application of any relevant national adult social care frameworks.</p> <p>The procurement of care services is overseen by the Commissioning and Contracts Group (C&CG). The purpose of the group is to coordinate and provide oversight of all Health and Social Care procurement in Midlothian including provider monitoring arrangements. The group is attended by relevant Health and Social Care senior management along with representatives from Financial Services and Procurement.</p> <p>Quality Assurance Officers undertake provider monitoring for Care Homes, Care at Home, and Learning and Physical Disabilities. Additionally, for other Health and Social Care contracts, Planning Officers or other relevant managers are assigned to undertake monitoring for providers relevant to their areas of work. Quality assurance sub-groups have been established for officers to report to management the findings of any monitoring activities. The Council's Procurement Service undertake provider monitoring; providers are monitored using a credit rating agency and monitoring information including financial accounts, insurance and relevant procedures are requested as part of a periodic 'provider fitness check' process.</p> <p>Internal Audit considers that the level of assurance is Substantial over some aspects of the Adult Social Care Contract Monitoring arrangements including the regular oversight processes established by the C&CG and the monitoring arrangements established for the Council's most significant Self-Directed Support Option 3 providers. However, assurance is limited over: the monitoring of Self-Directed Support Option 2 and Out-of-Area providers; the formal risk-assessment framework for provider monitoring and central guidance to contract owners; the Learning and Physical Disabilities commissioning arrangements; and the completeness of contract register information reported to the C&CG.</p>	0	3	3	Management have confirmed the factual accuracy and findings of the report and agreed to the implementation of the recommendations within realistic timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Adult Social Care Contract Monitoring	<p>Internal Audit made the following recommendations to support improvements that are designed to ensure risk-based, consistent and comprehensive application of contract monitoring in Adult Social Care services:</p> <ul style="list-style-type: none"> • A Terms of Reference should be established for the HSCP Quality Assurance sub-groups and it should be established how frequently the groups should meet and what they should report to the C&CG. (Low) • An appropriate risk assessment framework should be developed to determine the level of monitoring that should be in place for all providers in line with best practice issued by the Scottish Government. (Medium) • Management should ensure that all providers are subject to appropriate monitoring arrangements based on a risk assessment regardless of whether the provider is Option 2, Option 3, or out-of-area. As part of the provider risk assessment analysis, management should ensure that there is a named person for the contract who is responsible for the quality assurance of the provider supported by guidance / expectations on frequency of monitoring information for contract owners. (Medium) • Management should review how the Mosaic system could be used to aid in provider performance monitoring. (Low) • Following update of the contracts register, Procurement should ensure that all providers on the contracts register are being monitored by the credit reference agency and Procurement should review if the Provider Fitness Check could still be delivered by focussing on the most financially significant suppliers. (Low) • The purchase ledger should be reviewed to ensure that all relevant ASC providers above the regulated level of spend (£50,000) are included on the Health and Social Care contracts register and guidance prepared to support the practice of spot purchases. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance Progress Update</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 24 May 2022 Draft; 13 June 2022 Final</p> <p>Level of Assurance: N/A – Progress updates are not formally rated</p>	<p>The Council must comply with a range of information governance legislation including the Data Protection Act 2018 (GDPR), the Public Records (Scotland) Act 2011, the Freedom of Information Act 2000, and the Environmental Information Regulations (Scotland) 2004. As part of Internal Audit’s continuous auditing arrangements and in line with Internal Audit’s strategy as a ‘critical friend’, an Auditor attends the Council’s monthly Information Management Group (IMG).</p> <p>The IMG has recently refreshed the format of its data breach reporting with senior management now receiving quarterly updates at CMT. Email continues to be the primary source of data breaches. The IMG plan to carry out presentations to staff groups who deal with large quantities of correspondence to help raise awareness of data protection risks. Technical measures have been applied to reduce the risk of emails being sent to the incorrect recipient including the removal of autocomplete from MS Outlook in 2019 and the Implementation of Egress Prevent in 2022, an application that helps identify potential risks when sending a new email.</p> <p>Data Breaches are reported to the Council’s Information Compliance Officer for assessment and consideration of whether the breach requires reporting to the Information Commissioner’s Office. The final decision to report is made by the Council’s Data Protection Officer (acting) in consultation with the Information Governance / Security Services Lead and Senior Information Risk Owner. Additionally, support is provided on the completion of Data Protection Impact Assessments and development of Information Sharing Agreements although these remain the responsibility of the Services to complete.</p> <p>Training is available within the LearnPro system on Records Management and Data Protection, but uptake of the training requires improvement as completion rates are currently 38% and 62% respectively. Third tier managers have been tasked with improving uptake through the MPM process. Training is important as by increasing staff awareness of data protection risks, data breaches are reduced, and if there is a data breach the Council can demonstrate to the Information Commissioner measures have been taken to ensure staff have been trained.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Information Governance (cont'd)	<p>It was reported to the Audit Committee in May 2021 that the IMG had undertaken a self-assessment against their Information Governance Strategy, developed a risk register documenting the Council's exposure to information governance risks, and connected these to a detailed action plan to mitigate the identified risks. Progress against the action plan has been limited primarily due to the staffing resource required to take these actions forward. Actions include revised self-assessment processes for third tier managers, introduction of 'data protection audits', improvements to the Council's Information Asset Registers, updates to certain Information Governance policies, and actions from the Records Management Audit (2020) which were encompassed into the plan. Legal and Governance Services have advised that they intend to review the information governance resource within Legal Services to improve progress and reduce the Council's exposure to information governance related risks. This includes securing the appointment of a full-time Data Protection Officer (following the resignation of the previous post holder).</p> <p>The Council has been invited by the Keeper of Records of Scotland to update their Records Management Plan. The Public Records (Scotland) Act 2011 places an obligation on named public authorities to prepare and implement a Records Management Plan (RMP) which sets out proper arrangements for the management of their records. The Council does not currently have a full-time Records Management Officer, however an experienced officer has been employed on a temporary basis to complete this task. The Council's current Records Management Plan was approved by the Keeper in June 2014, and since then Midlothian has complied with the requirement to submit Progress Update Reviews.</p> <p>Internal Audit will continue to attend the Council's IMG meetings and monitor progress with information governance. Within the audit plan for 2022/23, Internal Audit will carry out a review of the Council's arrangements for Freedom Of Information and Environmental Information Regulation requests.</p>				

Internal Audit Annual Assurance Report 2021/22**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Internal Audit Annual Assurance Report 2021/22 (Appendix 1), and assurances contained therein; and
- b) Provide any commentary thereon, including any further actions required by Management.

2 Purpose of Report/Executive Summary

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2022 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

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

To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2021/22 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

Date 21 June 2022

Report Contact:

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3 Background

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

4. Internal Audit Annual Assurance Report 2021/22

- 4.1 The Internal Audit Annual Assurance Report 2021/22 (Appendix 1) includes the Chief Internal Auditor’s independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provides details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).
- 4.2 The Internal Audit Annual Assurance Report 2021/22 provides assurances in relation to the Council’s corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and will be used to inform the Annual Governance Statement 2021/22.

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

5.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). The staff resource during 2021/22 was 4.64 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 1.42 FTE Other shared Internal Audit resources), Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan.

Internal Audit staff resources have been adversely affected during the year, most notably due the continued part-time deployment in the 1st quarter of the year of the two Internal Auditors to assist with the Council's administration of Covid support grant payments on behalf of the Scottish Government, and the reallocation of interim Senior Internal Auditor shared with Scottish Borders Council since the 2nd quarter to partially cover a vacancy arising from the sudden passing of one of its Senior Internal Auditors. Two audits have been deferred to 2022/23, with the approval of the Audit Committee.

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

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

A report 'Shared Internal Audit Services and Proposed Way Forward 2022-23' was presented to Audit Committee on 25 January 2022. The report provided details of the wider options for joint working that had been explored and the evaluation of the shared Internal Audit services arrangement, the operating environment for which had changed significantly since its inception. The report proposed a way forward for 2022/23 onwards for the mutual opt out of the Shared Internal Audit Services at the end of 2021/22 and progression towards a permanent staff resourcing of the Midlothian Council Internal Audit team to maintain Internal Audit FTE staffing from 2022/23 onwards at the current level.

Management in both Midlothian Council and Scottish Borders Council have agreed that the shared Internal Audit services arrangement will continue for a transitional period in the 1st quarter of 2022/23 to allow for the Midlothian Council recruitment of a permanent Chief Internal Auditor and to ensure continued provision of Internal Audit services to both Midlothian Council and the Midlothian Integration Joint Board.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The Chief Internal Auditor's opinion on the systems of internal control, risk management and governance is set out within section 2 of the Internal Audit Annual Assurance Report 2021/22 (Appendix 1).

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

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years.

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

5.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. This includes compliance by those within the Internal Audit function with the Code of Ethics, set out in the PSIAS, and the Seven Principles of Public Life (the Nolan Principles), set out in the Employees' Code of Conduct. This is appropriate for the profession of Internal Audit, founded as it is on the trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

Appendices:-

Appendix A - Additional Report Implications

Appendix 1 - Chief Internal Auditor's Annual Assurance Report and Opinion 2021/22 for Midlothian Council

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in learning outcomes; Reducing the gap in health outcomes; Reducing the gap in economic circumstances; and Reducing the impact of climate change), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council’s Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council’s

own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

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

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management have been advised to take into account the findings from Internal Audit work during the year when completing their internal control and governance assurance statements as part of the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2021/22.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Chief Internal Auditor's Annual Assurance Report and Opinion 2021/22 for Midlothian Council**1 Introduction**

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line, is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter:
"Internal Audit's responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit Committee (the 'board' for the purposes of Internal Audit activity).
Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.
As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives"
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."
- 1.6 This Annual Assurance Report provides the annual internal audit opinion to fulfil the statutory role of Internal Audit and summarises the work carried out by Internal Audit during the year to 31 March 2022 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2021/22. The report also states the outcomes of assessments of the Internal Audit service against the PSIAS.

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

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, and the quality of financial and service management information. High rated recommendations made during this year were associated with Early Learning and Childcare Expansion, Business Continuity Framework, Sustainable Environment (including climate change), Housing Allocations, and ICT and Cyber Security to address the identified risks.
- 2.2 The Council's Local Code of Corporate Governance, updated and approved by Council in March 2021, complies with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). This ensures that this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.3 The Financial Regulations (approved July 2012), and associated policies, procedures and guidelines need to be reviewed, updated and developed, as appropriate, to reflect changes arising from organisation structures and systems, and address recommendations arising from Internal Audit findings. This work is in progress.
- 2.4 The Internal Audit review of Risk Management concluded: Substantial assurance in relation to Risk Management policy (February 2014; needs to be updated), and application of principles at Strategic level with the Corporate Management Team and Audit Committee receiving quarterly update reports from the Chief Officer Place on the most significant and emerging risks; Limited assurance in relation to provision of Risk training for Managers, inconsistent application of systematic risk management at Service operational level, and 2nd line monitoring for assurance purposes; and made recommendations which are designed to improve the application of the Risk Management framework consistently across the Council. Progress has been made. Further work is required to fully implement recommendations.
- 2.5 Whilst activity has commenced to strengthen the procurement function, further improvements over the Council's procurement and contract management are required as there were examples of contracts not being retendered when the existing contract had expired, inappropriate use of Non Competitive Action forms, procurement resource constraints, and the contracts register being incomplete. The new Chief Procurement Officer has been evaluating service provision, processes and procedures and is progressing actions in consultation with the Corporate Management Team to strengthen resource capacity and skills in the Procurement function, to enhance internal controls within procurement processes and procedures to enable compliance with expected standards, and improve the integrity of the contracts register. Further work is required to fully implement recommendations made in previous years' audits to ensure there is a system in place to manage contracts from cradle to grave, and resource to undertake contract monitoring to ensure that the controls are operating effectively, are sustainable and demonstrate delivery of value for money.
- 2.6 Further improvements in internal control, risk management and governance have been agreed by Management, as highlighted in Internal Audit reports and through recommendations made during the year or outstanding from previous years. It is important that Management continue to monitor and oversee the implementation of Internal Audit recommendations on a regular basis to demonstrate continuous improvement and to address identified risks.

3 Internal Audit Annual Plan 2021/22 Delivery

- 3.1 The Internal Audit team continue to work from home, facilitated by the use of MS Teams and access to network drives and business applications. The capacity of the team was affected during the year due to: the continued part-time deployment in the 1st quarter of the year of the two Internal Auditors to assist with the Council's administration of Covid support grant payments on behalf of the Scottish Government; bereavement leave for the Principal Internal Auditor in the 1st quarter; and reallocation of interim Senior Internal Auditor shared with Scottish Borders Council since the 2nd quarter to partially cover a vacancy arising from the sudden passing of one of its Senior Internal Auditors. This has resulted in the level of Actual Audit Days being lower than Plan (82%). There has been no impairment to the independence or objectivity of the Internal Audit function arising from the deployment to the non-audit work or from consulting work during the year.
- 3.2 The revisions to the Internal Audit Annual Plan 2021/22 were approved by the Audit Committee. The following Audits have been removed from the 2021/22 Audit Plan (date notified to Audit Committee):
- School Excursions ** Brought forward from 2020/21 (Assurance – Risk) removed in light of its Low risk due to Covid-19 pandemic restrictions in 2020/21 and 2021/22 (7 December 2021 - Internal Audit Mid-Term Performance Report 2021/22).
 - Schools (Assurance - Cyclical) deferred to 2022/23 on request by Education Management in light of ongoing capacity challenges due to Covid-19 pandemic (25 January 2022 - Internal Audit Work to December 2021).
- 3.3 The range and breadth of Internal Audit work that has been performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance opinion.

Cyclical Audits

- 3.4 To provide assurance on the internal controls in place and perform testing of transactional data relating to service areas and systems selected from the Audit Universe on a cyclical basis within a 5-year period, reviews included (date reported to Audit Committee):
- Annual Assessment of Internal Controls and Governance (Continuous audit approach to follow-up on implementation of actions for Areas of Improvement set out in the Annual Governance Statement 2020/21. Annual evaluation against the Local Code of Corporate Governance to determine whether the arrangements are operating as described. Prepare this Annual Assurance Report forming the statutory opinion on the adequacy of the Council's arrangements for risk management, governance and internal control.) – 29 June 2022.
 - Income Collection ** Brought forward from 2020/21 (Review the collection of income and the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS) Standards. The audit included a review of the Parent-Pay system, and a follow up of the 4 recommendations made in the Sales to Cash audit issued in May 2019.) – 25 January 2022.
 - Roads Maintenance Service ** Brought forward from 2020/21 (Review of the Roads Maintenance service including both capital and revenue jobs ensuring that the service is complying with the relevant code of practice / risk based inspection regime.) – 7 December 2021.
 - Homelessness ** Brought forward from 2020/21 (Review the controls in place to ensure the achievement of statutory obligations for the Homelessness Service, including the prevention and support arrangements in place for the Council's customers.) – 28 September 2021.

- Information Governance (Continual audit approach to review the information governance framework including roles and responsibilities, policy development and implementation, specifically to provide a progress update.) – 29 June 2022.
- Performance Management Framework (Continuous audit approach to assess progress of the review and refresh of the Performance Management Framework.) – 25 January 2022.
- Performance Management LGBF (Provide independent validation of performance indicators and benchmarking information, specifically to ensure accuracy of data of the 15 indicators submitted within LGBF SPI return to the Improvement Service for Local Government Benchmarking Framework (LGBF). This audit did not cover the full LGBF process.) – 7 December 2021.
- Risk Management (Review the process for identifying, evaluating, controlling / mitigating, recording, monitoring and reporting risks that potentially have a detrimental impact on the effective and efficient delivery of Services. Review risk management policy, strategy, training and toolkits, and assess risk registers at Strategic, Service Operational, Programme/Project, and Partnership levels.) – 7 December 2021.
- Financial Policy Framework (Assess the Financial Policy and Governance Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines and any associated Codes of Practice, including the rollout to employees.) – 28 September 2021.

Risk Based Audits

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

- Learning and Physical Disabilities Services ** Brought forward from 2020/21 (Review of the decision-making process for packages of care, the provision and cost of the service provided, funding and transition to ensure obligations are met to deliver services.) – 29 June 2022.
- Invoice Approval and Optical Character Recognition (OCR) ** Brought forward from 2019/20 & 2020/21 (Assess the authorisation controls, including segregation of duties and security controls, over the invoice approval and optical character recognition process.) – 28 September 2021.
- ICT and Cyber Security (Assess the ICT and cyber security arrangements associated with the Council's network and Digital Services' support towards the ICT and cyber security arrangements of the Council, including policy and guidelines, physical and operational controls, business continuity and disaster recovery arrangements, and third party access. Review of the Public Services Network (PSN) and Cyber Essentials accreditation requirements.) – 14 March 2022.
- Waste and Recycling Services (Ensure there are adequate financial and operational controls in place for the effective delivery of waste collection and recycling services including plans to achieve Zero Waste targets.) – 14 March 2022.
- Scottish Welfare Fund (Assess the adequacy of the operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund and that they are effective, appropriate and consistent.) – 14 March 2022.

- Housing Allocations (Assess the policies, procedures and practices in place to ensure the Council allocates housing in accordance with the relevant legislation and statutory guidance, and good practice.) – 14 March 2022.
- Sustainable Environment (Assess progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility such as climate change.) – 14 March 2022.
- Capital Investment (Continual audit approach to assess compliance with established good practice by Accounts Commission including: scrutiny and challenge of the capital plan and its delivery; capital financial budget monitoring; management, monitoring and reporting of high value capital projects and their delivery.) – 29 June 2022.
- Early Learning and Childcare Expansion (Review of the Council's future plans for delivering the expansion in early learning and childcare to 1140 hours and the remaining allocation of the capital funding received to deliver the additional capacity required.) – 14 March 2022.
- Adult Social Care Contract Monitoring (Review the governance of the contract monitoring arrangements in place with suppliers for the provision of services for adult social care. This included the application of any relevant national adult social care frameworks.) – 29 June 2022.
- Digital Learning Strategy (Review of the roles and responsibilities and governance of the project to ensure that the digital learning rollout is aligned to Council priorities and business requirements.) – 25 January 2022.
- Business Continuity (Review the process for setting, testing, reviewing and updating Business Continuity Plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose.) – 14 March 2022.

Legislative and Other Compliance Audits

- 3.6 To test compliance with the terms of the funders' service level agreements or other requirements as part of the wider assurance framework, reviews included (date reported to Audit Committee):
- EU Funded Programme Tyne Esk LEADER (Annual requirement to review the controls in place to deliver the EU Funded Programme Tyne Esk LEADER and to undertake compliance related work as defined by the Service Level Agreement (extension granted to the programme).) – 7 December 2021.

Consultancy

- 3.7 In its 'critical friend' role, Internal Audit provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, Capital Plan Management Group, Learning Estate Board, Information Management Group, and Cyber Defence Group. Carried out Internal Audit Consultancy work on request and in agreement by the Chief Internal Auditor relating to Destination Hillend capital project (in line with the scope of the Internal Audit review commissioned by Midlothian Council at its June 2021 meeting) and ESF lessons learned (commissioned by Chief Officer Children's Services, Partnerships and Communities).

Other Audit Work

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

- PSIAS Self-Assessment (Undertook an annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS) and report its findings to Management and the Audit Committee).
- MLC Audit Committee Self-Assessment (Provided assistance to the Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance).
- MLC Recommendation Follow-Up Reviews (Undertook two reviews. The first included a sample check of Audit Recommendations which are flagged as closed, to check that they have been effectively implemented and to ensure that the new controls had the desired effect on improving internal controls, risk management and governance; and the second assessed performance against closing Audit Recommendations by the agreed due date).
- Help Desk Enquiry System (Provided guidance and advice on request to Management and Staff on internal controls and governance).
- MLC Administration of Audit Scotland Reports (Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant).
- Risk Management and Integrity Groups (Attended the virtual forums and provided support in the form of relevant Internal Audit updates and advice to the Groups to fulfil their roles).
- MLC Boards / Committees (Prepared for and attended virtual Audit Committee meetings and other Boards/Committees as relevant).
- MLC Audit Planning for 2022/23 (Reviewed and updated the Internal Audit Charter and Internal Audit Strategy. Reviewed and extensively updated the Audit Universe to develop and consult on the proposed coverage within the Internal Audit Annual Plan for 2022/23).

Non MLC Work

- 3.9 The MLC Internal Audit team has carried out assurance work during the year for the Midlothian Integration Joint Board (MIJB) based on a plan approved by the MIJB Audit and Risk Committee in March 2021. An annual assurance report, including audit opinion on the adequacy of the MIJB's arrangements for risk management, governance and control of the delegated resources, will be presented to the MIJB Audit and Risk Committee and then to the MIJB in due course.

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

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; Communicating the Acceptance of Risks).
- 4.2 The annual self-assessment 2021/22 of Internal Audit practices against the Standards, as required by the PSIAS, was carried out in March/April 2022 taking into account the progress with implementation of improvement actions arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Plan (QAIP).

4.3 The 2021/22 self-assessment has indicated Internal Audit 'Fully Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The following improvements arising from the 2020/21 self-assessment have been implemented during 2021/22:

- | |
|--|
| (a) Archive electronic audit files in line with retention policy and record in register; |
| (b) Update the Audit Manual to reflect new operating arrangements; and |
| (c) Update the Audit Universe to reflect organisational changes and work of other assurance providers (internal and external). The latter provides an opportunity to create an up-to-date assurance map that reflects in more detail the Council's assurance framework that is set out in the Internal Audit Strategy. |

The following improvement actions arising from the 2021/22 self-assessment have been implemented and any changes have been reflected in the Audit Manual to apply the quality management system in 2022/23:

- | |
|--|
| (1) Develop a new Audit Consultancy Report template. |
| (2) Develop a new template to ensure consistency in Audit Exit meetings. |
| (3) Destroy paper audit files in line with retention policy. |

4.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To achieve this, an "EQA Peer Review Framework" was developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), with Midlothian Council's first EQA in March 2018 carried out by Highland Council. SLACIAG has refined its "EQA Peer Review Framework" based on lessons learned and a programme for the second phase has been finalised. Midlothian Council's EQA is expected to be carried out by East Renfrewshire Council during 2022, and certainly before March 2023 to meet the requirements. In addition during 2022, Midlothian Council is scheduled to carry out the EQA of East Lothian Council.

Jill Stacey BA (Hons) ACMA CGMA
Chief Internal Auditor
21 June 2022

Draft Annual Governance Statement 2021/22**Report by Chief Executive****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the details of the draft Annual Governance Statement 2021/22 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; and
- b) Approve that it be published in the Council's Statement of Accounts 2021/22, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process.

2 Purpose of Report/Executive Summary

The purpose of this report is to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2021/22.

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

The Council's Local Code of Corporate Governance that was approved by Council on 23 March 2021 was used to assist with the annual assurance process 2021/22.

The draft Annual Governance Statement 2021/22, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.

Date 21 June 2022

Report Contact:

Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Background

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

4 Annual Assurance Process 2021/22

- 4.1** The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 4.2** The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.¹ Its Terms of Reference includes 'To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances'.
- 4.3** The Internal Audit function undertook an assessment of the Local Code of Corporate Governance and identified areas of further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code.
- 4.4** Progress with implementation of actions regarding previously identified improvement areas of governance has also been evaluated.
- 4.5** The draft Annual Governance Statement 2021/22 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and Overall Opinion.
- 4.6** It is the Chief Executive's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

¹ CIPFA guidance note for local authorities' Audit Committees' (2018)

- 4.7** The draft Annual Governance Statement 2021/22 is informed by the assessment of compliance against the Local Code, written assurance statements from the Executive Directors, Internal Audit annual opinion and findings and recommendations, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

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

5.1 Resource

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

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

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

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The review and update of the Local Code of Corporate Governance during 2021/22 ensures that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis. The draft Annual Governance Statement 2021/22 details areas where additional work would further enhance the internal control environment, or improve risk management and corporate governance arrangements.

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

5.4 Ensuring Equalities

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

The application of equalities legislation within practices is set out in Midlothian Council's Local Code of Corporate Governance to demonstrate compliance of core principle of good governance "A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law".

5.5 Additional Report Implications (See Appendix A)

Appendices:-

Appendix A: Additional Report Implications

Appendix B: Annual Governance Statement

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

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

A.5 Involving Communities and Other Stakeholders

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

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

A.6 Impact on Performance and Outcomes

The annual self-assessment and the identification of improvement actions as evidenced through the draft Annual Governance Statement 2021/22 are designed to enhance the internal control environment, and risk management and corporate governance arrangements.

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Draft Annual Governance Statement 2021/22

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2022, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

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

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), has been updated during 2021/22 to reflect the changes in corporate governance during 2021/22 and was approved by Council in March 2021.

The Council's Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and

voluntary organisations in delivering services that meet the needs of the local community including the achievement of 'social value' (community benefits) through service planning and commissioning.

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

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

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

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

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

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

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

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

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

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

A Medium Term Financial Strategy was approved by Council in June 2019. The 2022/23 budget was approved by Council in February 2021. Given the significant fiscal challenges which lie ahead a new 5 year strategic plan and medium term financial strategy is being prepared for the cross party Business Transformation Steering Group's consideration. In light of the Scottish Government's recent Resource Spending Review announcement this will equate to a budget gap of approximately £38 million over the next 5 years. This coupled with the rate of inflation will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets.

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2021/22. This is based on work carried out by an in-house team, including shared services resources (to June 2022), in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

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

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

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out, taking into account the ongoing Covid-19 pandemic impact in 2021/22 on business as usual in the delivery of services and virtual committee meetings to enable decision-making. The output is this Annual Governance Statement which is presented to the Audit Committee.

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

In respect of the implementation of the remaining Best Value Audit Actions (nos. 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value.

In respect of the other seven improvement areas of governance identified by the Council in 2020/21 (nos. 5-11), there have been developments during the year. These improvement areas of governance are not fully implemented and therefore continue to be implemented and refined over the course of the year ahead as noted in the section below.

Improvement Areas of Governance

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

- 1) Review and update the Financial Regulations and Financial Directives and associated guidance, where necessary, to reflect system and organisation changes and embed arrangements to support regular review and updating. An refresh of the Financial Regulations being reported to Midlothian Council on 28th June and Financial Directives to Audit Committee on 29th June 2022. Review and update the Scheme of Delegation, Standing Orders and Scheme of Administration to reflect the decision-making aspirations of the new Council.
- 2) In order to build on the good work commenced following the appointment of the new Chief Procurement Officer, actions to strengthen resource capacity and skills in the procurement function are being progress in order to provide improved support to Service Managers, further strengthen compliance with the Council's procurement strategy and procedures to consistently ensure integrity and compliance with high ethical standards expected by the Council, and improve contract monitoring to demonstrate delivery of value for money.
- 3) Following reports to CMT, we have adopted as part of our business as usual work (i) the enhancement of the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value and (ii) continue to refine quarterly monitoring reports for both revenue and capital, where appropriate, to support robust scrutiny and maintain transparency of performance against financial plans in line with the new medium term financial strategy once this is approved.
- 4) Building on the Route Map through and out of the crisis to continue to ensure that the Strategic Boards, supporting the work of the Business Transformation Board and the cross-party Business Transformation Steering Group secure the required outcomes at the required scale and pace including the development and implementation of the new 5 year Strategic Plan and underpinning medium term financial strategy.
- 5) Review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level.

Conclusion and Opinion on Assurance

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

Dr Grace Vickers
Chief Executive
** September 2022

Kelly Parry
Leader of the Council
*8 September 2022

Unaudited Annual Accounts 2021/22

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendation

- 1.1** In accordance with The Local Authority Accounts (Scotland) Regulations 2014, set out in section 3 of the report, Audit Committee are asked to consider the unaudited annual accounts for 2021/22.

2 Purpose of Report / Executive Summary

- 2.1** The purpose of this report is to facilitate consideration of the Council's unaudited annual accounts for 2021/22 to Audit Committee. A separate presentation will be provided to Committee to support consideration of this report and the accounts themselves.

Date: 17 June 2022

Report Contact:

Gary Fairley Tel No: 0131 271 3110
gary.fairley@midlothian.gov.uk

3 Background

- 3.1** At the time of publishing the Audit Committee agenda the unaudited annual accounts for 2021/22 are in the final stages of preparation with work progressing well to complete the innumerable technical accounting disclosures. A draft copy of the accounts will be issued to Committee members in advance of the committee meeting and published online once signed.
- 3.2** The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited annual accounts by 31 August 2022.

Published Accounts and Audit

- 8.—(1)** A local authority must ensure that its Annual Accounts are prepared in accordance with these Regulations and, so far as compatible with these Regulations, in accordance with proper accounting practices.
- (2)** The Annual Accounts must include, in addition to the financial statements required by proper accounting practices, the following statements, which are to be prepared in accordance with proper accounting practices and recognised guidance—
- (a) a management commentary;
 - (b) a statement of responsibilities;
 - (c) an annual governance statement;
 - (d) either—
 - (i) a remuneration report in the style set out in the Schedule to these Regulations, or
 - (ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.
- (3)** The Annual Accounts must also include such of the following statements and disclosures as are relevant to the functions of the local authority—
- (a) a housing revenue account;
 - (b) a non-domestic rate account;
 - (c) a council tax account;
 - (d) any other statement relating to statutory funds which is required by any statutory provision.
- (4)** The remuneration report referred to in paragraph (2)(d)(i) must contain the information set out in the Schedule to these Regulations.
- (5)** The proper officer must ensure that—
- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
 - (b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.
- (6)** Once the proper officer is satisfied as to the matters set out in paragraph (5), the proper officer must certify these matters by signing and dating the statement of responsibilities and the balance sheets contained within the Annual Accounts and then submit the Annual Accounts to the auditor.
- (7)** The Annual Accounts must be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate.
- (8)** The local authority must publish a copy of the Annual Accounts submitted to the auditor, clearly identified as an unaudited version, on a website of the authority from the date they are submitted until the date on which the audited Annual Accounts are published in accordance with regulation 11.
- (9)** A local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor.
- (10)** The meeting referred to in paragraph (9) must be held no later than 31st August immediately following the financial year to which the Annual Accounts relate.

- 3.3 As required by paragraph 6 and 7 of the regulations the unaudited annual accounts will be signed by the Chief Officer Corporate Solutions on or before the 30th June 2021 and immediately submitted to Ernst and Young LLP (EY), the Council's appointed external auditors.
- 3.4 The regulations also provides for public inspection and in this regard public inspection will run from 1st July 2022 to 21st July 2022.
- 3.5 Accordingly, this meeting of Audit Committee is specifically to fulfil the requirements of paragraphs 9 and 10 of the regulations.
- 3.6 Separately on the Council agenda for 28 June 2022 was the Financial Monitoring 2021/22 – General Fund Revenue, Housing Revenue Account Revenue and Capital Final Outturn 2021.22 and General Services Capital Plan 2021/22 Final Outturn. These reports detail financial performance for each account area and were considered and noted by members.

4 Financial Statements

- 4.1 There continues to be refinements to the format and presentation of Midlothian's annual accounts as part of the continuous improvement agenda.
- 4.2 There have been no material changes to the accounting code for 2021/22 that have impacted on the Council.

5 Long Term Assets

- 5.1 The total value of Long Term Assets increased during the year reflecting further investment in the asset base and overall an upward revaluation of the asset base.
- 5.2 In respect of the School estate the Council's valuation methodology applied uses published Scottish Futures Trust (SFT) metrics intrinsic in the Learning Estate Investment Programme (LEIP) alongside evidence on the cost of school builds in Midlothian in recent years.
- 5.3 In 2020/21 the Council amended the valuation basis for its shareholding Lothian Buses Ltd to exclude any impact from the volatility of IAS 19 Pension valuation methodology. This approach continued to be adopted in 2020/21 This is exemplified in Lothian Buses Ltd accounts to 31st December 2021 by a move from a liability in the previous year to an asset.
- 5.4 The Council's shareholding in Lothian Buses is valued at £4.641 million, a reduction of £0.857 million on 2020/21. Current year trading conditions as illustrated in the Company's management accounts are reviewed in order to identify any factors that may need to be reflected in the valuation between the last published accounts and the Council's 31 March 2022 year end date.

6 Long term Liabilities

- 6.1** The requirement of International Accounting Standard (ISA) 19 – Employee Benefits requires an annual actuarial valuation for accounting purposes of the Council's share of Lothian Pension Fund. There is significant volatility in the annual valuation as exemplified in 2021/22 where the net pension fund liability reduced by £86.870 million to £54.160 million. The primary reason for this is an increase in the value of pension fund assets.
- 6.2** Funding of pension obligations is determined by a full triennial valuation and the 2020 triennial valuation showed an increase in the overall funding position to 104% (99% in 2017) indicating that, based on current assumptions and projections, all future pension costs can be met.

7 Audit and Consideration of audited Accounts

- 7.1** EY are well underway with the substantive phase of the audit with a clearance meeting scheduled for mid-September 2021.
- 7.2** Thereafter, the audited annual accounts are scheduled to be presented to Audit Committee on 27th September 2022 together with the EY annual audit report which will also go on to Council.
- 7.3** The Local Authority Accounts (Scotland) Regulations 2014 also set out the requirements for completion, approval and signing of the audited accounts as follows.

Consideration and Signing of Audited Annual Accounts

10.—(1) A local authority, or a committee of that authority whose remit includes audit or governance functions, must—

- (a) meet to consider the audited Annual Accounts; and
- (b) aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.

(2) That local authority or committee must consider whether the Annual Accounts should be signed, having regard to any report made on those accounts and any advice given by the proper officer or the auditor.

(3) Immediately following the approval of the Annual Accounts for signature, the statements which form part of those accounts are to be signed and dated as follows—

- (a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;
- (b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;
- (c) the annual governance statement by the Chief Executive and the Leader of the Council;
- (d) the remuneration report by the Chief Executive and the Leader of the Council; and
- (e) the balance sheets by the proper officer, to authorise publication of the financial statements.

(4) Where a local authority does not have a Chief Executive or a Leader of the Council, the statements that paragraph (3) requires that person to sign are to be signed by such other person as it nominates for that purpose.

- (5) The person who signs the statement of responsibilities as Leader of the Council must certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.
- (6) The proper officer must certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.
- (7) Following the signature of the Annual Accounts, the proper officer must provide the Annual Accounts, including the signed statements, to the auditor.
- (8) Any further report provided by the auditor following the signature of the Annual Accounts which relates to those accounts must be considered by the local authority or a committee of that authority whose remit includes audit or governance functions.

7.4 Accordingly Audit Committee on 27 September 2021 must consider in accordance with paragraphs 1 and 2 whether the accounts should be signed and thereafter the Leader, Chief Executive and myself as proper officer (S95 officer) will sign the accounts before submission to the Accounts Commission.

8 Report Implications

8.1 Resource

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

8.2 Digital

There are no IT implications arising from this report.

8.3 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 Council's Standing Orders and Financial Regulations detail the responsibilities of members and officers in relation to the conduct of the Council's financial affairs.

8.4 Ensuring Equalities

There are no equality implications arising directly from this report.

8.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

Appendix B – Background Information/Links (To Follow)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

This report does not directly impact Midlothian Council's key priorities but a key message within the Accounts Commission report is that the way Council's respond to the financial challenge will inevitably impact on how they can deliver of key priorities and outcomes.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 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.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

Annual Treasury Management Report 2021/22**Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Decision****1 Recommendations**

The Audit Committee is invited to consider this report before the final report is presented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2021/22.

2 Purpose of Report/Executive Summary

The purpose of the report is to inform members of the Audit Committee of the Treasury Management activity undertaken in 2021/22 and the year-end position.

Date: 17 June 2022**Report Contact:****Gary Thomson, Senior Finance Business Partner****gary.thomson@midlothian.gov.uk**

3 Background

The main points arising from treasury activity in 2021/22 were:

- The pooled internal loans fund rate for General Fund and HRA was 2.98% in 2021/22, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
- Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.68%, this would have generated loan charges in 2021/22 of £16.3 million. The Council's actual 2021/22 loan charges for General Services and HRA were £14.1 million, representing a cash saving (compared to the Scotland average) of £2.2 million in 2021/22;
- Total new long term borrowing taken in the year amounted to £50.000 million, this being five £10 million maturity loans from PWLB drawn on 16 December 2021 with loan tenors of between 42 and 50 years at interest rates of between 1.26% and 1.36%, drawing down long term loan funding to de-risk the funding of the Council's General Services and HRA capital plan at historically low PWLB rates. The cash saving to the Council in interest costs over the life of these loans, compared to borrowing from PWLB at the time of writing this report (17 June 2022), is £44.921 million;
- During 2021/22, the Council fully funded its borrowing requirement. This meant that the capital borrowing need (the Capital Financing Requirement) was fully funded with loan debt, and the Council was able to secure loans at historically low PLWB rates;
- Total long term borrowing maturing in the year amounted to £1.523 million, comprising the following:-
 - One £0.648 million Maturity Loan with PWLB matured on 3 August 2021 (original tenor 27 years at an interest rate of 8.50%);
 - £0.044 million of PWLB Annuities of various tenors and interest rates;
 - £0.649 million of Annuity and EIP, and £0.183 million of interest free loans.
- The average rate of interest paid on external debt was 3.22% in 2021/22, down from 3.31% in 2020/21 and reflecting the historically low interest rates secured on longer-term PWLB borrowing in 2021/22;
- Three deposits were placed with high credit-worthy banks, which matured on 17 June 2022 and secured an interest rate return on surplus funds during the period of deposit;
- The average rate of return on deposits was 0.79% in 2021/22, exceeding the benchmark of 0.34% for the eighteenth year in succession;

- Cash balances in instant access accounts throughout the year were significantly higher than normal, and reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, in particular schemes to support local businesses; (b) advanced Revenue Support Grant payments and Early Years Capital Grant payments in 2021/22, (c) developer contribution receipts, (d) PWLB borrowing taken in advance, and (d) the continued impact of Covid on the Council's cashflow due to rephasing of capital expenditure plans. The level of higher cash balances that are being held are fully committed to fund revenue and capital expenditure in the 2022/23 and forthcoming financial years.
- No debt rescheduling was undertaken during 2021/22.

A detailed report "Annual Treasury Management Review 2021/22" on the activity during 2021/22 is attached as Appendix 2.

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

Table 1: Loan Portfolio at 1 April 2021 and 31 March 2022

Loan Type	Principal Outstanding 1 Apr 2021 £000's	Principal Outstanding 31 Mar 2022 £000's	Movement £000's
PWLB Annuity	597	553	-44
PWLB Maturity	235,424	284,776	+49,352
LOBO	20,000	20,000	0
Forward Starting Loans	18,191	17,542	-648
Temporary Market Loans	0	0	0
Salix Loans	583	400	-183
Total Loans	274,795	323,271	+48,476

Table 2: Deposits at 1 April 2021 and 31 March 2022

Deposit Type	Principal Outstanding 1 Apr 2021 £000's	Principal Outstanding 31 Mar 2022 £000's	Movement £000's
Bank Call Accounts	26,470	31,059	+4,589
Money Market Funds	29,818	30,324	+506
Bank Notice Accounts	14,985	14,985	0
Bank Fixed Term Deposit Accounts	0	35,000	+35,000
Other Local Authorities	60,000	45,000	-15,000
Total Deposits	131,273	156,367	+25,095

Throughout 2021/22, all counterparties that the Council placed deposits with met their obligations in respect of the return of the deposited funds in full and on the required dates.

4. Other Issues

The Code recommends that Treasury reports are presented to and scrutinised by Audit Committee in advance of being considered by Council.

The report is being presented to Audit Committee on 29 June 2022 and subsequently to Council, and will be updated to reflect any comments that the Audit Committee have.

In late December 2021, CIPFA published the new Prudential Code and Treasury Management Code of Practice. Both these documents are an update on the 2017 equivalent documentation, both of which the Council follows fully. In addition, CIPFA published the accompanying Guidance Note to the Treasury Management Code of Practice, which sets out in more detail the requirements of the updated code.

An update on the main changes to the Prudential Code and Treasury Management Code of Practice was outlined in the Treasury Management & Investment Strategy & Prudential Indicators 2022-23 report to Audit Committee on 25 January 2022 and Council on 15 February 2022.

There are no fundamental or material changes to either the Prudential Code or Treasury Management Code that materially impact on the Council's Treasury Management & Annual Investment Strategy 2022/23 nor the Treasury Management Outturn Report. Therefore, the current policy framework as set out in the TMIS 2022/23 remains relevant with no changes, and there is no impact on any day to day treasury operations.

Council officers are currently working with Link, the Council's Treasury advisers, to provide a full and comprehensive update to the Council's Treasury Management Practices. The updated version of these practices will be brought to the next meeting of the Audit Committee on 27 September 2022 for scrutiny.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

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

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

The loan charges associated with Capital Expenditure and Treasury Management activity during 2021/22 are reported in the Financial

Monitoring 2021/22 – General Fund Revenue report elsewhere on today's agenda.

5.2 Digital

None.

5.3 Risk

As the Council follows the requirements of the CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include further written Treasury Management Practices, which define the responsibilities of all staff involved, and which are currently being updated to reflect the provisions of the new Prudential and Treasury Management Codes and will be presented to the next meeting of Audit Committee.

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

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

5.5 Additional Report Implications

See Appendix A

Appendices:-

Appendix A: Report Implications

Appendix 1: Loans Fund Rate Comparison with other Scottish Local Authorities

Appendix 2: Annual Treasury Management Review 2021/22

Appendix 3: Deposit Benchmarking Analysis 2021/22

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Appendix 1:-

Loans Fund Pooled Rate Comparison 2020/21

Loans Fund Rate	2020/21
All Scottish Councils	Pooled Rate
West Dunbartonshire	2.29%
Aberdeenshire	2.66%
Midlothian	2.98%
North Lanarkshire	3.03%
East Lothian	3.05%
Dumfries & Galloway	3.14%
Perth & Kinross	3.15%
East Dunbartonshire	3.21%
Argyll & Bute	3.41%
Inverclyde	3.42%
East Ayrshire	3.50%
Falkirk	3.52%
Fife	3.53%
Dundee City	3.54%
Aberdeen City	3.58%
Renfrewshire	3.59%
South Ayrshire	3.64%
East Renfrewshire	3.67%
Scottish Borders	3.67%
Glasgow City	3.73%
Highland	3.73%
West Lothian	3.75%
Moray	3.87%
Stirling	3.87%
North Ayrshire	3.92%
Edinburgh City	4.26%
Angus	4.57%
Clackmannanshire	5.06%

The Pooled Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average “loans fund rate” figure for each authority, as noted in the final column above.

Appendix 2

Annual Treasury Management Review 2021/22

Midlothian Council
June 2022

Contents

- 1 The Council's Capital Expenditure and Financing 2021/22
- 2 The Council's overall borrowing need
- 3 Treasury Position as at 31 March 2021
- 4 The Strategy for 2021/22
- 5 The Economy and Interest Rates
- 6 Borrowing Rates in 2021/22
- 7 Borrowing Outturn for 2021/22
- 8 Deposit Rates in 2021/22
- 9 Deposit Outturn for 2021/22
- 10 Performance Measurement
- 11 Conclusion

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the updated CIPFA Code of Practice on Treasury Management, (the Code), and the updated CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23/02/2021);
- a mid-year, (minimum), treasury update report (Council 14/12/2021);
- an annual review following the end of the year describing the activity compared to the strategy, (this report);

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

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

1. The Council's Capital Expenditure and Financing 2021/22

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

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

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

Table 1: Capital Expenditure + Financing			
	2020/21	2021/22	2021/22
	Actual	Budget	Actual
	£000	£000	£000
General Fund			
Capital Expenditure	25,570	36,346	23,386
Available Funding	15,612	22,068	17,368
Borrowing Required	9,958	14,278	6,018
HRA			
Capital Expenditure	15,632	107,271	39,477
Available Funding	9,241	22,714	32,979
Borrowing Required	6,391	84,557	6,498
General Fund and HRA			
Capital Expenditure	41,202	143,617	62,863
Available Funding	24,853	44,782	50,347
Borrowing Required	16,349	98,835	12,516

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

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

The total CFR can also be reduced by:

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

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

Table 2: Council's Underlying Borrowing Requirement			
	31-Mar-21	2021/22	31-Mar-22
CFR:	Actual	Budget	Actual
	£000	£000	£000
Opening balance	£ 283,384	£ 307,354	£ 283,384
Add Borrowing Required	£ 17,900	£ 98,835	£ 12,516
Less scheduled debt amortisation	£ (8,170)	£ (9,594)	£ (5,670)
Closing balance	£ 283,384	£ 396,595	£ 290,230

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

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next three financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR (excluding PFI schemes). The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-21	2021/22	31-Mar-22
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 274,795	£ 363,996	£ 323,271
CFR	£ 283,384	£ 396,595	£ 290,230

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

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

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2021/22
Authorised limit - borrowing	£ 676,508
Operational boundary - borrowing	£ 396,596
Maximum gross borrowing position	£ 323,450
Average gross borrowing position	£ 288,364

3. Treasury Position as at 31 March 2021

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2021/22 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position						
	31 March 2021 Principal	Rate/ Return	Average Life (Yrs)	31 March 2022 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 236,021	3.30%	31.36	£ 285,328	2.71%	33.13
Market	£ 23,774	2.92%	30.49	£ 22,943	2.95%	29.49
Total Fixed Rate Debt	£ 259,795	3.27%	31.28	£ 308,271	2.73%	32.86
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	29.71	£ 15,000	4.63%	28.71
Total Variable Rate Debt	£ 15,000	4.63%	29.71	£ 15,000	4.63%	28.71
Total debt/gross borrowing	£ 274,795	3.34%	31.19	£ 323,271	2.82%	32.67
CFR	£ 283,384			£ 290,230		
Over/ (under) borrowing	£ (8,589)			£ 33,041		
Deposits						
Fixed Rate Deposits						
In House	£ 60,000	1.62%	1.41	£ 80,000	1.06%	0.41
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Deposits	£ 60,000	1.62%	1.41	£ 80,000	1.06%	0.41
Variable Rate Deposits						
In House	£ 71,272	0.13%	0.11	£ 76,367	0.61%	0.10
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Deposits	£ 71,272	0.13%	0.11	£ 76,367	0.61%	0.10
Total Deposits	£ 131,272	0.81%	0.70	£ 156,367	0.84%	0.26

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio						
	31-Mar-21		2021/22	31-Mar-22		
	Actual		Original Limits	Actual		
	£000	%	%	£000	%	
Under 12 months	£ 1,471	1%	0% to 50%	£ 1,465	0%	
12 months to 2 years	£ 1,465	1%	0% to 50%	£ 830	0%	
2 years to 5 years	£ 3,624	1%	0% to 50%	£ 3,553	1%	
5 years to 10 years	£ 23,923	9%	0% to 50%	£ 33,857	10%	
10 years to 20 years	£ 53,308	19%	0% to 50%	£ 43,421	13%	
20 years to 30 years	£ 13,421	5%	0% to 50%	£ 12,563	4%	
30 years to 40 years	£ 95,534	35%	0% to 50%	£ 95,534	30%	
40 years to 50 years	£ 77,049	28%	0% to 50%	£ 127,048	39%	
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	2%	
Total	£ 274,795	100%		£ 323,271	100%	

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

Table 7: Maturity Structure of Deposit Portfolio		
	31-Mar-21	31-Mar-22
	£000	£000
Deposit		
Under 1 Year	£ 71,272	£ 154,367
Over 1 Year	£ 60,000	£ 2,000
Total	£ 131,272	£ 156,367

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

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio						
	31-Mar-21		2021/22	31-Mar-22		
	Actual		Original Limits	Actual		
	£000	%	%	£000	%	
Fixed Interest Rate Exposure	£259,795	95%	0% to 100%	£308,271	95%	
Variable Interest Rate Exposure	£ 15,000	5%	0% to 30%	£ 15,000	5%	
Total	£ 274,795	100%		£ 323,271	100%	

4. The Strategy for 2021/22

During 2021/22, the Council fully funded its borrowing requirement. This meant that the capital borrowing need, (the Capital Financing Requirement), was fully funded with loan debt, and the Council was able to source loans at historically low PWLB rates.

Interest rate forecasts within the Treasury Management & Investment Strategy expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View		9.11.20												
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

Link Group Interest Rate View		7.2.22											
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Return on funds placed on deposit which had been low during 2020/21, continued to remain low during much of 2021/22 at near zero or even into negative territory, before rising in line with base rate increases from December 2021.

The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would continue throughout the year at 0.10%. This forecast was changed when the Bank of England increased base rate in December 2021, raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022 as a result of emerging inflation pressures in the economy.

5. The Economy and Interest Rates

UK

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA

The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU

With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said “we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation.”

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a “technical” recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

China

After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan

The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor

contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World growth

World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation

Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy

During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

6. Borrowing Rates in 2021/22

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

Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

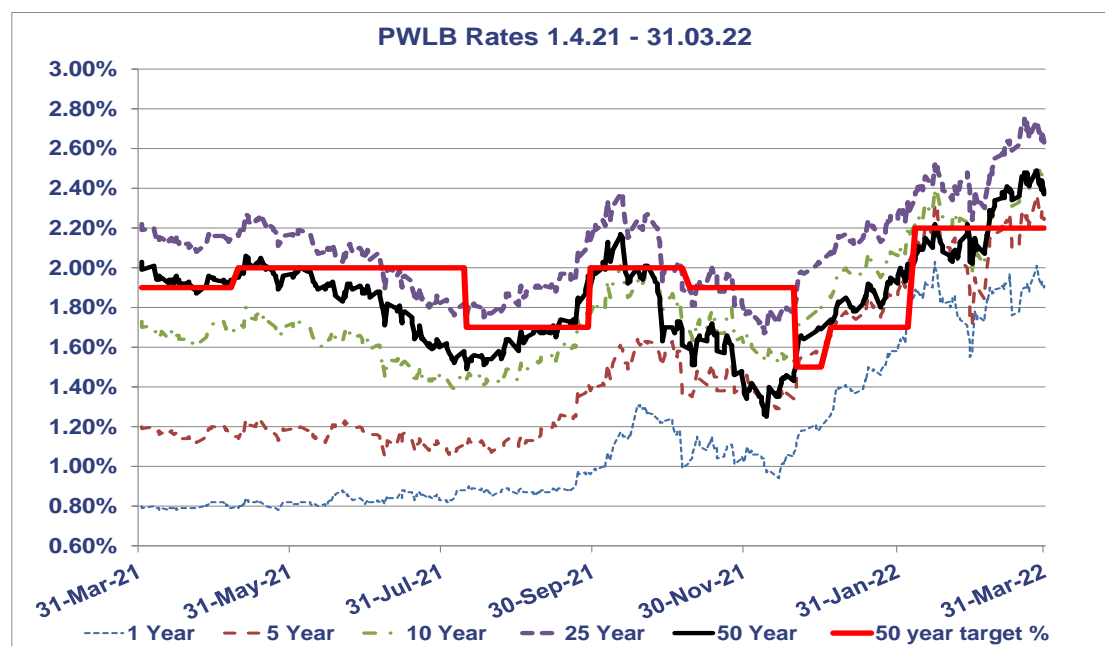
At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

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

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

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

7. Borrowing Outturn for 2021/22

New Treasury Borrowing:-

New loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:-

Lender	Date Taken	Principal £000's	Interest Rate	Fixed/ Variable	Maturity Date	Term (Yrs)
PWLB Maturity	16 Dec 2021	£ 10,000	1.26%	Fixed	16 Dec 2071	50.00
PWLB Maturity	16 Dec 2021	£ 10,000	1.27%	Fixed	16 Dec 2070	49.00
PWLB Maturity	16 Dec 2021	£ 10,000	1.30%	Fixed	16 Dec 2067	46.00
PWLB Maturity	16 Dec 2021	£ 10,000	1.34%	Fixed	16 Dec 2064	43.00
PWLB Maturity	16 Dec 2021	£ 10,000	1.36%	Fixed	16 Dec 2063	42.00
Total		£ 50,000				

Maturing Debt:-

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

Lender	Date Repaid	Principal £000's	Interest Rate	Fixed/ Variable	Date Originally Taken	Original Term (Yrs)
PWLB	03 Aug 2021	£ 648	8.50%	Fixed	16 Aug 1994	27.00
PWLB Annuities	Various	£ 44	7.75%-9.50%	Fixed	02 Aug 1968 to 15 May 1972	56-60 years
Salix	Various	£ 183	0.00%	Fixed	Various	7-8 years
Deutsche Pfandbriefbank	Various	£ 357	2.63%	Fixed	29 Jun 2017	28.00
Deutsche Pfandbriefbank	Various	£ 291	2.73%	Fixed	15 Nov 2018	25.50
Total		£ 1,523				

Rescheduling:-

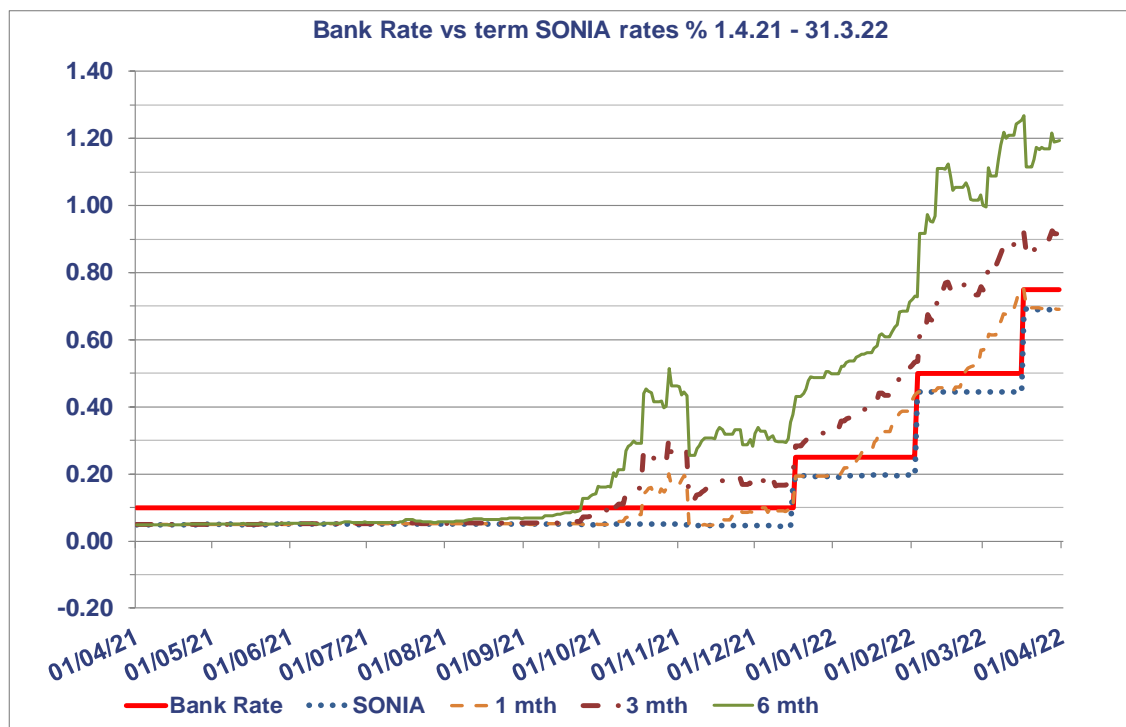
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of debt transactions:-

The average interest rate payable on external debt decreased from 3.34% at the start of 2021/22 to 3.22% at the end of 2021/22. The average life of debt within the loan portfolio lengthened from 31.16 years to 32.66 years.

8. Deposit Rates in 2021/22

Money market fund rates started the year at 0.01%, remaining at this level until the bank of England base rate increases in the latter half of the year, before trending upwards to end the year at 0.51%-0.53%.



	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

9. Funds on Deposit Outturn for 2021/22

Deposit Policy:-

The Council's policy for placing deposits is governed by Scottish Government Investment Regulations, which have been implemented in the annual investment strategy approved by the Council on 23 February 2021. This policy sets out the approach for choosing counterparties, and for financial institutions is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The position at 31 March 2022 was as follows:-

Table 11: Breakdown of Deposits by Counterparty at 31 March 2022			
Counterparty	Deposit Start Date	Deposit End Date	Principal Outstanding 31 Mar 2022 £000's
Royal Bank of Scotland	Instant Access Call Account		1,143
Bank of Scotland	Instant Access Call Account		29,915
MMF - Aberdeen Liquidity Fund	Instant Access Money Market Fund		7,846
MMF - Federated	Instant Access Money Market Fund		7,623
MMF - Legal & General	Instant Access Money Market Fund		14,855
Santander	180 Day Notice Account		14,985
Wokingham Borough Council	25-Mar-20	24-Mar-23	15,000
London Borough of Croydon Council	03-Apr-20	03-Oct-22	13,000
Stoke on Trent City Council	06-Apr-20	06-Apr-23	2,000
London Borough of Waltham Forest Council	30-Apr-20	29-Apr-22	15,000
Goldman Sachs International Bank	17-Dec-21	17-Jun-21	15,000
Standard Chartered Bank	17-Dec-21	17-Jun-21	15,000
National Bank of Canada	17-Dec-21	17-Jun-21	5,000
Total Deposits			156,367

Deposits placed by the Council:-

The Council maintained an average balance of £144.6 million of internally managed funds. The internally managed funds earned an average rate of return of 0.79%. The comparable performance indicator is the average 6-month SONIA un-compounded rate, which was 0.34%.

10. Performance Measurement

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

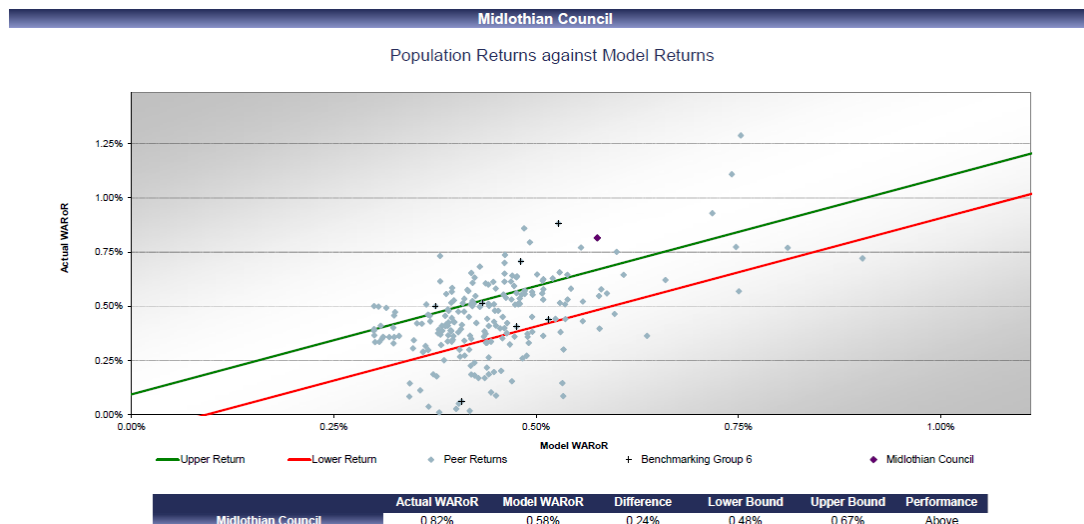
Loans Fund Rate

Combining the interest paid (earned) on external debt (deposits) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 2.98% for 2020/21 was the third lowest Loans Fund Rate amongst all mainland authorities in Scotland (see Appendix 1).

The comparative Loans Fund Rate for 2021/22, of 2.98%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Deposit Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Link. This service provided by Link provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's funds on deposit as at 31 March 2022, the Weighted Average Rate of Return (WARoR) on deposits of 0.82% against other authorities is shown in the graph below:-



** Models for 30 June 2021, 30 September 2021 and 31 December 2021 are attached as Appendix 3.*

As can be seen from the above graph, Midlothian is performing above the Link model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit

Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Debt Performance

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

11. Conclusion

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

The cost of long term borrowing has been maintained by taking up opportunities to borrow from the PWLB at historically low interest rates.

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

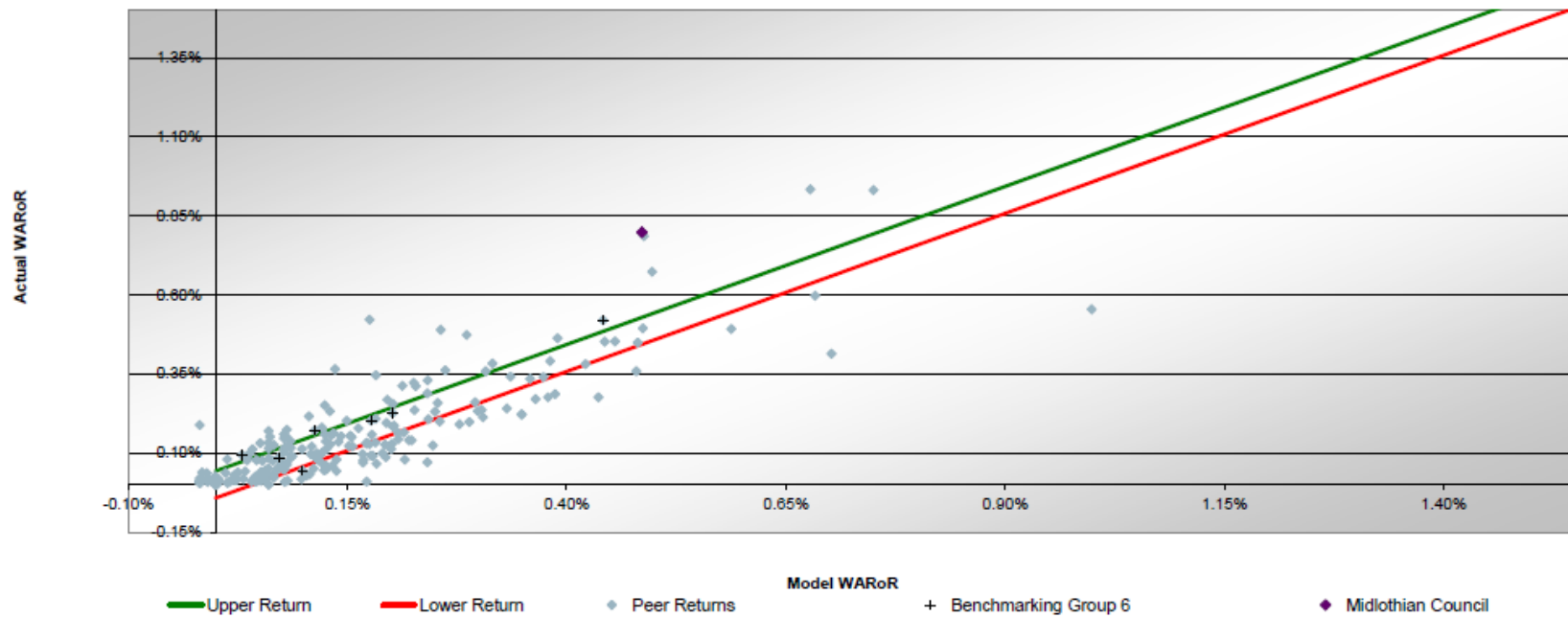
Overall Midlothian's Loans Fund Rate of 2.98% for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

Appendix 3

Midlothian Council Deposit Portfolio return as at 30 June 2021

Midlothian Council

Population Returns against Model Returns

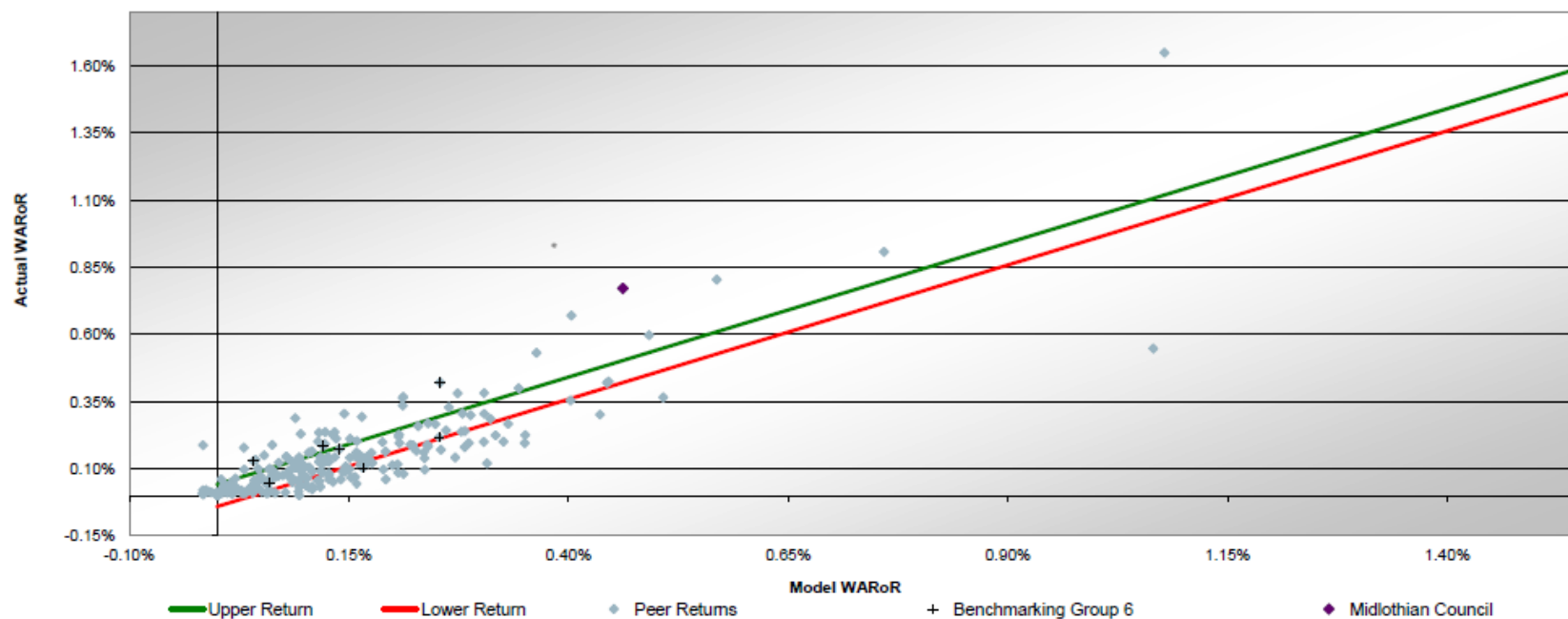


	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.80%	0.49%	0.31%	0.44%	0.53%	Above

Midlothian Council Deposit Portfolio return as at 30 September 2021

Midlothian Council

Population Returns against Model Returns

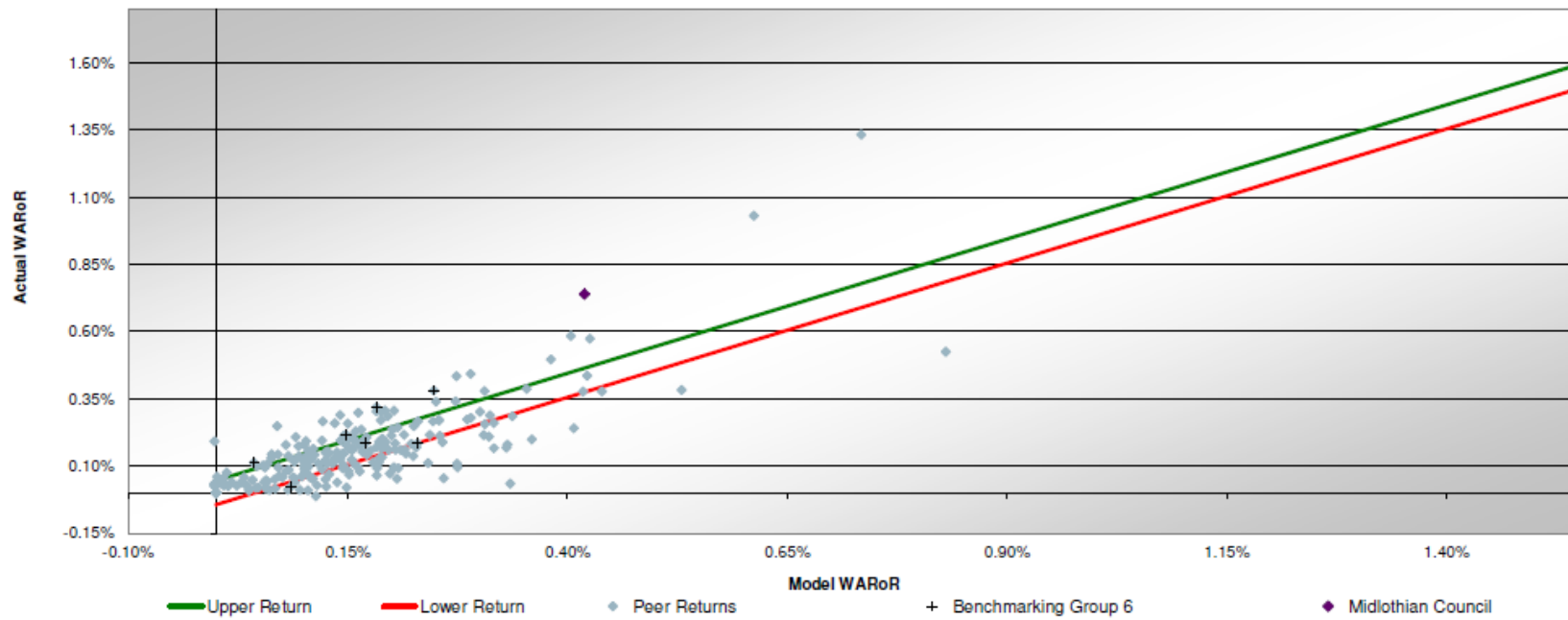


	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.77%	0.46%	0.31%	0.42%	0.50%	Above

Midlothian Council Deposit Portfolio return as at 31 December 2021

Midlothian Council

Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.74%	0.42%	0.32%	0.37%	0.46%	Above

Risk Management Update, Quarter 4 2021/22

Report by Derek Oliver, Chief Officer - Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- note the current risk landscape and organisational response to the most significant risks in Quarter 4 2021/22 (January to March 2022).

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 4 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.

Date 10 June 2022

Report Contact:

Derek Oliver, Chief Officer – Place
derek.oliver@midlothian.gov.uk

3 Q4 Risk Management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 4 2021/22 (January to March 2022) whilst operating within a series of government directed constraints and transition through Protection Levels, in response to a global pandemic.

COVID-19

Quarters 1 and 2 required the Council to maintain its ongoing control of risk associated with COVID 19 as the country transitioned through the Protection levels.

Quarter 3 (Oct-December 2021) saw the emergence of the Omicron COVID 19 variant, the re-introduction of longer isolation periods and increased protective measures, several storms and inclement weather. Together these circumstances posed significant risk for the Council to continue to deliver its services, in particular over the festive holiday period, and a series of mitigations were applied to ensure that our communities were supported and continued to be safe during this time.

Quarter 4 has seen a decrease in infection levels, with the reduction of Government restrictions, testing and protective measures. The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery.

The Council continues to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary corporate oversight over the broader strategic landscape continues through the refreshed Risk and Resilience Chief Officer's group and Corporate Management Team (CMT).

3.2 UK Exit from EU

Quarter 1 2021/22 saw forecasts of workforce and supply chain issues but they were not yet experienced locally by the Council. With the likelihood and impacts that these would have on Council operations increasing, the risk evaluation of EU Exit was increased from Low Risk in Q4 2020/21 to Medium Risk in Quarter 1 2021/22. The incidence of impacts have again not been experienced in Quarters 2 or 3, although with concurrent risks attributed to supply chain delays and material costs, the Medium Risk score remained at that time.

In Q3, the Performance, Review and Scrutiny Committee agreed to establish an EU Exit Sub Committee to have additional scrutiny on EU Exit emerging issues. At its first meeting on 24 January 2022, the Sub Committee was provided with an update report by the Chief Officer – Place on the current position and impacts for Midlothian that have been identified to date. The Sub Committee were also asked to note that the Council's internal EU Exit Working Group has been merged into the Risk and Resilience Group, and that the EU Exit Working Group would be reconvened as and when new and relevant post EU Exit issues emerge.

For Quarter 4, indications are that the rate of inflation will have a negative impact on forecasted Capital programmes. This is being realised through the Capital Plan and the A701 route development, and reported to Business Transformation Steering Group at its meeting of 12 June 2022. With these impacts the risk evaluation of EU Exit was increased from Medium Risk in Q3 2021/22 to High Risk in Quarter 4 2022/23.

3.3 Financial Stability

This report covers activity during Q4, which is the period from **January 2022 – March 2022**.

The ongoing risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan demonstrating the Council's financial stability. Spending within budget continues to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where it is identified as being off target.

On 15 February 2022 Council approved the 2022/23 budget approved together with an increase to Council Tax. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.



The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections. In parallel, work continues to bring forward the next iteration of the MTFs, for consideration for and by the term of the next Council.


Due to the severity of the financial outlook demonstrated by the underlying budget gap and revised grant settlement, the risk evaluation for the strategic issues of 'financial sustainability' and 'the change programme' have increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.

3.4 Strategic Risk Profile Summary




















The highest risks set out within the strategic risk profile at Quarter 4 are associated with climate change, early year's expansion, Scottish child abuse enquiry, financial sustainability, change programme and the previous mentioned increase in risk evaluation of the EU-Exit risk.

The Strategic Issues for the Council are summarised in table 1 – the Change Programme and Financial Sustainability have both increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.





Issues	Likelihood	Impact	Score	Evaluation Q4	Q3 21/22
COVID 19	5	5	25	Critical 	Critical
The Change Programme	5	5	25	Critical 	High

Financial Stability	5	5	25	Critical		High
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The Strategic Risks for the Council are summarised in table 2 – the risks of Financial Sustainability in Future Years, Long Term Change Programme have both increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22. EU-Exit has increased from Medium Risk in Q3 2021/22 to High Risk in Q4 2021/22.

Strategic Risks	Likelihood	Impact	Score	Evaluation Q4	Q3 21/22	
Climate change	5	5	25	Critical		Critical
Financial Sustainability in future years	5	5	25	Critical		High
The Long Term Change Programme	5	5	25	Critical		High
Early Years Expansion (1140 Hours)	4	5	20	High		High
Scottish Child Abuse Inquiry	4	5	20	High		High
UK decision to leave the EU	4	5	20	High		Medium
Asset Management	3	5	15	Medium		Medium
Scottish Child Abuse Claims Project	3	5	15	Medium		Medium
Information Security	3	5	15	Medium		Medium
Cyber Security	3	5	15	Medium		Medium
Health and Safety	3	5	15	Medium		Medium
Growing Council	3	4	12	Medium		Medium
Care at Home	3	4	12	Medium		Medium
Governance and standards	3	4	12	Medium		Medium
Employee performance	3	4	12	Medium		Medium
Emergency planning and business continuity	3	4	12	Medium		Medium
Legal and Regulatory compliance	3	3	9	Medium		Medium
Internal control environment	3	3	9	Medium		Medium
Corporate policies and strategies	2	3	6	Low		Low

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation Q3	Q2 21/22	
City Deal	5	5	25	Critical		Critical
Creating a World Class Education System	4	5	20	High		High
Shawfair	5	4	20	High		High
Easter Bush – Penicuik	5	4	20	High		High

3.5 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

3.5.1 COVID-19

During Quarter 4 (January 2022-March 2022), the booster vaccination programme continued to be delivered. The beginning of the calendar year saw the Omicron variant continuing to dominate the infection causes, however further into the quarter, Midlothian has seen a decrease in infection levels. There has been a relaxation of Government restrictions, testing and protective measures.

The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery. This risk evaluation continues to remain High.

3.5.2 The Change Programme

There are 8 strategic boards overseen by the Business Transformation Board to drive transformation at pace and achieve positive outcomes. Boards are progressing and are subject to scrutiny through 'deep dive' sessions. The financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. Council agreed to a solution to balance the 2022/23 budget, however the increased costs associated with delivering change and transformation require longer term financial solutions. This has resulted in the evaluation of this issue increasing from High in Q3 to Critical in Q4.

3.5.3 Financial Stability

Scottish Government grant settlements fall short of the resources needed to sustain core services. The revised grant settlement for 2022/23 represents a £251m real terms reduction in core spending power nationally which when combined with the underlying budget gap for 2022/23, addressed through one off measures, points to significant financial challenges which will need to be addressed after the May 2022 elections.

This core funding shortfall, combined with inflation pressures, pay awards and demographic pressures arising from a continued increasing ageing population of over 75's, increasing population of 0-15 age group and at a time when there are rising customer expectations poses a significant challenge for the Council.

On 15 February 2022 Council approved the 2022/23 budget approved together with an increase to Council Tax. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.

Due to the severity of the financial outlook demonstrated by the underlying budget gap and revised grant settlement, the risk evaluation for the strategic issues of 'financial sustainability' and 'the change

programme' have increased from High Risk in Q3 2021/22 to Critical Risk in Q4 2021/22.

3.6 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.6.1 Climate Change

The Council developed a Climate Change Action Plan as part of its Climate Change Strategy approved by Council in August 2020, as well as making the commitment to achieve Carbon Neutral by 2030.

The Carbon Neutral by 2030 strategic board is developing the overall cross Council response to the Council's statutory requirements. There are a range of projects underway which will contribute to the overall ambition but development of the programme and these projects is identifying that there is a significant financial investment that is required to be made to retrofit buildings, fleet replacement and change working practices.

The current financial resource and staffing capacity across the Council is insufficient and poses a critical risk to delivery. This is also impacted by the financial sustainability challenge that is articulated in this report.

A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council following the summer recess. The risk evaluation continues to remain Critical in Q4.

3.6.2 Early Years Expansion (1140 Hours)

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140, the Council has continued to plan with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in estate capacity. These challenges are being considered in the wider context of the plan, in which the capacity and expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements.

The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. In Q3 and Q4, the Council have continued with the current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council of £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. This risk evaluation continues to remain High.

3.6.3 Scottish child abuse inquiry

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. This risk evaluation continues to remain High.

3.6.4 UK decision to leave the EU

For Quarters 1-3, the impact of EU-Exit were yet to be realised. In Quarter 4, the rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams.

Supply chains are disrupted and costs increasing which is affecting the construction sector. The impacts of inflation and risks posed to the Capital Investment Programme were reported to the Business Transformation Steering Group in June 2022. Furthermore, impacts to the delivery of the A701 route will be reported to Council in late June 2022. This has resulted in the evaluation of this risk increasing from Medium in Q3 to High in Q4.

3.7 STRATEGIC OPPORTUNITIES

3.7.1 City Deal

Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity. In Q3 the charring of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

3.7.2 Fastest Growing Council

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to

the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

3.7.3 Creating a World Class Education System

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

3.7.4 Shawfair

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.

3.7.5 Easter Bush

Fast growing opportunities in Science, Technology, Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. The rate of inflation is impacting on the costs of the A701 improvements which will be reported to Council at the end of June 2022.

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

4.1 Resource

There are no direct resource implications indicated in this report, although, individual risks have associated resource implications.

4.2 Digital

None.

4.3 Risk

The risks reported in this report are understood with the Council able to demonstrate the current risk controls and actions being taken in response to these.

The report provides an overview of the significant risks faced by the Council during Quarter 4 2021/22 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

4.4 Ensuring Equalities

There are no direct equalities issues arising from this report.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A: Additional Report Implications

Appendix B: Strategic Risk Profile (Quarter 4 2021/22)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic risk profile

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compiled with input from a range of internal key stakeholders.

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in

a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 Adopting a Preventative Approach


The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.


A.8 Supporting Sustainable Development


Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level Risks and Opportunities.

Appendix B: Strategic Risk Profile


SRP.IR.02 The Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p>Risk event Delayed progress or non-achievement of outcomes and benefits.</p> <p>Risk effect Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<p>1. Strategic Boards in place reporting to the Business Transformation Board covering range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub & Spoke Place Based Solutions; Remote Working.</p> <p>2. Deep Dive sessions commenced in December 2021 to support the work of the Boards and assess pace and scale of progress with aim of driving transformation</p> <p>3. Secured financial balance for 2021/22 & 2022/23 via corporate solution. While this avoids the need for further service reductions in 2022/23 the underlying budget gap (the gap between recurring expenditure and income) highlights the very significant challenge for 2023/24 and beyond.</p> <p>4. "Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic.</p> <p>5. Financial monitoring reports and work of the FM CMT evidence continued financial sustainability, in so far as services are delivered within the overall budget in year. 5. Development of Strategic Plan for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided</p>	5	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.08	Strategic Plan 2022 to 2027	<p>Q4 21/22: Development of Strategic Plan for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. Will be presented to members after May election. The severity of the financial outlook demonstrated by the underlying budget gap points to the severity of the service cuts ahead</p>		30-Jun-2022	

SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 21/22: 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.	Place Performance Officer; Chief Officer Corporate Solutions	31-Aug-2022	
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SRP.IR.07 Financial Sustainability




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Risk event Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p>Risk effect Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2022/232 , services are being delivered within the totality of that budget and the 2022/23 budget has been approved albeit with heavy reliance on one of funding.</p> <p>3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus.</p> <p>4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services.</p> <p>5. Strategic Boards in place and BTB focus and attention on driving transformation to support future years financial sustainability</p> <p>6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.</p>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.09	Strategic Plan 2022 to 2027	Q4 21/22: Development of Strategic Plan for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. Will be presented to members after May election. The severity of the financial outlook demonstrated by the underlying budget gap points to the	Chief Executive	30-Jun-2022	

		severity of the service cuts ahead			
SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 21/22: 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.	Place Performance Officer; Chief Officer Corporate Solutions	31-Aug-2022	


SRP.IR.10 COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p>Risk cause: COVID 19 Virus</p> <p>Risk event: Virus evident in all communities with rates of positive infection increasing. In a Scottish setting the focus on increase is within the central belt.</p> <p>Risk effect: Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services.</p> <p>Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery in line with new controls.</p>	Chief Executive; Chief Officer Place	<ol style="list-style-type: none"> CIMT established to take the strategic approach to managing the response to COVID 19 and stands ready to be re-initiated at any time. Employees directed to work from home where possible, follow Scottish Government guidance and MC remote working by default policy. From 31 January as per the SG guidance the Council is transitioning staff teams to hybrid working. COVID-19 guidance monitored and continually revised then issued to Adult Services, children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers. Promotion of digital tools to support employees and prevent employees becoming isolated. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. A range of interventions, including digital equipment and tools such as MS Teams put in place to support remote and hybrid working Following safe working guidance issued by Scottish Government relevant to sectors. Economic Recovery Strategy Support for Test and Protect School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk (and personal risk assessments where required) Community Asymptomatic Testing Site operational and distribution of Lateral Flow and PCR testing devices undertaken by Protective Services 	5	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.17	Risk assessment/Guidance on protective measures	Q1 21/22: Gallagher Basset completed a review of all COVID Risk Assessments and procedures across the Council estate.	Chief Officer Place	30-Sep-2021	
SRP.IA.10.18	4,000 mobile devices issued to support home learning	Q2 21/22: 3,300 devices have now been returned and reorganised in preparation to be re-deployed as part of the Equipped for Learning. The Equipped for Learning programme will see these 3,300 plus new devices deployed to all Midlothian pupils (14,000 approx total). 700 devices remain with young people to support digital inclusion and remote learning. These devices will be swapped out on deployment day to ensure those young people have the exactly the same device model as their peers.	Chief Officer Corporate Solutions	31-Mar-2022	
SRP.IA.10.19	Community Testing and Lateral Flow Test Kits distribution	Q4 21/22: MTU delivered and in operation. Anticipated conclusion early Q1 22/23.	Chief Officer Place	30-Apr-2022	


SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The delivery of a new sustainable low carbon community at Shawfair.	Place Performance Officer; Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Shawfair Landowners Group meets quarterly. 2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure. 3. Approved masterplan and design guide for the entire community 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall) 	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.01.02	Energy Service Agreement	Q4 21/22: Energy Services Agreement progressing. Due to conclude in Q1 22/23		30-Jun-2022	


SRP.OP.03 Easter Bush - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A2	A701/A702 Trunk Road Improvements	Q4 22/23: Escalating costs of this project has resulted in a significant funding gap which requires to be addressed in order for the project to proceed. MLC currently coordinating a submission to the Levelling Up Fund to address this funding gap. Progress report to Council on 28 June – STAG Appraisal (stage 2) complete. Report will highlight that cost inflation and increased project costs as outstanding areas of concern.		31-Dec-2021	


SRP.OP.04 City Deal


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.02	Realisation of outcomes of respective workstreams	Q4 21/22: For the 2022 calendar year Midlothian is the chair of the CRD programme (annual rotation across the six Local Authorities).		31-Mar-2023	


SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.	Place Performance Officer; Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence	4	5	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q4 21/22 CIVTECH research project progressing well in partnership with University of Edinburgh and SFT. Ongoing dialogue with the University of Edinburgh and Edinburgh College in relation to the new centre of excellence.		31-Aug-2023	


SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements.</p> <p>Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Development of Strategic plan for term of new Council. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Route Map through and out of the Pandemic budget approved for 22/23 albeit with reliance on one off funding sources 	5	5	



	<p>Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p>Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 21/22: 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.	Place Performance Officer; Chief Officer Corporate Solutions	31-Aug-2022	
SRP.RA.02.04	Strategic Plan 2022 to 2027	Q4 21/22: Development of Strategic Plan for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. Will be presented to members after May election. The severity of the financial outlook demonstrated by the underlying budget gap points to the severity of the service cuts ahead	Chief Executive	30-Jun-2022	


SRP.RR.02 The Long Term Change Programme






Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p>Risk cause A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Preparation of budget projections for the term of the next Council and service options which identify what can /cannot be delivered within the resources available. This will need to be considered, and decisions made by members as soon as possible after the May 2022 elections Medium Term Financial Strategy and Route Map 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change. 	4	5	

	Risk effect Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in Short term savings instead of transformation				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.06	Strategic Plan 2022 - 2027	Q4 21/22: Development of Strategic Plan for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. Will be presented to members after May election. The severity of the financial outlook demonstrated by the underlying budget gap points to the severity of the service cuts ahead	Chief Executive	30-Jun-2022	
SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 21/22: 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding.	Place Performance Officer; Chief Officer Corporate Solutions	31-Aug-2022	

SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	Risk cause Current or new legislation applying to Midlothian Council Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements. Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	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. Range of external inspection. 6. Local Scrutiny Plan 7. BTSG oversight of new legislation	3	3	




Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	Q4 21/22: Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Place Performance Officer; Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	31-Mar-2022	
SRP.RA.03.0 2	Rights of the Child Bill	Q4 21/22: Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.	Place Performance Officer; Director of Education; Executive Director Place	30-Jun-2022	
SRP.RA.03.0 3	National Care Service	Q2 21/22: Response to SG consultation on the creation of a National Care Service for Scotland.		31-Mar-2022	
SRP.RA.03.0 4	The Health Protection (Coronavirus) (Requirements) (Scotland) Regulations 2021 (as amended)	Q4 21/22: Coronavirus restrictions further reduced. Guidance introduced on minimising exposure to and requirement to take measures to minimise incidence and spread of Coronavirus imposed on a person carrying on a business or providing a service.		31-Mar-2022	
SRP.RA.03.0 5	Standing Orders	Q4 21/22: Structural reviews within the Midlothian Council resulting in the Standing Orders being outdated. Authorised Officers within Regulatory Services may be open to challenge in relation to statutory enforcement work on grounds of delegated authority. Statutory enforcement work including the service of Statutory Notices, Fixed Penalties and Court proceedings may require to be withdrawn resulting in reputational damage and or financial penalty (e.g. case costs awarded against the LA) There is a Standing Orders Working Group reviewing SOs in advance of the new administration. Work to continue to ensure that these issues are included within this work programme.		30-Jun-2022	

SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	Risk cause Employees not suitably trained/developed for the roles required of them.	Head of Adult and Social Care; Head of	Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.	3	4	


	<p>limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance Salaries significantly lower in social work area in comparison to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p>Risk effect Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge</p>	<p>Children's Services; Director of Education; Chief Executive</p>	<p>Attendance / Wellbeing 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers.</p> <p>Performance 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>Conduct 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme.</p> <p>Communication 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RA.02.0 4	Revisions to Service Workforce Plans	Q4 21/22: Directorate Leadership and range of Service Reviews underway, with implementation continuing across Q4.	Place Performance Officer	30-Jun-2022	
SRP.RA.02.0 6	Workforce wellbeing	Q4 21/22: New EAP provider now in place and delivering to ensure highest level of service provided to staff. Embedding of the new Employee Health and Wellbeing Strategy. Partnership status obtained with See Me mental health charity. Roll out of mental health awareness training.		30-Jun-2022	
WFPLAN.02	Revision to Service Workforce Plans and Action Plans are also required for reasons set out in recommendation 5.1 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting.			31-Dec-2022	


SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p>Risk cause General Data Protection Regulation formulated by the European Commission.</p> <p>Risk event The Regulation implemented on 25 May 2018.</p> <p>Risk effect The Regulations will 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	<ol style="list-style-type: none"> 1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members. 9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts. 	3	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.0 2	Cyber Security	Q4 21/22: Midlothian Council cyber security independently validated in 2022 by achieving Cyber Essentials Plus certification in March and continued PSN compliance certification. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan). In addition there was internal audit of IT security that was rated as substantial assurance in January 2022.	Chief Officer Corporate Solutions	30-Jun-2022	

SRP.RR.07 Care at Home



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Risk event Capacity of Community Support outstripped by demand</p> <p>Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> Care at Home improvement action plan in place and near completion Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level New Framework agreement in place with significant improvement in quality from Providers Flow management planning in development to maximise Care at Home capacity going forward Weekly provider meetings in place Additional locum team members recruited to for contingency cover New Leadership model in place Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place 	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	<p>Q4 21/22: The NCS consultation has happened and currently the results are being analysed by an independent company. Once this piece of work is concluded SG will advise us of the next steps. There were 1300 responses from a wide range of individuals and organisations.</p>		31-Aug-2022	


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p>Risk cause Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services.</p> <p>Risk event 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>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> There is provision in place within the capital plan for investment in the asset base. Asset register Conditional Survey Understanding of future asset needs Asset Strategy: <ul style="list-style-type: none"> Roads Land Fleet Digital Service Network Digital Service hardware Capital program - investment in estate. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 	3	5	



	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.		8. Established Capital Plan and Asset Management Board			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	Q4 21/22: Programme of work agreed to progress for building condition surveys on a phased approach, over a three year period. Move to implementation into 22/23.	Place Performance Officer; Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	31-Mar-2022	
SRP.RA.08.05	School Estate Strategy	Q4 21/22 Potential risk to delivery of Learning Estate projects due to inflated costs from a number of factors. Factoring the commitment to net zero into our project has added another cost pressure and may affect the affordability and viability of some projects.		30-Jun-2022	


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>Risk cause The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil</p>	Mark Hinchliffe; Chris Lawson; Edel Ryan; Jane Young	<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, - Risk and Resilience Group support development, peer review and roll out of plans.</p> <p>02 – Establishment based incident response plans in place and maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>04 – As part of the Council's Emergency response the importance of</p>	3	4	


	Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries		recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI. 05 – Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan Resettlement support programme			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.0 2	Development of Emergency Planning Improvement Plan	Q4 21/22: CMT approved the recruitment of 1FTE Contingency Planning Officer PO (Fixed term) to add resilience and capacity to the current team. Recruitment concluded and appointment made (0.6FTE). Move to devise and implement Improvement Plan.	Place Performance Officer; Mark Hinchliffe; Chris Lawson; Edel Ryan; Jane Young	30-Jun-2022	
SRP.RA.09.0 3	Business Continuity System	Q4 21/22: System currently being populated ahead of roll out to all services. A small number of Council services engaged to test and validate operational functionality Project governance to be reviewed prior to full rollout (to be overseen through the Customer Service Platform Board) Q4 21/22: Embedded into Customer Service Platform. Appointment of a part time fixed term Contingency Planning Officer to lead the rollout	Executive Director Place	31-Mar-2023	

SRP.RR.10 Governance and Standards in Public Life






Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<p>Risk cause Code of conduct for Members and employees actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p> <p>Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life</p>	Alan Turpie	<p><u>Potential</u> sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non-compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p> <p>05 Standing Orders</p> <p>06 Scheme of Administration</p> <p>07 Scheme of Delegation</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RR.10.0 1	Corporate Governance	Q4 21/22: Annual Assurance Statement; People Policies; and Standing Orders subject to review process		30-Jun-2022	
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SRP.RR.11 Corporate Policies and Strategies



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding. 5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Capital Strategy 8. Integrated Joint Board (IJB) Plan 9. IJB Strategic needs assessment 10. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy. 	2	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 2	Accessibility Strategy	Q4 21/22: Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a work stream will be progressed to ensure Council compliance.	Childrens Services, Partnership and Communities; Chief Officer Place	30-Jun-2022	
SRP.RA.11.0 3	Neighbourhood Services	Q4 21/22: Neighbourhood Services Strategic Framework established. Neighbourhood Services Cross Party Working Group meets regularly. Progress reported regularly through BTB Hub and Spoke programme.	Chief Officer Place	30-Jun-2022	
SRP.RA.11.0 4	Remote Working	Q4 21/22: Transition to Hybrid working approach at implementation with completion of transition by April 2022.	Chief Officer Corporate Solutions	30-Apr-2022	
SRP.RA.11.0 5	Antisocial Behaviour Policy	Q4 21/22: Work continues following appointment of new Senior Manager in Housing & Wellbeing.	Chief Officer Place	30-Sep-2022	
SRP.RR.11.0 1	Parental Engagement Strategy	Q4 21/22: Parental Learner Liaison Officer has produced a draft Parental Engagement Strategy looking at examples throughout Scotland and a	Childrens Services	30-Jun-2022	


		consultation with all stakeholders is underway. Following a review with Parent Council Chairs, a Parental Engagement calendar has been created for next session to support PC Chairs with the information and structure they need. The National Parental Involvement & Engagement survey has been rolled out to all Primary, Secondary & Special School parents with data to be evaluated in July. Parent Working Groups have been created to support specific interests and priorities – Consultation, Equity, Digital Learning, ASN & DWY/Positive Destinations. A Parent Council 'Toolkit' has been created to inform Parents of the functions of a Parent Council, provide support, signposting and remits. This will provide a more consistent structure within Midlothian of all Parent Councils and potentially boost numbers. Social Media has been created for Parental Engagement and the design of a webpage to add to the Council Website is underway. Draft plans for our first Parent Conference in Q1 of next session is underway. The same is to be said for a Pupil Conference. The PLLO is now an active member in the SEIC Young Persons Involvement Group and regularly meets the Education Scotland's Attainment Advisor.	Management Team; Childrens Services, Partnership and Communities		
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SRP.RR.12 Internal Control Environment

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


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.0 2	Risk Management Policy and Strategy	Q4 21/22: Risk management approach presented to Audit Committee. Refresh of the Risk and Resilience Chief Officer's group to oversee corporate risk.		31-Mar-2022	
SRP.RA.12.0 3	Corporate Integrity	Q4 21/22: The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.		30-Jun-2022	

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>	Place Performance Officer; Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars 	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 3	Recruitment of Climate Change Officer	Q4 21/22: Service Review continues.	Chief Officer Place	30-Sep-2022	
SRP.RA.13.0 4	Delivery of the BTB Board Carbon Neutral by 2030	Q4 21/22: Carbon Management Plan requires to be reviewed and resourced adequately. There is a requirement for a cross Council approach to achieve carbon neutral by 2030. Work is underway in discrete areas to contribute to achievement of the ambition, but financial resource and staffing is required to develop an overarching engagement and action plan.	Chief Officer Place	31-Mar-2030	


SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. Processes and 2 experienced staff in place and to date have been able to respond to every request from the SCAI team. 	4	5	

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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.03	Foster Care and Residential Care File Review	Q1 20/21: File reading continues around foster care and residential care.	Childrens Services Management Team; Head of Children's Services	31-Mar-2022	


SRP.RR.14.2 Scottish Child Abuse Claims Project


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p>Risk Cause: Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p>Risk Event: Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p>Risk Effect: There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<p>1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.</p> <p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they won't have to worry about paying the Councils costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors.</p> <p>3. Scottish Governments Redress Scheme – awaiting the scheme to come into force. Legislation to establish the Redress Scheme has</p>	3	5	

			been passed by Parliament.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status

SRP.RR.16 Growing Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth. 	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	Q4 21/22: Employee consultation complete – outcome to be reported to CMT in Q1 22/23	Executive Director Place	31-Oct-2022	


SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	Risk cause	Head of Adult and	01 – Risk and Resilience Group	4	5	



	<p>UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	<p>Social Care; Head of Children's Services; Director of Education; Chief Executive</p>	<p>02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.1-1	EU Exit Working Group	<p>Q4 21/22: Commissioned report expected 31st May 2022. We are realising the impact on supply chain with increased costs due to inflation. This has an impact on the construction sector, which directly affects the Council's Capital Investment Programme, including housebuilding and the learning estate.</p>	Place Performance Officer	31-May-2022	


SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p>Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not</p>	<p>Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive</p>	<p>1 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021) 3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety.</p>	3	5	


	<p>implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.</p>		<p>6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.01	Delivery of Health, Safety and Wellbeing Strategy	Q4 21/22: Review of Strategy to commence	Chief Officer Place	30-Sep-2022	
SRP.RA.19.07	H&S audit across all Council estate	Q4 21/22: Protective Services and Property Service are progressing a Health and Safety building audit across the full Council estate. This is expected to be delivered in Q1 22/23 and then a risk based assessment of the findings and associated action plan will be developed.	Chief Officer Place	30-Jun-2022	


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


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p>	Head of Adult and Social Care; Director of Education; Chief Executive	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections will be reviewed and updated</p>	4	5	

	<p>Risk effect Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.20.0 1	1140 future years funding	Q4 21/22: Continuation of current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council of £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. Associated risk due to possible increase in the sustainable rate to be paid to partner providers.	Chief Officer Corporate Solutions	30-Jun-2022	

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p>Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p>Risk Event: The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p>Risk Effect: Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	<ol style="list-style-type: none"> 1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.0 2	Cyber Security	Q4 21/22: Midlothian Council cyber security independently validated in 2022 by achieving Cyber Essentials Plus certification in March and continued PSN compliance certification. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan). In addition there was internal audit of IT security that was rated as substantial assurance in January 2022.	Chief Officer Corporate Solutions	30-Jun-2022	

Financial Governance – Financial Directives

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

Audit Committee is recommended to

- i.) Endorse the interim updates to the Financial Directives as set out in appendix 2, and;
- ii.) Note the next stage of review to be undertaken to complete a full refresh of the Financial Directives. An outline of progress made to date and further work is set out in appendix 1.

2 Purpose of Report / Executive Summary

The purpose of this report is to provide an update on the refresh of the Financial Directives recognising both the extensive the work that has been completed as well as the next stage of review work aimed at providing a fully comprehensive and up to date set of Financial Directives.

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”, including the appointment of an officer with full responsibility for their governance. The Financial Directives are a core element of these systems and controls.

The Financial Directives support The Financial Regulations, which are also being updated and presented to Council on 28 June 2022 for their approval. The Chief Officer Corporate Solutions has delegated authority to update the Financial Directives with the requirement that any changes require the endorsement of Audit Committee.

The Financial Directives are by their nature detailed documents and the changes which have been incorporated since they were last updated reflect the Scheme of Administration, the current Leadership Structure and various changes in wider financial governance arrangements.

Date: 21 June 2022

Report Contact:

Gary Fairley, Chief Officer Corporate Solutions

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0131 271 3110

3 Background

The Financial Directives cover all relevant aspects of financial administration and, as determined by the Financial regulations, the Chief Officer Corporate Solutions the delegated authority to alter the Financial Directives with any changes to be reported to Audit Committee for endorsement.

The Financial Directives currently cover 27 specific areas which have been updated to reflect the Scheme of Administration, the current Leadership Structure and various wider financial governance changes. Further review of each directive will be undertaken in order to provide an up to date, user friendly set of Financial Directives to conclude this piece of work.

4 Revised Financial Directives

The principal changes reflect;-

- a) The scheme of administration which provides for Financial reports to be presented to Council rather than Cabinet;
- b) The current Leadership Structure;
- c) A range of other financial governance improvements.

Appendix 1 summarises the progress of the review work with an updated set of Financial Directives included at Appendix 2. Audit Committee is asked to endorse the updated Financial Directives set out in Appendix 2.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

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

5.2 Digital

There are no digital implications associated with this report.

5.3 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 updated Financial Directives for a core part of these systems and controls. Ensuring that adequate systems and controls are in place help mitigate financial risk.

5.4 Ensuring Equalities

No equality issues have been identified when updating the Financial Regulations.

5.5 Additional Report Implications

See Appendix A

Appendices

Appendix A - Report Implications

Appendix 1 – Summary of changes

Appendix 2 - Updated Financial Directives

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Effective financial governance will support the delivery of the key priorities in the single Midlothian Plan.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

Recognising that the changes made principally reflect the Scheme of Administration and current Leadership Structure no consultation has been undertaken.

A.6 Impact on Performance and Outcomes

Effective financial governance in turn supports the effective delivery of services and the achievement of the key outcomes as set out in the Single Midlothian Plan.

A.7 Adopting a Preventative Approach

Maintaining the effectiveness of the financial governance framework will support the delivery of preventive interventions.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report.

Appendix 1 – Progress on Financial Directives

No	Financial Directive	Progress
1	Financial Reporting	Updated – requires further review
2	Capital Strategy, Plans & Expenditure	Rewrite of existing and further revision to details
3	Corporate and Financial Planning	Updated
4	Additional Resources	Need revised wording re new burdens – spending review and propose to merge with FD25.
5	Control of Revenue Expenditure	Requires further review
6	Final Accounts	Requires further review
7	Banking Arrangements, Petty Cash and Imprest Accounts	Updated – To further review arrangements for issue of manual cheques and other debit instructions drawn on the General Fund Bank Account need to be signed by two authorised signatories
8	Treasury Management	Updated to reflect 2021 Treasury Management & Prudential code references
9	Charitable Funds	Requires further review and consider merger with FD 10
10	Non Council Administered Funds	Requires further review and consider merger with FD 9
11	Tax Management	Updated
12	Income	Requires further review
13	Payroll, Travel and Subsistence	Requires further review
14	Procurement of Goods, Works and Services	Updated links need to be inserted for procurement section of intranet
15	Payment of Accounts and Ad Hoc Payments	Payment guidelines to be updated
16	Partnerships	Requires further review – consider merger with FD 26
17	Financial Control of Contracts	Requires further review
18	Audit	Requires further review and consider merger with FD 19
19	Risk Management and Assurance	Requires further review and consider merger with FD 18
20	Insurance	Updated – link to insurance to be further updated
21	Physical Assets	Requires further review
22	Internal Control and Authorisation	Requires further review
23	Retention of Financial	Requires further review

	Documents	
24	Statutory Trading Accounts	Requires further review
25	External Funding Bids	Consider merger with FD 4
26	Following the Public Pound	Consider merger with FD 16
27	Counter Fraud and Corruption	Requires further review

FINANCIAL DIRECTIVES

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1. FINANCIAL REPORTING

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Introduction

This Financial Directive gives advice on the Council's requirements for accounting procedures and records, production and publication of Annual Accounts, and the presentation of External Audit reports to the Audit Committee.

- 1.1 The accounting procedures and records of the Council will be approved by the Chief Officer, Corporate Solutions and all accounting records of the Council will be compiled by the Chief Officer, Corporate Solutions, or under his direction.
- 1.2 Each Director and Chief Officer is responsible, taking into account all procedures, controls and instructions issued by the Chief Officer, Corporate Solutions for ensuring that: -
 - a) All commitments to incur expenditure are relevant and have the appropriate approval.
 - b) All income due to the Council is invoiced timeously.
 - c) All liabilities are accounted for.
 - d) All assets are protected and risk is controlled.
- 1.3 The Chief Officer, Corporate Solutions will prepare the Annual Accounts in accordance with the International Financial Reporting Standards (IFRS), reporting the Council's financial performance for the year to 31 March to the Council. The completed Accounts must also be sent to the Controller of Audit no later than the 30th June of the same year or such date as decided by the Controller of Audit.
- 1.4 Amongst other things, the Council's financial statements provide details of income and expenditure for the year in question and provide a summary of the assets and liabilities at the year-end. Compliance with the accounting and other arrangements detailed elsewhere in the Financial Regulations, and Directives and Guidance Notes, provides a framework, which helps ensure that the accounts are materially accurate.
- 1.5 The Chief Officer, Corporate Solutions will prepare and issue, on an annual basis, guidance and instructions for Relevant Officials which provide details of specific tasks and information required to support the preparation, approval and publication of the financial statements. The general guidance and instructions will be available on the Intranet under '[Finance→FAQ→Year End Guidance](#)'. Executive Directors and Chief Officers need to provide any information necessary for the closure of the Accounts within prescribed timescales.
- 1.6 The Chief Officer, Corporate Solutions will arrange the presentation of all External Audit reports including reports on the audited Annual Accounts to the Full Council and the Audit Committee.
- 1.7 The Chief Officer, Corporate Solutions will make appropriate arrangements for public inspection of the Council's Accounts.
- 1.8 All claims, returns or written submissions relating to grants and financial statistics will be submitted to the Chief Officer, Corporate Solutions, and must be signed by a Relevant

Official within that Directorate. Any exception to this must be agreed by the Chief Officer, Corporate Solutions.

1.9 Where appropriate, every report for Elected Members` consideration will include a financial implications section that will indicate: -

- The quantity of cost and savings of proposals for the current, first full year and future years.
- The sufficiency of the budgetary provision to meet the financial consequences. If budgetary provision is insufficient then the section should state where the provision could be found.
- Whether a supplementary estimate is required.
- Whether the proposal is a spend to save scheme and if so detail the revenue and capital savings to be made.
- Whether the proposal falls under the New Monies Protocol.
- Whether the recommendations will introduce any cash or time releasing efficiencies.
- Whether a capital proposal has been assessed by the Capital Plan and Asset Management Board.

Reports must also contain a statement to the effect that the Chief Officer, Corporate Solutions has confirmed the financial implications.

1.10 In the event that reports do not meet the above criteria, or insufficient time is given to the Chief Officer, Corporate Solutions to allow proper consideration of the matter, the Chief Officer, Corporate Solutions may withdraw such an item from the relevant agenda. The Relevant Chief Officer should be advised of the reason for withdrawal.

2. CAPITAL STRATEGY, PLANS & EXPENDITURE

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This Financial Directive details the Council’s requirements for Capital Expenditure in relation to the approved Capital Plans.

2.1 Capital Strategy

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining the Council’s Capital Strategy, and reporting this to Council for approval. The Capital Strategy provides the following:-

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

It also sets out the governance and monitoring arrangements, whereby the outcomes will be monitored by the Capital Plan & Asset Management Board (CPAMB), the Capital Plan Management Group (CPMG) and the Capital Plan Programme Boards.

The Capital Strategy is one of the Council’s key strategic documents required as part of the new CIPFA Prudential Code for Capital Finance in Local Authorities.

2.2 Capital Plans

The Council maintains two Capital Plans - one for General Fund Services and one for the Housing Revenue Account (HRA). The Chief Officer, Corporate Solutions determines the relevant account (General Services or HRA) in which Capital income and expenditure should properly be recorded.

The resources available to the Council to acquire or improve assets through these plans are limited, and as required under the Prudential Code, Capital Plans must be affordable and sustainable not just in the short term but over the medium to longer term. The Council has therefore developed a Capital Strategy and Capital Plan Board Structure to drive the decision making process and ensure the Council’s capital plans remain affordable and sustainable.

2.3 General Services Capital Planning Process

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining a ten-year asset investment plan and General Service’s capital investment programme and presenting this to the Capital Plan & Asset Management Board for approval prior to its consideration by Council. The capital planning strategy is integrated with asset management planning, strategic planning and option appraisal and takes account of the Council’s duty to comply with the Prudential Code.

Capital investment decisions are based on Strategic Outline Business Cases and prioritise investment based on council priorities, asset management principles, legal requirements and financial and non-financial benefits. The capital plan is fully integrated with the Council’s Medium-Term Financial Strategy, the Treasury Management Annual Investment Strategy Plan, and Corporate Plan.

2.4 HRA Capital Planning Process

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining a ten-year asset investment plan and HRA capital investment programme and presenting this to the Capital Plan & Asset Management Board for approval prior to its consideration by Council.

Capital investment decisions are based on Strategic Outline Business Cases and prioritise investment based on the Strategic Housing Investment Programme (SHIP), council priorities, asset management principles, legal requirements and financial and non-financial benefits. The capital plan is fully integrated with the council's Medium-Term Financial Strategy, the Treasury Management Annual Investment Strategy Plan, and HRA rent setting strategy. Investment decisions will take account of the Council's responsibilities to adhere to the Social Housing Quality Standard.

2.5 Governance Structure – CPAMB/CPMB/Programme Boards

The Council has implemented a robust structure to provide robust and strong governance around its capital investment decision making. Underneath full Council, a series of Officer Boards have been established to ensure appropriate monitoring, reporting and governance arrangements for both existing and new project projects.

There are 5 Programme Boards (Children & Young People's Programme Board; Transport, Energy & Infrastructure Programme Board, Asset Management Programme Board, Regeneration & Development Programme Board and Housing Programme Board) who meet on a 6 weekly cycle, aligned with Council meetings, and which monitor and report on projects within their remit to the Capital Plan & Asset Management Board, before onward reporting to Council as part of the quarterly update reports and annual budget setting reports. A Capital Plan Monitoring Group has also been established to assist with the management of projects and reporting between Programme Board and full Capital Plan & Asset Management Board level.

2.6 Inclusion of Projects within Capital Plans

The process for including projects within the Council's capital plan must be in compliance with the provisions of the CIPFA Prudential Code. This means that no Capital project will be undertaken unless it can be shown to be prudent, affordable and sustainable when viewed in conjunction with all other planned capital projects and the financial provisions to be made in current and future Revenue Budgets.

Project Proposals

At the point of inception of a new project, a Project Proposal form should be prepared and presented to the relevant Programme Board. This must cover the business need for the project, the options that have been assessed, and the expected costs, timeline and dependencies of the project. [Templates can be found here.](#)

Following completion of this, a decision will be made by Programme Board on whether to recommend the Project Proposal to CPAMB, and then subsequently Council, for approval.

If the Project Proposal is approved to proceed by Council, budgetary provision for the costs of developing an outline business case will be made via either the establishment of a capital expenditure budget in the General Services Capital Plan, or through feasibility funding in the Council's revenue budget. It is important to note that budgetary provision for the expected total costs of the project WILL NOT generally be made at this stage.

It is only CPAMB that can approve projects to be recommended for inclusion in the relevant Capital Plan by Council.

Executive Directors and Chief Officers have no authority to incur Capital Expenditure until the full Council has approved the individual project in the Capital Plan for the relevant financial year. It is the responsibility of each Executive Director, Chief Officer and Head of Development to control expenditure and income in accordance with the approved Capital Plans.

Strategic Outline Business Case

This will allow the project to proceed to Outline Business Case Preparation. The SOBC will cover a number of areas including the business aims, needs, objectives and constraints, full consideration of stakeholder issues, consideration of options (both financial and non-financial), a full funding & affordability assessment detailing whether external grant or developer contribution funding has been sought/secured and the level of prudential borrowing required for the project, and a full consideration of how expected risks will be managed.

Following completion of this, a decision will be made by Programme Board on whether to recommend the SOBC to CPAMB, and then subsequently Council, for approval.

If the SOBC is approved to proceed by Council, budgetary provision for the total expected development costs will be made in the General Services or HRA Capital Plans

It is only CPAMB that can approve projects to be recommended for inclusion in the relevant Capital Plan by Council.

Executive Directors and Chief Officers have no authority to incur Capital Expenditure until the full Council has approved the individual project in the Capital Plan for the relevant financial year. It is the responsibility of each Executive Director, Chief Officer and Head of Development to control expenditure and income in accordance with the approved Capital Plans.

2.6 Monitoring of Projects within the Capital Plans

Forecast Variances against budget (overspends)

Once the Capital Plans have been approved there is no need to seek Elected Member approval for contract acceptance in respect of individual projects, except where there is insufficient budgetary provision.

In these cases, all reasonable effort should be made to use value engineering or adjustments to the project scope – which do not impact on the ability of the final solution to meet the Council's corporate aims and objectives – to bring the forecast total development cost of the project back within the approved capital expenditure budget.

Where this is not possible, the Project Manager/Service Lead for the project/asset strand must prepare an Issues Report for presentation to the relevant Programme Board and CPAMB, outlining the projected overspend and the measures that have been taken to bring the project back within budget. This report must outline what further measures if any can be taken through the remaining development/construction of the project which may mitigate any projected overspend.

CPAMB will provide guidance on the appropriate next course of action which may require further value engineering or scope alteration work to be undertaken and a further report brought back to CPAMB, or for the overspend to be reported as a stand-alone report to Council.

Amendments to Project Scope / Deletions / Virements

Money can only be diverted (vired) from one capital project to another with the approval of the Council. For the avoidance of doubt, a 'project' means a separate line in the relevant Capital Plan approved by Council; therefore if it is proposed to add a new capital project, delete an approved capital project from the programme (and/or replace this with another capital project in its place), or materially change a capital project from the scope set out in the Strategic Outline Business Case, then any request to do this must be presented to the relevant Programme Board, and follow the same escalation process through the CPAMB and full Council to attain approval for any amendment.

Project Monitoring

Executive Directors, Chief Officers and Heads of Development have responsibility for individual projects and the Financial Services team will assist them in maintaining control of spending by providing relevant information and monitoring statements to Capital Programme Boards on a 6 weekly basis. To support this process, Project Managers and Service Leads will provide robust expenditure profiles of projects prior to their inception and at 6-weekly intervals for the Capital Programme Board cycles.

Executive Directors, Chief Officers, Heads of Development and Project Managers/Service Leads provide the Chief Officer, Corporate Solutions with any required explanations regarding significant variations from approved Capital Budgets.

The full Council will receive regular reports from the Chief Officer, Corporate Solutions to enable it to monitor and regulate financial performance against the Capital Plans throughout the Financial Year – these comprise, as a minimum, four Quarterly reports on performance against budget for (a) the General Services Capital Plan and (b) the HRA Capital Plan; with one budget setting report for the forthcoming financial year (which will normally form part of one of the Quarterly Update reports) and one outturn report reporting on actual expenditure for the year against budget (again this will form part of one of the Quarterly Update reports).

2.7 Capital Expenditure Definitions

Projects submitted for inclusion in either Capital Plan must following proper accounting practices and comply with the Accounting Code of Practice definition of Capital Expenditure. Capital expenditure guidance and specific definitions of what can be

classified as eligible capital expenditure can be found on the intranet at
'Finance→FAQ's→Capital→Capital Expenditure Guidance & Definitions'

In very broad terms, capital expenditure relates to the improvement, enhancement of existing facilities or the construction/purchase of a new asset. Expenditure in relation to maintaining or repairing an asset is revenue expenditure and cannot be classified as capital expenditure. Further detailed guidance is available on the link in the paragraph above.

The Council also has a de-minimis level which needs to be met for a project to be considered to be as capital and not revenue expenditure. This limit is £10,000 – any expenditure on a project by project basis that does not meet this threshold will be classified as revenue expenditure.

Introduction

This Financial Directive details the Council’s requirements for the preparation of Revenue Budget Estimates as part of the Financial Strategy process. Executive Directors and Chief Officers have a key role to play in supplying the Chief Officer, Corporate Solutions with accurate and timeous information on which to prepare Revenue Estimates. The approval of the Revenue Budgets by the Council gives Executive Directors and Chief Officers the authority to incur appropriate expenditure.

- 3.1 The Chief Officer, Corporate Solutions will determine the arrangements for the preparation of the Revenue Estimates and this forms an integral part of the Corporate and Financial Planning process.
- 3.2 The Chief Officer, Corporate Solutions will prepare Revenue Budget Estimates of income and expenditure for the following year and future year projections in line with any Government Spending Reviews and budget settlements. He will determine the information required from Executive Directors and Chief Officers, who will be required to provide this information within the prescribed timescales.
- 3.3 As part of the Financial Strategy Planning process a report detailing the proposed Revenue Budget Estimates will be presented at a full meeting of the Council. This report will make recommendations and seek decisions regarding existing levels of net expenditure for Corporate and Directorate priorities, Efficiency Savings, Income Generation and Service Reductions or any other alterations to Revenue Budget Estimates.
- 3.4 The Financial Strategy report will also recommend to Council for approval the Council Tax rate and rent levels to be levied.
- 3.5 Approval of the Revenue Budget Estimates gives Executive Directors and Chief Officers authority to incur expenditure, other than those items which the Council has rejected or deferred decisions on.

Where an Executive Director or Chief Officer wishes to incur expenditure not originally included in the estimates, or reduce income so provided, this will require a supplementary estimate to be approved by Council.

4. ADDITIONAL RESOURCES

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Introduction

This Financial Directive details the arrangement for managing the use of additional resources, whether revenue or capital, provided by:

- **The Scottish Government, whether as part of Scottish Government Grant (SGG) or outwith.**
- **Other funding bodies, such UK Government, lottery funding bodies, . etc.**

It incorporates the accounting arrangements which are in place to support the effective policing of the policy.

The objective of this Financial Directive is to ensure that additional resources, which are significant in terms of the overall resources available to the Council, are considered corporately and are utilised in the most effective way to support the delivery of Corporate and Directorate priorities and ensure Best Value to the Council.

- 4.1 This Financial Directive relates to the treatment of Additional Resources received from The Scottish Government and other funding bodies. It applies to additional resources even when they will be used in a multi-agency project.

Additional Resources received from Scottish Government through SGG

- 4.2 It is important to remember that resources allocated through SGG are not ring fenced apart from a small number, and it is therefore for the Council to determine how these are spent, while taking cognisance of nationally agreed priorities.
- 4.3 Resources for new burdens etc are normally announced in one of two ways.
- Where they are an outcome of the Spending Review or grant settlement process they are normally announced in advance.
 - Included in the annual Scottish Local Government Settlement, either by incorporating them in the announcement in December or as a redetermination during the year.
- 4.4 The new burdens that arise as part of any Spending Review will be considered as part of the Corporate & Financial Planning Process. To do this the Chief Officer, Corporate Solutions will report to the Corporate Management Team giving details of the increases made to Grant Aided Expenditure (GAE) - i.e. what the Scottish Government estimate it will cost, and the actual money added to SGG.

Where it's a year on year increase in funding then the total now available will be provided as supplementary information. The report will include proposals on each of the new burdens together with any other relevant information.

4.5 Finance Services will provide Directorates with details of the additional resources arising and request the following information from each Directorate which, after review, will be included as an appendix to the report in 4.4 above :-

- The impact of the new burden or service provision.
- How the funding will support the achievement of the Council's priorities, or whatever new priorities arise from it, together with details of the anticipated outcomes.
- Links to other Directorates or initiatives and the impact if any on other Directorates and or Community planning partners.
- Identify current services that could be changed to meet the new objectives.
- The overlap if any with mainstream provision, and the extent to which the resources can be mainstreamed.
- Confirmation of the element that can be "mainstreamed" to support "overheads" (admin support and existing staff time which is usually required for new initiatives). The expectation is that this should be at least 8%.
- Indicate in broad terms what the funding will be spent on, i.e. staffing, consultants etc.
- Clearly explain the ongoing consequences for future years, i.e. ongoing costs once the funding "dries up", and how these will be dealt with.
- Clearly explain the existing strategy, if one is required
- The consequences and risk of not allocating the resources.

4.6 CMT will then consider this information and their recommendations will be considered as part of the overall Corporate and Financial Planning process.

4.7 All other additional resources which are to be provided through SGG for new burdens etc should be reported to CMT by the Relevant Directorate as they arise. These reports should provide the information as outlined in section 4.5 and the report must be agreed in advance with the Finance Unit.

4.8 Arrangements will be made to incorporate the additional resources into the revenue budget. The resources will be held centrally until the Directorates requests them to be vired to the operational budgets. The virement will not be processed until specific details of the expenditure to be incurred are approved and made available to the Finance Team (if significant variations arise from the original proposals provided to CMT, then these may require to be referred back to CMT, for endorsement). For the avoidance of doubt these arrangements will apply to resources provided through SGG.

Additional resources outwith SGG

4.9 The arrangements outlined in sections 4.7 & 4.8 above will apply to all additional resources provided by the Scottish Government as "Funding outwith SGG" or funding provided by other bodies where it exceeds £25,000.

4.10 Where the funding provided is a capital grant then the proposed capital project may also need to be subject to the Capital Project Evaluation process (see guidance on Intranet in '[Finance](#)→[Finance FAQ's](#)→[Capital](#)→[Capital Bids guidance](#)'). The relevant Directorate should still report to CMT under this protocol in the first instance. Failure to do so will delay the project being incorporated in to the Capital Plan.

Bids for Funding

- 4.11 All bids or applications for funding of £25,000 or more must comply with this section of the protocol.
- 4.12 The protocol applies to bids or applications to any funding body. There are no exceptions.
- 4.13 CMT will be given the opportunity to consider such bids or applications before they are submitted or any commitment to do so is made.
- 4.14 For bids or applications between £25,000 and £250,000 the Directorate should develop proposals and submit a report to CMT, which will provide details of:
- The funding body and the nature of the funds being applied for.
 - How the funding will support the achievement of the Council's priorities.
 - Any links to other Directorates or initiatives, identifying and quantifying overlaps and the impact if any on other Directorates or Community planning partners.
 - The overlap, if any, with mainstream provision.
 - Any match funding required and its source.
 - What the funding will be spent on, i.e. staffing, consultants etc.
 - The ongoing consequences for future years, i.e. ongoing costs once the funding is capital only or when funding "dries up", and how these will be dealt with.
 - The existing strategy, if one is required.
 - The measures to be put in place to monitor the performance of the initiative i.e. increase activity, attainment etc.
 - The usual Financial Implications and Policy sections and be cleared in the normal way.
- 4.15 Where bids or applications are anticipated to exceed £250,000, the Directorate should first seek CMT approval to proceed with the bid. The report should provide details of :
- a) A broad assessment of the information in section 4.14.
 - b) The resources required to develop the bid, from both the sponsoring Directorate and others affected.
 - c) Any resources required to develop the bid.
 - d) The proposals to manage the project implementation if successful.
 - e) An outline of the key risks associated with the proposals.
- 4.16 In normal circumstances the submission of bids over £25,000 will also require to be reported to Cabinet. CMT will consider exceptions to this on a case by case basis.
- 4.17 In circumstances where the actual funding awarded is significantly different from that originally reported to CMT, and then the Directorate should report back to CMT on the implications of this.
- 4.18 Once the funding body approves the bid, the Directorate should request a virement from the Financial Services section so that the initiative is properly reflected in the appropriate budget. Virements will not be actioned if this protocol has not been followed which in

turn may delay the authorisation of new post authorisation forms etc. Please refer to the guidance on the virement of Revenue Budgets, available on the Intranet under 'Finance→Finance FAQ's→Guidance on Virement of Revenue Budgets.'

- 4.19 Where the funding provided is a capital grant then the proposed capital project may also need to be subject to the Capital Project Evaluation process (see guidance on Intranet under 'Finance→Finance FAQ's→Capital→ Capital Bids Guidance'). However the relevant Directorate should still report to CMT under this protocol in the first instance. Failure to do so will delay the project being incorporated in to the Capital Plan.

Other Considerations

- 4.20 Where the additional funding relates to projects that will operate for several years, and where there are no significant year on year changes in the level of resources or the type of expenditure then there is no need to report back on an annual basis.

Support and Assistance

- 4.21 In the first instance you should contact the Financial Services section.

5. CONTROL OF REVENUE EXPENDITURE

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Introduction

This Financial Directive provides details of the Council's requirements for budget monitoring, phasing of budgets, variance reporting, and virement. Emergency procedures for immediate needs are also covered.

Budget monitoring is an essential tool in developing a business and management culture, which continually monitors and reviews the use of resources.

- 5.1 Throughout the financial year, Council will receive regular reports from the Chief Officer, Corporate Solutions to enable it to monitor and regulate financial performance of the Revenue Estimates.
- 5.2 In consultation with the Chief Officer, Corporate Solutions, Executive Directors and Chief Officers will provide an estimate of the net expenditure to be incurred in each accounting period for each budget line in the approved Revenue Estimates in accordance with the timescales established by the Chief Officer, Corporate Solutions.
- 5.3 The Chief Officer, Corporate Solutions will provide Executive Directors and Chief Officers with periodic budget monitoring statements. In addition, Executive Directors and Chief Officers will provide the Chief Officer, Corporate Solutions with any explanations regarding significant variances, and as far as is possible within their powers, ensure that Revenue Estimates are not overspent and that net expenditure conforms to the requirements of the Financial Directives.
- 5.4 The Scheme of Devolved Budget management, (see Intranet under '[Finance→Finance FAQ's→SDBM.](#)') details the flexibility available to Executive Directors and Chief Officers regarding the management of their Revenue Budget. In addition, subject to the requirements of the Financial Regulations, Executive Directors and Chief Officers have authorisation to take remedial action necessary to avoid an overspend in the year of account, however, any action requiring a change in policy will require Cabinet approval.
- 5.5 The Chief Officer, Corporate Solutions has authority to approve up to a limit of £25,000, budget transfers, which relate to new or additional service provision and or policy initiatives; above this level such transfers will require Cabinet approval. Written requests for transfers within the £25,000 limit should be submitted to the Chief Officer, Corporate Solutions and should provide information in support of the transfer.
- 5.6 A Executive Director or Chief Officer may divert money from one operational head of their Revenue Budget to another. Authority to approve all operational virements rests with the Chief Officer, Corporate Solutions and such virements, between approved budget lines, will only be permitted if they are in accordance with the Guidance on Virement of Revenue Budgets, or in the case of schools, the Devolved Budget Management Scheme.

Emergencies

- 5.7 Where no financial provision exists in either the Capital or Revenue Budgets, these Financial Directives do not prevent Executive Directors and Chief Officers from incurring expenditure essential to meet immediate needs arising from a statutory requirement, or which relate to Section 84 of the Local Government (Scotland) Act 1973. This is dependent on the expenditure being approved by Council.
- 5.8 Where it is not feasible for expenditure to be deferred pending Council approval, Executive Directors and Chief Officers may incur expenditure subject to the estimated cost not exceeding £50,000. Where such expenditure exceeds £50,000 the prior agreement of the Chief Executive is required.
- 5.9 Where approval in advance has not been obtained for such expenditure, a report must be submitted to the next meeting of the Council after the expenditure has been incurred.

6. FINAL ACCOUNTS

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Introduction

This Financial Directive provides details of the statutory requirement to prepare and publish annual accounts.

- 6.1 The financial year is from 1st April to 31st March, and the Chief Officer, Corporate Solutions is responsible for ensuring that annual financial statements are prepared, approved and published by the 30th June following the year end.
- 6.2 The format and content of the financial statements is governed by The Code of Practice on Local Authority Accounting in the United Kingdom; International Financial Reporting Standards (IFRS). The Chief Officer, Corporate Solutions is responsible for ensuring that the Council's Accounts comply with the IFRS.
- 6.3 Amongst other things, the Council's financial statements:
 - a) Provide details of the income and expenditure for the year in question.
 - b) Provide a summary for the assets and liabilities at the year-end.
- 6.4 Compliance with the accounting and other arrangements detailed elsewhere in these directives provides a framework which helps ensure that the accounts are materially accurate. In addition, the Chief Officer, Corporate Solutions will prepare and issue on an annual basis, guidance and instructions for Relevant Officials, which provide details of specific tasks, and information required to support the preparation, approval and publication of the financial statements. General guidance and instructions will also be available on the Intranet under '[Finance→Finance FAQ's→Year End Guidance.](#)'

7. **BANKING ARRANGEMENTS, PETTY CASH AND IMPREST ACCOUNTS**

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Introduction

This Financial Directive details the Council's requirements for banking and the operation of Petty Cash and Imprest Accounts.

Banking Arrangements

- 7.1 The Chief Officer, Corporate Solutions will make all arrangements with the Council's Bankers, as he considers necessary to operate Bank Accounts and can authorise Bank Accounts to be managed by other Directorates.
- 7.2 The Financial Services Section of the Place Directorate will reconcile each of the Council's main bank accounts to the general ledger, every four weeks, and will ensure that all withdrawals are properly authorised.
- 7.3 All cheques will be ordered on the authority of the Chief Officer, Corporate Solutions who will make proper arrangements for their safe custody.
- 7.4 Cheques drawn on the Council's Payments Account will bear the facsimile signature of the Chief Officer, Corporate Solutions. All manual cheques and other debit instructions drawn on the General Fund Account will be signed by two authorised signatories. Details are contained in the electronic authorised signatory system.
- 7.5 All Council employees involved in cheque handling or control will be made aware that:
- a) Under normal circumstances no Council cheques should be altered.
 - b) In circumstances where a minor change is required this must be initialled by an authorised signatory.
- 7.6 Where a creditor reports the non-receipt or loss of a cheque Creditors will check whether the cheque has been cashed and, if possible put a 'stop' on it with the bank. In instances where it is not possible to place a 'stop' on a cheque a replacement will only be issued on receipt of a properly completed indemnity form signed by the creditor.
- 7.7 The Chief Officer, Corporate Solutions will arrange payments through the Bankers Automated Clearing System (BACS), the Faster Payments Service (FP) and the Clearing House Automated Payments System (CHAPS), and ensure that appropriate security procedures are implemented and that there is proper segregation of duties which are reviewed on a regular basis. These are outlined in more detail in Section 15 of these Financial Directives (Payment of Accounts and Ad Hoc Payments).
- 7.8 The Chief Officer, Corporate Solutions will grant such indemnities as he considers necessary in respect of banking arrangements including indemnities against losses arising from the use of facsimile signatures, night safe wallets and direct debits.
- 7.9 Only the Chief Officer, Corporate Solutions has authority to enter into a commitment to pay by direct debit.

Petty Cash & Imprest Accounts

- 7.10 Requirements for Petty Cash and Imprest Accounts will be determined by the Chief Officer, Corporate Solutions on request from other Executive Directors and Chief Officers.
- 7.11 Income received on behalf of the Council will not be paid into Petty Cash or Imprest Accounts but must be paid into the Council's Bank Account. Any bank interest accrued must be remitted separately and timeously to the Chief Officer, Corporate Solutions.
- 7.12 Payments from Petty Cash Accounts are limited to minor items of expenditure only, unless otherwise approved by the Chief Officer, Corporate Solutions. All payments will be supported by a receipted voucher.
- 7.13 Relevant Officials responsible for Petty Cash Accounts are required to account for the petty cash and make returns, accounting for the sum held, to the Chief Officer, Corporate Solutions.
- 7.14 On leaving the employment of the Council, or when ceasing to be entitled to hold an Imprest Account, Relevant Officials return or account for the amounts advanced.
- 7.15 Further guidance on the use of Petty Cash may be obtained on the Intranet under 'Finance→ FAQ's→ Petty Cash.'

8. TREASURY MANAGEMENT

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Introduction

This Financial Directive explains the Council's Policy for Treasury Management.

Treasury management is defined as:

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

There is a code of practice in place to ensure the proper management and execution of this function and the following directives ensure that the Council complies with the Code.

- 8.1 All borrowing and lending will be performed in the name of the Council.
- 8.2 All funds in the hands of the Council will be aggregated for the purposes of Treasury Management and will be under the control of the Chief Officer, Corporate Solutions (Section 95 Officer).
- 8.3 The Council will fully adopted the latest edition of the Code of Practice on Treasury Management in the Public Services, as issued by the Chartered Institute of Public Finance and Accountancy's (CIPFA).
- 8.4 Accordingly, the Council has created and will maintain:
- a) A Treasury Management Policy statement, stating the policies and objectives of its treasury management activities.
 - b) Treasury Management Practices (TMP's) and Investment Management Practices (IMP's), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 8.3 The Council receives reports on the Council's treasury management policies, practices and activities, including:-
- an annual Treasury Management and Investment strategy plan in advance of the year;
 - a mid-year review report; and
 - an annual report after its close
- in the form prescribed in its TMP's/IMP's.
- 8.4 The execution and administration of treasury management decisions are delegated to the Chief Officer, Corporate Solutions as the officer designated in terms of Section 95 of the Local Government (Scotland) Act 1973, who acts in accordance with the Council's policy statement and TMP's.

- 8.5 The scrutiny of treasury management strategy and policies is delegated to the Audit Committee.
- 8.6 Where facilities are proposed to be acquired or created by leasing, joint venture, or Private Finance Initiative or Public Private Partnership the financial arrangements underpinning those agreements are made by the Chief Officer, Corporate Solutions.

Deposits, Borrowings and Trust Funds

- 8.7 All executive decisions on borrowing, deposits or financing shall be delegated to the Chief Officer, Corporate Solutions, who will be required to act in accordance with the CIPFA Code and in particular:-
- All loans to the Council will be negotiated by the Chief Officer, Corporate Solutions and wherever possible will be paid direct by the lender or his/her agent to the Council's bank account.
 - All Council loan certificates will, prior to use, be in the custody of the Chief Officer, Corporate Solutions and issued by him/her only when required for completion.
- 8.8 All deposits of money under its control will be made in the name of the Council or in the name of the nominees approved by the Council and in accordance with the Council's Treasury Management Policy and Practices.
- 8.9 All securities which are the property of, or are in the name of, the Council or its nominees together with the Title Deeds of all property in its ownership are held in the custody of the Chief Officer, Corporate Solutions.
- 8.10 All borrowings and all Trust Funds are to be in the name of the Council.
- 8.11 The Chief Officer, Corporate Solutions is the Council's Registrar of Stocks, Bonds and Mortgages and maintains records of all borrowing of money by the Council.
- 8.12 All Relevant Officials acting as trustees by virtue of their official position deposit all securities etc relating to the Trust, with the Chief Officer, Corporate Solutions unless the deed otherwise provides.

9. CHARITABLE FUNDS

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Introduction

This Financial Directive details the Council's requirements for the stewardship of the Common Good Funds and other Charitable Funds.

- 9.1 The Chief Officer, Corporate Solutions will manage the investments of the Common Good Funds on a discretionary basis.
- 9.2 All securities that are the property of, or are in the name of the Council will be held in the custody of the Chief Officer, Corporate Solutions.
- 9.3 Unless otherwise provided for in a trust deed or discretionary agreement, the sale of investments, will be in line with the policy determined by the General Purposes Committee.
- 9.4 All Relevant Officials acting as Trustees will deposit all securities etc. relating to trusts or charitable funds with the Chief Officer, Corporate Solutions unless the deed states otherwise.
- 9.5 The Chief Officer, Corporate Solutions will ensure appropriate custody and control of all charitable funds held by the Council ensuring that all expenditure is in accordance with the conditions of relevant trust deeds.
- 9.6 The Chief Officer, Corporate Solutions, in consultation with Executive Directors or Chief Officers will make arrangements to oversee funds held on behalf of clients.
- 9.7 Returns will be submitted for all registered charities on the basis of the regulations as set out by OSCR.

Introduction

Most of the above funds are generated principally through local fund-raising activities. These funds can vary in scope and value but are generally administered by an employee of the authority. Typically they may be welfare funds in or School Funds in Schools.

For the convenience of schools, the Children, Young People and Partnership Directorate also uses such funds to supply funds for extra-curricular excursions. These funds generally augment the official budgets for each school. The Council has an oversight duty to see that these non-council administered funds are administered properly, without activating day-to-day control.

Legal Responsibility

- 10.1 As such funds remain for the benefit of the public e.g. school pupils, clients; the authority has a legal responsibility to ensure that there is adequate financial and administrative control over them and is entitled to audit all such funds.

Management of Non Council Administered Funds

- 10.2 To safeguard the interests of individual staff, a Committee should be formed to authorise expenditure from the fund and a treasurer appointed. Minutes of the Committee meetings should be kept to provide a record of decisions and to provide continuity in knowledge of the administration of the fund as staff changes take place.

The Treasurer should be responsible for

- a) The safe custody of funds.
- b) Proper accounting of receipts and payments.
- c) Preparation of annual accounts for review/certification by an Honorary Auditor.
- d) Reporting to the Committee on a regular basis on matters relating to the funds.

To safeguard her/his own interests a treasurer leaving office should arrange for accounts to be prepared locally and audited to that date. He/she should also obtain certification from the incoming treasurer or Committee of the amount of cash and bank balances being handed over.

Bank Accounts

- 10.3 A current account should be opened in the name of the fund to enable payment to be made by cheque, thereby providing records of transactions.
- 10.4 Depending on the amount of money held in the fund account, it may either operate with a single interest bearing current account or with both a current and deposit account, whichever is most advantageous to the fund.
- 10.5 Funds are meant to be used for the benefit of current clients/pupils and significant bank balances should not be built up.

- 10.6 It is essential that all funds are administered through a single current account and/or deposit account rather than operating different accounts for different projects within an establishment. Financial statements for particular projects can be provided, if required, from the cash book analysis.

Signatories

- 10.7 It is recommended that there should be four authorised signatories and cheques drawn in the name of the fund account would require the signature of the treasurer and one other person.

Financial Records

- 10.8 Detailed financial records should be kept of all transactions within the fund. The main record of income and expenditure is the Cash Book. Subsidiary records should also be maintained for regular income collections.
- 10.9 Reconciliations should be performed between accounting records and bank statements on a monthly basis and checked by a person independent of the daily control of the account with all discrepancies investigated. This ensures the monies are independently monitored and any errors are timeously corrected.
- 10.10 Each payment made from the fund should be by cheque, wherever possible. A receipt should be obtained as evidence of all expenditure transactions, cash or cheque and cross-referenced to accounting records.
- 10.11 Where income is paid into the account, a duplicate receipt book should be used. The top copy should be issued to the depositor and the bottom copy retained in the pad.
- 10.12 Where trading type activities are undertaken, a trading account statement should be drawn up on at least a six monthly basis.
- 10.13 All receipts and financial/trading statements should be retained for two financial years plus the current year for audit purposes.

Annual Financial Statement

- 10.14 At the end of each financial year, or other agreed period, expenditure should be drawn up and audited by an Honorary Auditor.

Income

- 10.15 Only income directly attributable to the fund should be credited to it.
- 10.16 Any income generated by activities undertaken by Council Staff, etc on Council time is properly the income of the Council and must be accounted for in the Council accounts.
- 10.17 In addition income generated from the use of the Council buildings and vehicles are again properly the income of the Council.

- 10.18 If you are unsure on the treatment of income please contact your normal finance contact or a member of the finance unit.

Income Tax and VAT

- 10.19 In general funds will not be liable for Tax on their activities. However it is the responsibility of the Committee responsible for such funds to ensure this is so.
- 10.20 In respect of VAT funds are not covered by the Council's VAT registration. Where income from trading type activities on a fund exceeds the VAT registration threshold (see www.HMRC.gov.uk) then the Committee responsible for the fund must arrange VAT registration.

Insurance

- 10.21 It is recommended that the Committee responsible for the fund consider taking out fidelity, fire and theft insurance to cover any assets belonging to the fund.

Audit

- 10.22 Annual financial statements should be independently reviewed and presented to a committee. The auditor should be someone independent of the management of the fund, e.g. another member of staff, a parent. The auditor must be satisfied that:
- a) Sufficient information has been made available for the audit
 - b) Proper and adequately detailed records of expenditure and income have been kept
 - c) Financial statements are in accordance with the books and papers submitted for audit

The auditor should issue a signed statement, which should be kept with the financial statement to which it refers. The auditor should comment on anything that is found to be amiss as the absence of any statement is interpreted as satisfaction with the accounts.

11. TAX MANAGEMENT

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Introduction

This Financial Directive sets out the Council's requirements for Tax Management. It includes:

- **Allocation of responsibility for taxation to the Chief Officer, Corporate Solutions.**
- **The appointment of professional advisers.**
- **The requirement for Executive Directors and Chief Officers to consult the Chief Officer, Corporate Solutions on transactions which have tax implications.**

Periodically, the Council is inspected by HM Revenue and Customs. These inspections may result in the imposition of penalties for non-compliance with tax legislation. Therefore, it is essential that Executive Directors and Chief Officers ensure that employees are aware of any relevant taxation matters and that where necessary guidance is obtained from the Chief Officer, Corporate Solutions.

- 11.1 The Chief Officer, Corporate Solutions will be responsible for the taxation procedures of the Council, ensuring where possible, that tax liabilities and obligations are properly reported and accounted for, avoiding any possible losses.
- 11.2 In particular the Chief Officer, Corporate Solutions will be responsible for:
- a) Ensuring that transactions comply with relevant statutory requirements and authorities.
 - b) Minimising the Council's tax liability.
- 11.3 In carrying out such responsibilities the Chief Officer, Corporate Solutions will:
- a) Define and allocate duties in relation to taxation and tax management.
 - b) Ensure that financial control systems operate effectively, produce the necessary information and minimise the risk of error.
 - c) Ensure appropriate guidance is provided to employees involved in processing tax-related transactions.
 - d) Ensure assistance is provided for any investigations undertaken by a Collection Agency and that justification for assessments made resulting from investigations are properly reviewed.
 - e) Implement arrangements to monitor the execution of these responsibilities.
 - f) Report any significant changes to the Council's tax affairs to the Cabinet.
- 11.4 The Chief Officer, Corporate Solutions may appoint external tax specialists.
- 11.5 The Chief Officer, Corporate Solutions will be responsible for the dissemination of information on tax matters as appropriate. Executive Directors and Chief Officers will be responsible for implementing guidelines introduced by the Chief Officer, Corporate Solutions regarding any particular aspect of tax.

- 11.6 Where transactions of a new or unusual nature are being considered, Executive Directors and Chief Officers will consult with the Chief Officer, Corporate Solutions on the tax implications before committing the Council.

VAT

- 11.7 VAT paid on goods or services bought is termed input tax and VAT collected on goods or services sold is termed output tax.
- 11.8 The majority of the Council's activities are non-business and no output tax is added to or accounted for on charges made to "customers" for non-business activities. Input tax incurred on purchases for such activities is fully reclaimed from HM Revenues & Customs. Business activities however will fall into one of the following categories:
- a) Standard rated, in which case output tax at 20% is added to or accounted for on income received.
 - b) Lower rated, which mainly relates to energy, in which case output tax is added to or accounted for on income received at the appropriate rate.
 - c) Zero rated, where no output tax is applied because the rate is set at 0%, e.g. sale of publications.
 - d) Exempt, where no output tax is applied to or accounted for on the income, e.g. certain lets of property or certain education or sporting charges.
- 11.9 When input tax is incurred in the provision of standard, lower rated or zero rated activities then it is fully reclaimed from HM Revenues & Customs. However, input tax incurred on exempt activities is only reclaimable if it amounts to less than 5% of the total input tax recovered by the Council. This 5% limit is called the partial exemption limit, if input tax incurred on exempt activities exceeds 5% then none of the exempt input tax is recoverable and so becomes a real cost to the Council.

Responsibilities for VAT

- 11.10 The Chief Officer, Corporate Solutions is responsible for managing the VAT affairs of the Council. This section provides the framework for this.
- 11.11 The Chief Officer, Corporate Solutions will put in place arrangements to monitor the VAT incurred on exempt activities. To do this it will be necessary for Relevant Officials to advise the Chief Officer, Corporate Solutions at an early stage of any service developments which may be classified as exempt for VAT purposes.
- 11.12 Executive Directors and Chief Officers, and other Relevant Officials are responsible for ensuring that the appropriate VAT treatment is applied to charges for services or supplies made by their Directorate. When determining the proper treatment Executive Directors and Chief Officers, and other Relevant Officials are required by this Directive to seek the advice from the Chief Officer, Corporate Solutions. This should be done via the VAT helpdesk (Vathelp@midlothian.gov.uk). Failure to seek advice may result in financial loss to the Council.
- 11.13 The Council's financial system enables VAT to be identified when debtor accounts are issued and income banked. There are penalties for not accounting for output tax on income and so it is essential that all relevant income be correctly identified.

- 11.14 Invoices rendered by the Council for services provided will conform to the standards required by HM Revenues & Customs and will be agreed with the Chief Officer, Corporate Solutions.
- 11.15 The Council's purchase ledger systems allow for automatic recovery of input tax through the use of specific payment codes.
- 11.16 To reclaim VAT, the Council must have a valid tax invoice from a registered trader and be able to produce it on request. If input tax is claimed and not supported by a valid invoice the Council may be liable for penalties for misdeclaration of tax.
- 11.17 Invoices for services or supplies to the Council will conform to the standards required by HM Revenues & Customs. All invoices must be in the name of the Council – the Council cannot reclaim VAT on an invoice that is addressed to any other party/company.
- 11.18 The detail required by Customs & Excise is limited for invoices for individual supplies of less than £100 e.g. petty cash purchases. The Chief Officer, Corporate Solutions will provide guidance on the minimum requirements within the petty cash guidelines available on the Intranet under 'Finance→FAQ→Petty Cash Procedures'.
- 11.19 Under no circumstances can VAT on an invoice rendered to (or by) the Council be altered. Similarly, the amount charged for goods or services supplied (to which VAT relates) cannot be amended for errors, returned items, deductions for incomplete service, etc. as the VAT would no longer be correct. Errors must be corrected via credit notes or supplementary invoices issued by suppliers, unless the supplier cancels the original invoice and issues a revised one.
- 11.20 If a supplier offers a discount on condition that the Council pays within a specified time, the tax value to be reclaimed will be based on the discounted value.

VAT and School Funds etc

- 11.21 School Funds and other “arms length” funds are treated as separate entities for VAT purposes and are not covered by the Council's VAT registration. This means that:
- a) The person responsible for administering each fund must make sure that the Fund registers for VAT if it exceeds the VAT registration threshold (details available from HMRC.gov.uk).
 - b) The Council cannot recover VAT incurred purchases made directly from School Funds etc.
- 11.22 Where the School Fund etc is to be used to finance the purchase of goods or services for use by the School etc then the Council should order and pay for the goods/services in the normal manner (with the VAT being recovered). The payment from the School Fund should then be treated as a donation, however under this arrangement ownership of any goods purchased remains with the Council.

12. INCOME

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Introduction

Midlothian Council cannot operate without funds derived from the various fees and charges that it levies. It follows that the effectiveness of the Council's collection arrangements will impact directly on the sums available for the continued provision of services.

The arrangements for the accounting, prompt collecting and recording of income must be underpinned by clearly defined principles. The following paragraphs provide direction on the principles required (and supplements the guidance on the Intranet under [Finance→FAQ→Income Collection Guidance](#).)

Fees and Charges

- 12.1 The main income streams are:

Council Tax

Set by the Council annually as part of the budget process. Collected by the Council's Revenues Team.

House and Garage Rents

Set by Council annually as part of the Housing Revenue Account budget process and collected by the Council's Revenues Team.

Non Domestic Rates

Set by Central Government, with the majority of income effectively returned to Central Government. Collection is carried out on behalf of Midlothian Council by the City of Edinburgh Council.

Other fees and charges e.g. Libraries, Leisure and Planning fees

Some are set by the Council with others set nationally by Central Government. Various collection methods are employed, from payment in advance to collection via the accounts receivable system operated by Revenues Operations.

- 12.2 Executive Directors and Chief Officers will, at least annually, review the charges for goods and services provided by their Directorate. To maintain the real value of such income, any increases will take inflation into account. Any proposed charge increases must be approved by Cabinet.
- 12.3 It is imperative the Value Added Tax (VAT) is accounted for properly on fees and charges. The majority of fees and charges are of a recurring nature and the Relevant Officials concerned are aware of the VAT treatment. However, for new charges or where there is any doubt as to the VAT treatment it is imperative to seek advice from Financial Services (Vathelp@midlothian.gov.uk)

Collection of Income

- 12.4 As comprehensive arrangements for billing and collection of Council Tax, Non Domestic Rates and House Rents are made by Revenues Operations, this Financial Directive focuses on other income streams, in particular fees and charges levied by Council Services.
- 12.5 Regardless of the arrangements that follow it is imperative that any facility that collects fees and charges makes sure that arrangements are in place to provide each and every customer with a receipt for the sums received. The type of receipt issued will be dependent on the systems adopted but may range from a till receipt produced by a cash register to a hand written official receipt. Whatever arrangements are put in place these should be agreed in advance with the Risk and Audit team.
- 12.6 The Chief Officer, Corporate Solutions is responsible for ensuring proper collection, control and banking of all cash due to the Council and has the authority to inspect any relevant documentation as considered necessary.
- 12.7 Wherever possible income from fees and charges should be collected either in advance of the service being provided or at the point of service delivery. Payment may be accepted in cash or cheque or by Debit/Credit Card although specific arrangements need to be made with Financial Services for the latter.
- 12.8 Where facilities collect income on site in this way, arrangements must be made with Financial Services to agree the accounting records required, to make arrangements for security of cash held on the premises, to ensure security over electronic payments, and to arrange secure transfer of the cash to the Council's Bank.
- 12.9 All money received by an official on behalf of the Council will, without delay, be paid into the Council's bank account. No deduction may be made from such income, unless specifically authorised by the Chief Officer, Corporate Solutions. Personal cheques must not be cashed from monies held on behalf of the Council.
- 12.10 Where it is not possible to collect in advance or at the point of service delivery then it is necessary to use the Accounts Receivable system operated by Revenues Team. It is imperative that fees and charges that are levied using this method are done so promptly (preferable within five working days although it is acknowledged that by exception the five day target will be unachievable for some services) as any delay can impact on the ability to collect the sums due. The Service Directorate concerned will need to set up the Customer on the system and raise the account for the charges concerned.
- 12.11 Once a charge has been raised on the Accounts Receivable system, Revenues Team will manage recovery assisted by the Directorates, in accordance with the Accounts Receivable recovery and write-off procedures. The system will provide the customer with additional means to pay including, Direct Debit, standing order as well as cheques and cash. Payment of accounts can be made by post or at the main collection offices as well as Leisure and Library facilities etc.

- 12.12 The Accounts Receivable system is the preferred means to account for and collect recurring charges such as commercial rents and membership charges. Arrangements for these should be made with Revenues Team.
- 12.13 Due to money laundering regulations, the maximum cash payments for goods and services is £5,000 unless otherwise approved by the Chief Officer, Corporate Solutions.
- 12.14 Transfers of money between employees must be evidenced in directorate records by the signature of the receiving official.

Debt Recovery

- 12.15 Where fees and charges are levied using the accounts receivable system the Revenues section, assisted by Directorates in accordance with the Council's agreed recovery and write-off procedures, will make arrangements to pursue payment, by issuing reminders and taking appropriate recovery action. Where income is collected via customer debit and credit card, either over the telephone or electronically, the collecting Directorate, in liaison with Digital Services, ensures that computer and income collection procedures are secure.
- 12.16 Any manual records created showing customer debit and credit card details are securely held and destroyed after 18 months.
- 12.17 Where income is directly downloaded from a Bank, the Chief Officer, Corporate Solutions ensures that proper controls are in place to receive this income, including segregation of duties, procedures for staff to follow and clear timetables.
- 12.18 The Chief Officer, Corporate Solutions or any Relevant Official authorised by him/her may sign petitions and certificates to the Sheriff Court for Summary Warrant applications.
- 12.19 The Chief Officer, Corporate Solutions can take action to recover Rates under Section 247(5) of the Local Government (Scotland) Act 1947.

Bad Debts

- 12.20 Provision will be made in the Council's accounts for potentially Bad and Doubtful debts. To do this requires a charge to be made to service Revenue accounts that originally raised the accounts, which will reflect the historic levels of bad debts.
- 12.21 When Rents, Rates, Council Tax or Sundry Debts cannot be recovered, the Chief Officer, Corporate Solutions or a Relevant Official authorised by him/her, may authorise writing off any balance in respect of:
- a) an individual in sequestration or who has signed a Trust Deed (and a suitable claim has been lodged or actioned appropriately as advised through the Trustee, Accountant in Bankruptcy etc).
 - b) a company in liquidation (and a suitable claim has been lodged or actioned appropriately as advised through the Trustee, Accountant in Bankruptcy etc).
 - c) short periods under the terms of Sections 240 and 241 of the Local Government (Scotland) Act 1947.

- d) sums claimed from the estate of a deceased person where confirmation received that there are no funds to meet the outstanding liability.
- 12.22 When Rents, Rates, Council Tax or Sundry Debts cannot be recovered, the Chief Officer, Corporate Solutions or a Relevant Official authorised by him/her, may authorise writing off balances up to £1,000 in respect of:
- a) debts where all possible methods of recovery have been exhausted and it is clear that an amount will not be recovered.
 - b) debts where the debtor cannot be traced.
 - c) debts considered uneconomical to pursue.
 - d) prescribed debt.
 - e) any other categories of bad debt not otherwise mentioned in 12.21 or 12.22.
- 12.23 The write-off of all debts of over £1,000 (or combined debts for a single debtor/liable party) requires the approval of Cabinet.
- 12.24 The Chief Officer, Corporate Solutions or relevant official nominated by him/her will consider disputed accounts and take the appropriate course of action. Cabinet approval is required when the disputed debt to be written off exceeds £1,000.

13. PAYROLL, TRAVEL AND SUBSISTENCE

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Introduction

This Financial Directive provides details of the Council's requirements for payroll, travel and subsistence. It is essential that Directorates ensure that timeous and accurate information is passed to Employment & Reward, overtime information is accurate, and that leavers are deleted promptly from the payroll.

Salaries, Wages and Pensions

- 13.1 The Chief Officer, Corporate Solutions is responsible for the administration and regulation of the Council's payroll system. Executive Directors and Chief Officers are responsible for ensuring that any information which affects the payment of salaries and wages is passed promptly to Employment & Reward.
- 13.2 All employee salaries, wages, compensation, expenses, subsistence, claims and other emoluments will be paid through the payroll system.
- 13.3 Each Executive Director and Chief Officer will notify the Chief Officer, Corporate Solutions of the following matters, which affect the payment of salaries and wages:
- a) Appointments, resignations, dismissals, suspensions, secondments and transfers.
 - b) Absences (for sickness or otherwise).
 - c) Changes in remuneration (other than normal increments and pay awards).
 - d) Any information needed to maintain records of service for Superannuation, Income Tax, and National Insurance.

The Chief Officer, Corporate Solutions will then update records.

- 13.4 The appointment of all employees will be made in accordance with the Standing Orders and the approved establishments, grades and rates of pay.
- 13.5 All time records and pay-related documents will be:
- a) In a form approved by the Chief Officer, Corporate Solutions.
 - b) Certified as correct in writing by or on behalf of the Executive Director or Chief Officer.
- 13.6 Executive Directors and Chief Officers will be responsible for maintaining the electronic database of authorised signatories for their Directorate.
- 13.7 The Chief Officer, Corporate Solutions will make the necessary arrangements for the collection, recording and payment to the appropriate organisation, of Income Tax, National Insurance Contributions and pension contributions related to employees' pay.

Members and Officials Allowances

- 13.8 The following employee claims will be submitted to the Chief Officer, Corporate Solutions having been signed by the employee and authorised by the relevant official:

- a) Payment of car allowances
 - b) Subsistence allowances
 - c) Travelling expenses
 - d) Incidental expenses
- 13.9 Executive Directors and Chief Officers are also entitled to payment of travel and subsistence expenses relating to approved duties. Executive Directors and Chief Officers are required to submit claims with appropriate receipts and these claims should be submitted in accordance with Council policies. These policies can be found on the Intranet. (Personnel→Policies and Procedures→Subsistence Scheme).
- 13.10 Executive Directors and Chief Officers will ensure that any claims and applications are submitted on official expenses claim forms. The Chief Officer, Corporate Solutions will be sent a list of Relevant Officials authorised to sign claim and allowance forms.
- 13.11 The Chief Officer, Corporate Solutions is responsible for administering the payment of Members' remuneration and expenses in accordance with the relevant statutory provisions.

14. PROCUREMENT OF GOODS, WORKS & SERVICES

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Introduction

A major requirement for the Council under Best Value is to have a procurement regime, procedures and guidelines that prompt members of staff to follow consistent methods of ordering goods, works and services and secure value for money.

- 14.1 Each Director and Chief Officers will ensure that procurement within their Directorate complies with the Council's Corporate Procurement Policies and Procedures (<http://intranet/Council/minisites/MiniSite02.asp?siteid=1>).
- 14.2 Where procurement is by contract Executive Directors and Chief Officers must follow Standing Order 20 and the Council's Procurement Policies and Procedures Manual. Further details are given in Financial Directive 17 on the financial control of contracts.
- 14.3 No procurement of goods, works or services is made by Directorates unless the resulting expenditure can be met from an approved Capital or Revenue Budget or other financial provision as determined by the Chief Officer, Corporate Solutions.
- 14.4 Official orders, in the format agreed by the Chief Officer, Corporate Solutions, are used for goods and services and Executive Directors and Chief Officers ensure that these are used correctly, including the secure storage of unused orders, as per the Chief Officer, Corporate Solutions.
- 14.5 Official orders indicate clearly the nature of the purchase, the quantity or service involved, and any agreed terms/ price.
- 14.6 Official orders must be signed by a Relevant Official, with the signatory previously included in the electronic authorised signatory system (intranet).
- 14.7 Official orders with an estimated value of £50,000 and over must be counter-signed by a Director or Chief Officer.
- 14.8 Official orders should be used for all procurement of goods, works and services except:
 - a) Civil Engineering and Building contracts.
 - b) Public Utilities.
 - c) Periodic payments such as rent.
 - d) Petty Cash purchases.
 - e) Other exceptions as detailed in the Procurement Policies and Procedures Manual.
- 14.9 Each Director and Chief Officer ensures that proper procedures are observed for:
 - a) Receiving goods/checking that services have been carried out satisfactorily.
 - b) Updating/matching the copy order with the delivery note.
 - c) Updating records, systems and inventories accordingly.
 - d) Ensuring that the invoice is correct when received from the supplier/service provider and it is paid within a stipulated deadline on the signature of a Relevant Official.
- 14.10 Procurement of goods, works and services must be made from the appropriate contracted suppliers listed in the Council's Contracts Register.

14.11 No procurement of goods, works or services may be made from suppliers who do not appear on the Purchase Ledger database until a New Supplier Form has been completed and authorised in advance.

15. PAYMENT OF ACCOUNTS AND AD HOC PAYMENTS

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Introduction

Payments to the Council's suppliers should normally be paid within thirty days of their receipt, in accordance with the Late Payments of Commercial Debts (Interest) Act 1998. Procedures for the payment of invoices are therefore required to ensure the achievement of this objective. In addition control of the Council's expenditure must be maintained and be proper to the Council's activities. In order to achieve this it is necessary to designate those Relevant Officials who may certify payments and for them to know what is expected of them and the limits of their powers.

- 15.1 Money due by the Council is usually paid by automated bank payment or cheque drawn on the Council's Bank Account.
- 15.2 Each Executive Director and Chief Officer is responsible for ensuring that Relevant Officials responsible for examining, verifying and certifying payments on his behalf have checked these to the related order. Similarly any other payment vouchers and accounts arising from sources in the Directorates are examined to ensure that they are properly prepared, evidenced and certified. Certification is required by or on behalf of the Executive Director or Chief Officer. Each Executive Director or Chief Officer sends the names and specimen signatures of Relevant Officials authorised to sign payment vouchers on his behalf to the Chief Officer, Corporate Solutions on request and on the occasion of any change. If approved, this allows the Council's Authorised Signatories Database to be updated to ensure that all officers authorising any payment on behalf of the Council are listed appropriately on this database.
- 15.3 Relevant Officials for the purposes of the certification of payments are those listed in the Authorised Signatories database as posted on the Intranet under Finance→Authorised Signatories' and then selecting the appropriate category for the authorisation/certification of
- i. Invoices
 - ii. BACS e-form payment files
 - iii. Bankline e-form Payment Request Forms (as the case may be).
- 15.3 Executive Directors and Chief Officers must ensure that the guidelines for making payments posted on the Intranet under 'Finance→FAQ's→Payments→Payment Guidelines' encompassing payments through the central accounts payable system and electronic payments through BACs and Bankline are complied with in full by Relevant Officials.

Introduction

The Local Government in Scotland Act 2003 and the associated Scottish Government guidance empowers Councils to be innovative and to work in partnership with other parts of the public, private and voluntary sectors. As part of Best Value, Councils are expected to work effectively through partnership at all levels. Partnership working is seen by the Government to be a potentially powerful tool for tackling policy and operational problems and is led by the Midlothian Community Planning Partnership, which includes key partners such as Health and the Police.

The Council works effectively through partnerships at all levels. This includes both mandatory partnerships (for example, community planning, Regional Transport Partnership, Integrated Joint Boards, Criminal Justice Authority) and partnerships where there are communities of interest (e.g. older people, gypsy/travellers), including collaborative working, networks and partnerships at regional or sub regional level. It identifies partners with whom it can deliver sustained improvements in outcomes for citizens, and finds its partnership working on effective consultation and analysis of need. Programmes and projects are visible and relevant to local communities and innovation is encouraged. Clear objectives are set for all partnership activity. Activities and tasks carried out in partnership are subject to the council's performance management framework, and carry the same burden of accountability as activities carried out solely by the council.

- 16.1 The foundations for partnership working are laid down in the Midlothian Community Plan, which can be viewed on the Council's website.
- 16.2 The statutory requirement under the above Act, to secure Best Value, means that every Director and Chief Officer, in line with corporate guidance, will periodically review the options available for the delivery of services (options appraisal) which includes analysis of whether services are delivering best value, including potential options for partnership working and shared services.
- 16.3 Executive Directors and Chief Officers must ensure that any proposed partnership has clearly mapped benefits, is legal, and has measurable outcomes and clear opportunities for improvements to services.
- 16.4 No partnership can be entered into unless it has Council or Cabinet approval. Each report seeking approval must include:
 - a) A business case
 - b) An analysis of inherent risks
 - c) A realistic evaluation of the proposed partnership
 - d) A statement on how likely issues will be managed
 - e) Details of how partners' actions will be governed
- 16.5 Whenever a partnership is proposed, and before any Partnership Arrangements are progressed, a joint risk assessment must be produced and be agreed and certified by the partners. This risk assessment must be reviewed bi-annually.

- 16.6 Each partnership must have a formal agreement, which should determine:
- a) Funding input.
 - b) Representation, respective roles and responsibilities and voting rights.
 - c) Accountability to the partnership itself and to individual partners.
 - d) The main arrangements for committing funds and making payments.
 - e) The reporting routines.
 - f) Collective performance measures and targets.
 - g) Any collective arrangements for procurement.
 - h) Common risk management language.
 - i) The Business Continuity plan.
 - j) Insurance and liability arrangements.
- Equality implications
- 16.7 The Council may also fund ‘Outside Bodies (OB)’ and ‘Supported Organisations (SO).’ Each Director and Chief Officer proposing to make a payment to such a body is subject to other Financial Directives on approved budgets and authorising/checking payments.
- 16.8 Elected Members or Officials representing the Council on a Partnership, Joint Venture or OB/SO are regulated by the Council’s codes of conduct.

Introduction

The Council enters into a wide range of contractual obligations, such as building projects, purchase of computers, social care and professional services. The requirement to secure Best Value means that the Council must secure value for money from its contractual obligations.

This Financial Directive details the Council's requirements in relation to the financial control of contracts.

Awarding contracts

- 17.1 Executive Directors and Chief Officers will not enter into a contract unless it is legal, budgetary provision is available and the long-term implications of the obligations are assessed. The Chief Officer, Corporate Solutions, through the Legal Service, will advise on contracts and will be notified by Executive Directors and Chief Officers before any contractual commitment is agreed.
- 17.2 Executive Directors and Chief Officers will comply with Standing Order 20 and the Council's Procurement Policies and Procedures when entering into contracts. The Council's Procurement Manager is the key contact on these matters and there is an expectation that he/she is consulted on all procurement matters.
- 17.3 Executive Directors and Chief Officers must ensure that each contractual obligation represents Best Value.

Payment by Instalment

- 17.4 Where Capital or Revenue contractual payments are paid by instalments, the Chief Officer, Corporate Solutions will maintain a record of these in a contract register. This register will record details of all payments and contractual obligations against the agreed budget.
- 17.5 The Chief Officer, Corporate Solutions will ensure that payments by instalment are regularly reconciled to the central Finance System and suitable financial information is made available from this process.
- 17.6 In the case of civil engineering and building contracts each payment by instalment will be transacted by means of an approved certificate signed by a Relevant Official. In other cases instalments are paid on an invoice certified by a Relevant Official which shows the payments to date and the outstanding sums. In both instances Executive Directors and Chief Officers are responsible for detailed checks over the work carried out by the contractor over the goods received process.
- 17.7 The responsible Executive Director or Chief Officer ensures that contractual payments are bona fide and the goods, services or works have been received and are of the agreed standard and quality.

- 17.8 Payments will not be made without Cabinet approval where estimated cumulative contract variance is greater than £20,000 or 10% (for contracts over £200,000). The Chief Officer, Corporate Solutions will be notified where the cost overruns are likely with guidance on how to deal with potential overruns available on the Intranet.
- 17.9 All contracts that span a timescale and involve instalment payments will be subjected to monthly progress reports including the presentation of monthly cost reports being made by the Relevant Official to the appropriate Director or Chief Officer.

Contractors' Claims

- 17.10 No final instalment will be authorised for payment by a Relevant Official unless it is clear that the contractor has fulfilled all contractual obligations.
- 17.111 Contractor's claims covered by contract conditions will be dealt with by the responsible Executive Director or Chief Officer unless they involve potential cost overrun when they are then dealt with under financial directive 17.8.
- 17.12 Contractors' claims not clearly covered by contract conditions will be referred to the Chief Officer, Corporate Solutions for consideration of the Council's legal and financial liability before any payment is made.

Service Concession

- 17.13 The monitoring of the operation of service concession (PPP/PFI etc) Contracts will be in accordance with procedures agreed between the Chief Officer, Corporate Solutions and the Executive Director, Place and will include *inter alia*:
- (a) monitoring the performance of the contractor;
 - (b) the checking and verification process;
 - (c) penalty deductions for poor performance; and
 - (d) timeous payment of invoices.

18. AUDIT

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Introduction

To help the Council apply Best Value principles, including sound Corporate Governance, there has to be a review and assessment function with the operational flexibility and authority to access all areas of Council activity and to follow the public pound to the “point of delivery”.

Internal Audit is an independent appraisal function, established to review, examine, evaluate and report on the adequacy of internal controls, governance and the management of risk within the Council. This Financial Directive details the Council’s requirements in terms of Internal Audit.

- 18.1 Internal Audit will review, appraise and where appropriate, report on:
- a) The effectiveness of established internal controls, mainly in core, financial systems and Strategic and Corporate risks, governance and risk management processes.
 - b) Compliance with approved Council policies, plans or procedures.
 - c) Whether Council assets are properly accounted for and safeguarded from losses arising from theft, fraud, waste, inefficient administration or poor value for money.
 - d) The suitability and reliability of management data produced within the Council.
 - e) How effectively service managers discharge their responsibility to achieve
 - f) Best Value.
- 18.2 The main structure/stages of an audit review are:
- a) Identification of Risks.
 - b) Evaluation of Controls established by Management to address the risks.
 - c) Testing the effectiveness of the controls.
 - d) Reporting findings and recommending improvements.
- 18.3 Internal Audit findings are reported initially to the appropriate Director and Chief Officer, and are then considered by the Council’s Corporate Management Team and then reported to Audit Committee. The Chief Internal Auditor will also report to the Chief Officer, Corporate Solutions, and to the Chief Executive if deemed appropriate. The Chief Internal Auditor has access to the Chair and Committee Members of the Audit Committee.
- 18.4 Internal Audit reports will identify controls strengths and weaknesses in the business operations reviewed and make recommendations accordingly. It is a Director and Chief Officer responsibility to decide whether to implement audit recommendations. The Audit Committee will have a view on the requirement to install recommendations.
- 18.5 It is also a Director or Chief Officer responsibility to ensure that:
- a) All employees work closely with Internal Audit to ensure that audit reviews are completed as quickly as possible.
 - b) Responses to audit reports are within agreed timescales. These deadlines are agreed by the Corporate Management Team and endorsed by the Council’s Audit Committee.

- c) Internal Audit recommendations are successfully installed within agreed timescales
 - d) The Chief Internal Auditor is made aware of any proposed new systems or significant changes to existing processes.
 - e) The Risk Register is kept up to date.
- 18.6 The Chief Internal Auditor has a formal link with the Audit Committee and all audit reports submitted are in his/her own name. Executive summaries of published audit reports are presented to the Audit Committee for consideration.
- 18.7 In addition, the Chief Internal Auditor submits summary reports to the Audit Committee on audit activity, and emerging internal control issues, and the report issued in April/May of each year includes an opinion on the Council's internal control arrangements, in support of the Assurance Statement of Governance made by the Chief Executive and Leader of the Council.
- 18.8 The Internal Audit Section has authority to:
- a) Enter any Council premises or land, at reasonable times.
 - b) Have access to all records, documents and correspondence relating to any accounting financial and other operational transactions of the Council.
 - c) Require and receive such explanations as are necessary concerning any matter under examination.
 - d) Require any employee of the Council to produce cash, stores or any other Council property under the employee's control.
- 18.9 The Chief Internal Auditor must be immediately notified of any possible discrepancies relating to cash, stores or any other Council property as well as any suspected irregularity associated with the Council.
- 18.10 Any irregularities will be dealt with in accordance with the Council's Counter Fraud and Corruption Policy. Details of this Policy strategy can be found on the Intranet under 'Finance > FAQs > Internal Audit > Fraud and Corruption Policy'.

Introduction

Best Value guidance requires councils to have in place a comprehensive and organisation-wide risk management strategy and system. This should focus on the major risks in Corporate Priorities, Corporate Aims and Objectives, Human Resources, Money, Property, Technology, Information, Reputation, Other Assets, Projects and Partnerships.

Further, a major requirement under Corporate Governance is for a system to be in place to provide assurance to Senior Management, Elected Members and the wider public audience.

The Council's Risk Management Strategy and System of Assurance can be found on the Intranet under '[Finance→FAQ→Risk Management](#).'

Risk Management

- 19.1 The Executive Director, Place facilitates and coordinates a risk management framework covering all the strategic, operational, project and thematic risks within the Council including its relations with outside bodies and partners. Executive Directors and Chief Officers are obliged to activate the Risk Management systems and processes within their Directorates.
- 19.2 The Cabinet approves the risk management policy and strategy and receives an annual update on progress and the risk exposures facing the Council.
- 19.3 The Executive Director, Place reports quarterly to the Audit Committee on the Council's risk management performance.
- 19.4 The Executive Director, Place ensures that Elected Members and Relevant Officials are provided with proper training and guidance on risk management.
- 19.5 The Risk Management Group, chaired by The Chief Officer Place, is attended by representatives from Directorates. The Group's purpose is to improve risk mitigation across the Council and it has links to Directorate and Corporate Management Teams.
- 19.6 The Executive Director, Place maintains a Corporate Risk Register, which includes all Generic Risks. This can be accessed by all stakeholders. Each Director or Chief Officer must ensure that the register is kept up to date in relation to their services.
- 19.7 The Corporate Management Team will ensure that high level strategic risks are properly managed. The Executive Director, Place reports to the Corporate Management Team on the management and mitigation of risk at the strategic level and the Corporate Management Team agrees an Action Plan. So that possible impediments are identified, the council's corporate priorities are risk assessed.
- 19.8 Executive Directors and Chief Officers are responsible for ensuring that operational risks are mitigated properly through a process of identification of risks, analysis, evaluation and approved control measures. The Chief Internal Auditor provides reports to each

- Director and Chief Officer on the risk management processes and risk exposure within their Directorates. Each Director and Chief Officer ensures that risk considerations are included in Directorate and Business Plans.
- 19.9 Executive Directors and Chief Officers ensure that all reports to the Corporate Management Team, Council Committees, Cabinet or Council include, where appropriate, 'Risk Management Statements' alongside 'Financial Implications'. Guidance on these statements can be found on the Intranet under '[Finance→FAQ→Risk Management→Risk Management Statements in Reports.](#)'
- 19.10 Where the Council makes significant capital investment in the community each project will be prefixed with a risk assessment which forms part of the business case. A further risk log supports the currency of each project. Risk assessments and logs are also required for computer projects.
- 19.11 Elected Members and Officials of the Council must report to the relevant Director any new risk exposure that arises which could seriously damage the operations of the Council. This is so that significant risk exposure can be mitigated through insurance, transfer of the risk to another body, sharing the risk with another body or through internal control measures.
- 19.12 The Executive Director, Place operates a Contingency Planning service, which assists in the prevention and damage limitation of any major threat to the Council's Business Continuity and the Community including compliance with the Civil Contingencies Act.
- 19.13 The Executive Director, Place chairs the Contingency Planning Group which deals with matters under 19.12 above

Assurance

- 19.14 The Executive Director, Place is responsible for ensuring that the Council operates an effective Assurance System that informs the Annual Governance Statement which provides assurances to Elected Members, management and the wider public.
- 19.15 The Assurance System consists of:
- a) Annual written assurances to the Executive Director, Place, from other Executive Directors and Chief Officers, that their Directorates are complying with Standing Orders and Financial Regulations/Directives and that Place guidance on Financial Matters is being complied with.
 - b) Written assurances to the Executive Director, Place, from other Executive Directors and Chief Officers, that they are properly mitigating risks.
 - c) Annual reports on risk management and agreed action plans to Executive Directors and Chief Officers by the Chief Internal Auditor.
 - d) Financial processes like Capital Planning, Budgetary Control and Reporting, Financial Policy statements and the adoption of Best Practice through recognised Codes of Best Practice.
 - e) The work and reporting of the Internal Audit section and Annual Report on the Internal Control system by the Chief Internal Auditor.
 - f) The scrutiny and performance monitoring role of the Audit Committee.

- g) The adoption of Audit Committee principles.
- h) Corporate and Service Planning processes.
- i) Reviews and reports by Audit Scotland and other external inspection agencies.
- j) The review arrangements of the Council's Monitoring Officer.

20. INSURANCE

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Introduction

The Council is exposed to many risks and whilst these must be managed they cannot be entirely avoided or eliminated. It is therefore prudent to have appropriate insurance cover and professional help to acquire this and manage any claims that do arise.

This Directive seeks to ensure that Relevant Officials understand the responsibility for procuring insurance and providing information as appropriate.

- 20.1 The Chief Officer, Corporate Solutions effects all insurance cover, appoints Advisors and Claims Adjusters to negotiate all claims. Relevant Officials are consulted as necessary.
- 20.2 Executive Directors and Chief Officers will immediately notify the Chief Officer, Corporate Solutions of all new risks, properties, vehicles, plant, equipment and other supplies which require to be insured and of any alterations affecting existing insurance risks.
- 20.3 Executive Directors and Chief Officers will notify the Chief Officer, Corporate Solutions immediately of any loss, liability or damage or any events likely to lead to a claim, and inform the Police if appropriate.
- 20.4 All officials will follow the guidance provided on the Intranet at [Finance/FAQs/Insurance/Insurance do and do not.](#)
- 20.5 The Chief Officer, Corporate Solutions reviews annually or at such other period as may be considered necessary, all insurance cover in consultation with other Executive Directors and Chief Officers as appropriate.
- 20.6 Executive Directors and Chief Officers will consult the Chief Officer, Corporate Solutions regarding the terms of any indemnity which the Council is requested to give.
- 20.7 From time to time the Council's insurers undertake risk surveys, and Executive Directors and Chief Officers must take due account of any recommendations arising from them.
- 20.8 The Chief Officer, Corporate Solutions will make arrangements to provide information to Relevant Officials as regards claims made and or settled.

21. PHYSICAL ASSETS

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Introduction

Midlothian Council owns a variety of land and buildings and other assets. Their individual values will vary significantly but, irrespective of their relative value, the Council must, at any time, have an accurate and reliable record of all such physical assets. An Asset Management Plan indicating each asset's fitness for purpose, the measures necessary to ensure this, and recommendations for future use or disposal as necessary should exist to support this aim.

This directive aims to provide the principles to be applied by Executive Directors and Chief Officers to ensure such a record is kept up to date and that effective measures are in place to safeguard the assets and to ensure that any insurance arrangements provide sufficient "cover".

Further guidance on physical assets can be found on the Intranet under '[Finance](#)→[Finance FAQ's](#)→[Physical Assets](#).'

Property Register

- 21.1 The Executive Director, Place will maintain an up-to-date register of all land and buildings owned or leased by the Council (even if this is under a Trust or Local Authority Company).
- 21.2 The Executive Director, Place maintains a register of properties provided under the Housing Acts and tenancies granted thereon.
- 21.3 Records kept will be in such a form as required by the Chief Officer, Corporate Solutions for the maintenance of financial records and returns.

Vehicles and Moveable Plant and Equipment

- 21.4 The Executive Director, Place will maintain a register of all Council vehicles and moveable plant and equipment.

Stocks and Stores

- 21.5 Care and custody of stocks and stores is the responsibility of Executive Directors and Chief Officers who will ensure that stocktaking is carried out at regular intervals.
- 21.6 Supervision of stocktaking checks will be agreed in advance with the Chief Officer, Corporate Solutions.
- 21.7 Stocks will not be held in excess of normal requirements, except in special circumstances to be approved by the Chief Officer, Corporate Solutions.
- 21.8 Executive Directors and Chief Officers will arrange for periodic test examinations of stocks by persons other than storekeepers and will ensure that all stocks are checked at least once in every year.

- 21.9 The Chief Officer, Corporate Solutions is entitled to receive from each Director and Chief Officer such information as required in relation to stores for the accounting, costing and financial records.
- 21.10 Surplus materials, stores or equipment will be disposed of under arrangements approved by the Chief Officer, Corporate Solutions. Details can be found on the Intranet under 'Finance→FAQ's→Physical Assets.'

Property and Security of Assets

- 21.11 All heritable securities which are the property of, or are in the name of the Council or its nominees together with the title deeds of all property in its ownership will be held in the custody of the Chief Officer, Corporate Solutions.
- 21.12 Executive Directors and Chief Officers are responsible for maintaining appropriate security for all buildings, stocks, stores, fittings furniture, equipment, cash, computer equipment etc. under their control.
- 21.13 The Chief Officer, Corporate Solutions or their authorised representative must be consulted in any case where security may be defective or where it is considered that special security arrangements may be needed.
- 21.14 Maximum limits for cash holdings will be agreed with the Chief Officer, Corporate Solutions and must not be exceeded without his approval.
- 21.15 The Chief Officer, Corporate Solutions will be responsible for ensuring that secure arrangements are in place for the preparation and storing of pre-printed/predesigned cheques, stock certificates, bonds and other financial documents.
- 21.16 Any scheme to write-off or otherwise dispose of assets will require the appropriate Director or Chief Officer, subject to any scheme of delegation in force, to consult with and receive written approval from the Chief Officer, Corporate Solutions prior to any action being undertaken.
- 21.17 Council property will not be removed otherwise than for Council purposes except in accordance with specific instructions issued by the Director or Chief Officer concerned.
- 21.18 Executive Directors and Chief Officers are responsible for keeping fixed asset inventories and may keep inventories of other assets, if the risk of loss merits the administrative burden.

Introduction

Internal control comprises the whole system of methods and measures designed and implemented to promote the achievement of objectives with the optimum use of resources and the minimisation of loss, harm or other undesired event.

The purpose of internal control is to maintain and regulate systems and procedures to help the Council attain current objectives and also to cope with change, risk, external forces and future events.

This Financial Directive provides advice on authorisation and internal control.

Further guidance on Internal Control can be found on the Intranet under [Finance→FAQ's→Internal Audit→Improving Internal Control - Achieving a High Rating during an Internal Audit](#)

Internal Control

- 22.1 Each Director and Chief Officer has responsibility to exercise control and establish such arrangements within their Directorate so that:
- a) Its activities are demonstrably conducted in a regular and well-ordered manner.
 - b) Opportunities are identified and assessed.
 - c) Risks are guarded against.
 - d) Resources are used prudently with due regard to propriety, economy and efficiency.
 - e) Performance meets the desired standards.
 - f) Established procedures are followed.
 - g) Goals are met and objectives are achieved.
- 22.2 It is essential therefore that control ensures those policies, priorities, practices and procedures are reviewed for their continuing relevance, effectiveness and value.
- 22.3 Internal controls are implemented to ensure that the Council's business is conducted in an orderly and efficient manner; its policies adhered to, its assets protected and its records complete and accurate.
- 22.4 It is the responsibility of Executive Directors and Chief Officers, with appropriate advice and assistance, to devise and implement appropriate systems of control, regularly to review those controls for compliance, adequacy and continued validity, and to adapt and improve such procedures as necessary. The aim at all times being to deliver against objectives and strive for Best Value.
- 22.5 Internal controls will vary throughout the council depending on activity, size, and volume of transactions and geographical distribution. However, three types of internal control will apply as a minimum requirement:
- a) Separation of Duties
 - b) Internal Check
 - c) Management Review

- 22.6 Separation of duties is necessary so those individuals cannot influence financial transactions from start to finish. Therefore, transactions will be progressed in stages by a number of people. For example, orders may be prepared and signed by one person but the same person should not authorize the invoice. Variations from these arrangements must be agreed by line management and documented in the relevant risk register.
- 22.7 All financial transactions must be subject to internal check at every stage i.e. input prepared by one person must be checked by another. Controls will be evidenced by the signatures or initials of the person undertaking the work and the person checking it.
- 22.8 In order for internal controls to be effective, it is important that each Relevant Official has a clear role. As such, each post within a Directorate will have a clearly defined job description, detailing the role and responsibilities of the post holder in delivering the Directorate service(s).

Authorisation

- 22.9 The Council will only enter into transactions that are required. Therefore, all financial transactions will be authorised before being processed.
- 22.10 By authorising financial transactions the Relevant Officials are accepting responsibility for them, confirming that they are satisfied that the following are true:
- a) **For orders:** Goods/services are procured at an appropriate price and quality from an approved source.
 - b) **For timesheets:** Hours stated were actually worked by the employee concerned and were in accordance with the appropriate contract of employment or overtime approval.
 - c) **For expense claims:** The activity claimed was approved in advance and was necessary to the business of the Council. Further, the claim is not against the Council's financial interests in terms of cost-effectiveness and value for money.
 - d) **For imprest claims:** The expenditure incurred was on items which could not have been otherwise purchased, and the claim is fully supported by till receipts or other reliable vouchers.
 - e) **For invoices:** The goods or services were received by the Council in good condition and the price paid is consistent with order details/contractual arrangements.
 - f) **For Accounts Receivable:** The accounts raised represent the amount due, are for the maximum amount obtainable under the current scale of charges and are correctly calculated.
- 22.11 Relevant Officials will not authorise transactions in which they have a personal interest.
- 22.12 Executive Directors and Chief Officers are responsible for determining the numbers and distribution of Relevant Officials who will be authorised signatories to meet the needs of their services in accordance with the management structures of their Directorate(s).
- 22.13 Executive Directors and Chief Officers are responsible for determining internal controls in computer systems that require electronic authorisation by officials and these authorisation methods cannot be activated without the approval of the Chief Officer, Corporate Solutions.

- 22.14 The Chief Officer, Corporate Solutions will facilitate an electronic authorisation system and provide the overall system administration.
- 22.15 Executive Directors or Chief Officers will nominate a Directorate officer (and substitute) for the purpose of maintaining the system up to date. Directorate officers will ensure that leavers are deleted from the system and new authorised signatories added (with the approval of the Director or Chief Officers).
- 22.16 The Chief Officer, Corporate Solutions will ensure that no transactions are processed through corporate systems without proper authorisation.

Introduction

This Financial Code provides guidance on the retention and disposal of financial documents.

Main Issues

- 23.1 The main reasons behind questions on document retention are storage difficulties, cost and value for money. Once documents are no longer required for day to day administration there is a strong incentive to dispose of them. However, there are certain requirements imposed by HM Revenue & Customs which must be adhered to.
- 23.2 Apart from these requirements Executive Directors and Chief Officers will decide what is to be retained, based on operational needs and the availability of storage facilities. However, the premature disposal of documents can be prejudicial to enquiries involving fraud.
- 23.3 Further information on record retention issues and requirements can be found on the Intranet under 'Council→Freedom of Information→Records Management.'
- 23.4 Generally the original document will be retained. Therefore directorate duplicate copies (e.g. of timesheets) may be disposed of before the relevant time scales have passed. However, Directorates must ensure that the original has been retained before disposing of any duplicates.
- 23.5 To save storage costs, documents can be retained on microfilm or document imaging systems rather than in paper form. However, it is important to establish the legal admissibility of information stored in photographic or electronic form first, as well as dealing with issues such as the potential for loss by fire, computer failure, etc. Advice on the most efficient methods of storage can be obtained from the Council's Archivist.

Retention Periods

- 23.6 HM Revenue & Customs require all business records to be kept for a minimum period of six years. These records include:
- a) Orders and delivery notes
 - b) Purchase orders for creditors and copy supply invoices to debtors
 - c) Any debit or credit notes issued or received
 - d) Cash records and till rolls
 - e) Bank statements and paying-in slips
 - f) Creditors, debtors and cash income ledger control accounts
 - g) VAT account
 - h) Annual accounts
 - i) Import and export documents
 - j) Relevant business correspondence

With the exception of credit card details relating to payments made to the Council, which only require to be kept for a period of 18 months.

- 23.7 HM Revenue & Customs allow organisations to retain records on microfilm or microfiche, provided that copies can be produced and there are adequate facilities for Customs & Excise staff to view these when required. However, this approval can be withdrawn if these requirements are not met.
- 23.8 For batch disposal of time expired material at the end of each financial year, current year + 6 years is recommended.

HMRC

- 23.9 HMRC requires records for the payment of salaries or wages to be retained for a minimum of three years after the end of the year in which they occur. These can be kept on either paper or in a computerised format.

External Audit

- 23.10 A number of documents must be retained for external auditors to verify the final accounts of the Council. Other documents required by external audit which do not have to be retained for a longer period because of statutory or other reasons need only be retained until the audit has been completed.
- 23.11 Annual Accounts and associated working papers should be retained indefinitely. Further, certain types of grant claims should be permanently retained.
- 23.12 In addition, financial documents considered to be of historical interest may merit permanent retention. Where this is likely, advice will be sought from the Council's Archivist.

Introduction

Section 10 of The Local Government in Scotland Act 2003 requires Local Authorities to maintain and disclose trading accounts for significant trading operations and for them to break even over a rolling three year period.

Guidance has been produced by the CIPFA Executive Directors of Finance Section and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) entitled “A best value approach to trading accounts: a guidance note for local authority practitioners” to support the Finance practitioners in accounting for significant trading operations. The guidance is available on the Intranet under ‘Finance→ Finance FAQ’s→Trading Accounts Guidance.’

In addition the Best Value Task Force has produced an advisory note to provide guidance to Local authority senior managers.

The purpose of this Financial Directive is to set out the relative responsibilities in relation to the requirement to maintain Statutory Trading Accounts and to provide a brief explanation of these.

Responsibilities

- 24.1 There are four broad areas of responsibility in relation to statutory trading operations (STO’s):
- a) The arrangements made to identify trading operations and to consider which are significant: this is the responsibility of Financial Services.
 - b) Notifying Financial Services of changes in service provision which may trigger the STO’s provisions: while Financial Services will monitor changes in services, it will be the responsibility of Executive Directors and Chief Officers to inform Financial Services of such changes.
 - c) The maintenance of trading accounts and their disclosure in the financial statements. This is the joint responsibility of Financial Services and Executive Directors and Chief Officers.
 - d) The achievement of break-even over a rolling three-year period for each trading account: this is the responsibility of the Director or Chief Officer of the service concerned.

Identification

- 24.2 A service will be considered a trading operation where:
- a) It is provided in a competitive environment, i.e. where the user (the public or other Directorates etc) is free to choose an alternative provider.
 - b) It is charged for on a basis other than a straight recharge of cost.
- 24.3 The guidance states that trading operations in the following categories will be deemed to exist in a competitive environment:

- a) Trading services or undertaking with the public or with other third parties i.e. markets, trade refuse collection and rental of industrial units.
- b) External trading operations which have won contracts with other public bodies.
- c) Internal trading operations arising from voluntary competitive tendering.
- d) Support services provided in a free internal market to budget holders who have freedom to buy externally.

Where a service meets both of the above criteria, and is therefore deemed a trading operation, it is then necessary to consider whether it is significant. The test of significance is important as it determines which trading operations require to maintain Statutory Trading Organisations.

- 24.4 Financial Services will set parameters for the following financial and non-financial criteria to be used to determine significance and will apply these consistently over all trading operations:
- a) Turnover relative to the net Revenue Budget.
 - b) Exposure to risk of financial loss in carrying out the operation.
 - c) The importance of maintaining a trading account to demonstrate service improvements and achieving targets.
 - d) The risk of service or loss of reputation that the Council is exposed to by carrying out the operation.
 - e) The importance of the service area to key stakeholders.
- 24.5 Where a trading operation is deemed significant then a Statutory Trading Account will require to be set up and maintained. Where a trading operation is not considered significant then it may still be appropriate to maintain a trading account for management information purposes.

Existing STO's and What May Trigger New Ones.

- 24.6 When the STO requirements were introduced the Finance Unit carried out the above assessments and identified the following as STO's:
- Roads Maintenance Service
 - Building Maintenance Service
- 24.7 The way in which services are provided is subject to continual change and Financial Services will monitor service developments to assess whether the STO requirements are triggered. To support this, Executive Directors and Chief Officers must inform Financial Services of any changes, which may trigger the STO requirements.
- 24.8 The following list gives an indication of the types of events that may trigger STO requirements:
- a) Changes in the way a service is to be recharged (i.e. if no longer charged at below cost or on a straightforward recharge of cost).
 - b) The service tendering for contracts of a material value from other public bodies or external parties.
 - c) The service being exposed to voluntary competitive tendering.

- d) Changes which allow service users to select alternative suppliers.
- e) Externalisation of a significant part of only part of a service through either joint arrangements or through PPP.

Maintaining Statutory Trading Organisations

- 24.9 Trading Accounts require to be maintained in accordance with proper accounting practice. The Best Value Accounting Code of Practice (BVACOP) sets out proper accounting practice for the consistent financial reporting of services. This includes defining total cost, which includes all expenditure attributable to the trading operation. In addition to the direct costs in respect of employees, premises and supplies and services it will include Capital Charges and an appropriate share of support services and other overheads.
- 24.10 Financial Services will make the necessary arrangements to maintain the trading account in the financial ledger and, in conjunction with Executive Directors and Chief Officers, will make arrangements so that costs and income attributable to the trading operation can be separately identified and posted to the trading account.

Financial targets

- 24.11 Each STO is required to break even (income should not be less than expenditure) over a rolling three year period.

Disclosure requirements

- 24.12 The “Code of Practice for Local Authority Accounting in the United Kingdom” (ACOP) sets out the proper accounting practice for the Council’s financial statements and this includes the requirements in respect of STO’s.
- 24.13 Although STO’s require to be disclosed separately ACOP requires that they be properly consolidated into the Council’s financial statements. Where an STO is an integral part of the total cost of a particular service it will be consolidated with that service in the financial statements, otherwise it will be included in a separate trading operations line.
- 24.14 ACOP requires the nature, turnover and surplus/deficits of any STO's to be disclosed as a note to the Comprehensive Income and Expenditure Statement.

Introduction

The Council, in some respects, relies heavily on funding from External sources over and above the Aggregate External Finance support from the Scottish Government. External funding may come from the European Union or it may be service specific in respect of, for example, grants from Sport Scotland.

This Financial Directive details the Council's requirements in respect of External Funding Bids.

- 25.1 Executive Directors and Chief Officers are responsible for allocating sufficient resources and time to formulating bids.
- 25.2 Executive Directors and Chief Officers are responsible for ensuring that all funding bids within their Directorates are fully explored and where external funds are identified the Chief Officer, Corporate Solutions.
- 25.3 Where funding covers more than one service, or is Council wide, the responsible Director or Chief Officer should act jointly in respect of the requirements in these Directives.
- 25.4 When compiling bids for Midlothian Capital Funds, bids that include external funding will include full details of the external funding and the status of it, whether it is provisional, conditional and fully approved.
- 25.5 Executive Directors and Chief Officers are responsible for ensuring that match funding provided from the Council budgets is in place.
- 25.6 Executive Directors and Chief Officers are responsible for ensuring that any funding conditions can be fully met.
- 25.7 Executive Directors and Chief Officers are responsible for sound financial control in expediting the funding.
- 25.8 Executive Directors and Chief Officers must liaise with the Chief Officer, Corporate Solutions in relation to financial control, period reporting, and interim and final claims for funding.
- 25.9 The Chief Officer, Corporate Solutions certifies all final claims for funding.
- 25.10 Executive Directors and Chief Officers are responsible for retaining all project documentation for the period prescribed in the funding conditions.

Introduction

In furtherance of its statutory duties and Corporate Objectives the Council has in the past funded Arms Length External Organisations (ALEO's) to carry out certain functions to support the aims of the Councils. Funding of individual organisations can be sizeable but at the other end of the spectrum there are several small grants made to voluntary bodies.

- 26.1 A corporate system for 'Following the Public Pound' has been devised and can be viewed on the Finance Intranet ('[Finance > FAQ > Risk Management](#)') and Executive Directors and Chief Officers are obliged to comply with the guide.
- 26.2 The Chief Officer, Corporate Solutions is responsible for updating the corporate system and procedures and ensuring those Directorates receive adequate training in 'Public Pound' procedures.
- 26.3 Each Executive Directors and Chief Officers proposing to make a payment to an ALEO is subject to other Financial Directives on approved budgets and authorising/checking payments as well as ensuring that members of staff are adhering to the new corporate system.
- 26.4 Executive Directors and Chief Officers ensure that, in disbursing payments to ALEO's:-
- a) Proper records of individual funding are maintained.
 - b) Risk assessment of "substantial" funding is applied.
 - c) Proposed payments are bona fide.
 - d) The ALEO is a legitimate partner in the Council pursuing its stated objectives e.g. social inclusion.
 - e) The ALEO is made accountable for expediting the funds granted.
 - f) There is a clear audit trail of how the funds have been used.
 - g) Employees or Elected Members representing the Council are fully briefed on their responsibilities, reporting to the Council and any possible conflicts of interest.
- 26.5 Executive Directors and Chief Officers may make non-cash contributions to ALEO's such as in the use of premises. These contributions are also subject to the corporate guidelines.

Introduction

The Council has a duty under Best Value to protect public assets. A counter fraud and corruption culture is encouraged amongst Elected Members, Employees and Members of the Public.

Prevention is better than detection and the main focus is on deterring fraud and corruption. However there is a need to have robust detection and damage limitation procedures in place in the event that the Council's assets are exposed.

- 27.1 It is the duty of every Elected Member, Director and Chief Officer, and Employee to be vigilant towards fraud and corruption and to report any concerns forthwith.
- 27.2 The Chief Officer, Corporate Solutions is responsible for the production of corporate procedures that engage all parties listed in 27.1. The most recent corporate procedures (Policy, Strategy and Guideline) can be viewed on the Finance Intranet ([Finance > FAQ > Internal Audit > Fraud and Corruption Policy](#)).
- 27.3 Elected Members observe the Code of Conduct for Councillors.
- 27.4 Employees observe the Code of Conduct for Midlothian Employees.
- 27.5 Members of the public can raise concerns over corruption directly to the Chief Investigating Officer of the Standards Committee of Scotland or they can raise concerns with an Elected Member or a Director or Chief Officer. Concerns over fraud (general fraud or benefit fraud) can be made to any Elected Member, Directorate, the Chief Internal Auditor (using a whistle blowing facility) or the Benefit Fraud Hotline.
- 27.6 The Chief officer (Monitoring Officer) would normally investigate allegations of corruption and may engage other Executive Directors and Chief Officers and other agencies (e.g. Police) in this.
- 27.7 Elected Members, Executive Directors and Chief Officers, or other levels of management do not investigate instances of fraud or corruption by any other means than through the corporate system mentioned in 27.2 above. Fraud investigations are normally carried out by the Internal Audit team or by the HT team.
- 27.8 Where carrying out covert surveillance each Chief Officer must consult the Legal & Governance Manager and observe the Regulation of Investigatory Powers Act 2000 and the Regulation of Investigatory (Scotland) Act 2000. RIPSAs Codes of Practice can be viewed on the Council's Intranet ([Council→Legal →Surveillance Guidance](#)).
- 27.9 The Chief Officer, Corporate Solutions must be consulted where disciplinary procedures are being expedited against an Employee.
- 27.10 To assist all levels of management with internal control, reference should be made to the Internal Control Guideline ([Finance Intranet→FAQ→Internal Audit 'Internal Control Guideline'](#)) and to Service Risk Registers.

27.11 The Chief Officer, Corporate Solutions arranges for local data matches and for compliance with national exercises like the NFI.

[Return to FD Index](#)

Local Government in Scotland Overview 2022

Gary Fairley, Chief Officer Corporate Solutions

Report for Information

1 Recommendations

Audit Committee are asked to note the publication of the [Local Government in Scotland Overview 2022](#) report by Audit Scotland on 26 May 2022 and consideration of the report findings for Midlothian Council.

2 Executive Summary

Whilst noting that Council's have had a difficult year following the year one response to the pandemic, the report further notes the continuing need to respond to Covid-19 in a complex and uncertain environment stating that *"Recovery and renewal are not about returning to the pre-pandemic status quo. The process of recovery and renewal includes directing resources to help ensure that services can restart and are reshaped to meet the new needs of the local area, to address the harm caused by the pandemic, to support economic recovery, to empower communities, to address inequalities, and to tackle key priorities including climate change, growing poverty, and the long-standing need for public service reform."*

The report states that is the second in a series of reports reflecting the evolving and long-term nature of the impact of Covid-19, it considers the second year of the pandemic from March 2021 to February 2022 and includes data and information correct as at the end of February 2022 and includes exhibits and case studies throughout.

The report notes that it builds on the 2021 overview report and assesses:

- the ongoing impact of Covid-19 and councils' progress towards recovery and renewal
- how councils are positioned to address long-term priorities including climate change, inequality and public service reform
- how effectively council leadership is managing recovery and renewal

Date: 26 May 2022

Report Contact:

Myra Forsyth, Continuous Improvement Manager

myra.forsyth@midlothian.gov.uk

3 Background/Main Body of Report

3.1 This year's local government overview report is the second overview report taking place during the second year of Covid-19, and as a result reflects the response phase from March 2021 (correct as at the end of February 2022) and presents a number of exhibits and case study examples. An extract of the timeline considered is available in Appendix C.

3.2 Key messages captured within the report state that:








1. Councils have had a very difficult year
2. The challenging context means collaborative leadership is more important than ever
3. Pressure on the local government workforce continues
4. The impact of the pandemic and service disruption have been felt most strongly by those already experiencing inequality
5. The early response showed what could be achieved by working closely with communities and the voluntary sector
6. Improvements are needed in data availability, tools and skills to support performance monitoring, strategic decision-making and planning service improvements

3.3 The report is structured around three main themes on which progress towards recovery and renewal depends, noting that leaders need to consider how well their council is:

- Responding to the external environment: climate change, reform, financial pressures, Brexit, demographic change
- Organising the council: leadership, resources, workforce
- Meeting local needs: inequality

Each of the three main themes are set out in more detail and relevant exhibits and case studies are provided to support each area, including the following principles of leadership exhibit:

Exhibit 1.
Principles of leadership that enabled the response to Covid-19

<p> Communicative – being available, engaging, honest and open. The pandemic created uncertainty that demanded more frequent communication with staff, partners, and communities. This provides assurance, uncovers issues, and enables decision-making. The shift to remote and hybrid working also demands more frequent communication.</p>	<p> Data driven – using data and information to plan, make decisions, direct resources and monitor progress, as well as to learn from looking back. Data has been a vital tool, and leaders' ability to use data will be important as we move into the future.</p>
<p> Collaborative – working with and empowering others. This was critical to the pandemic response and harnessing the resources of the community and partners. Complex problems need a 'whole systems approach' that works across organisational and functional boundaries and aligns objectives and outcomes.</p>	<p> Agile and flexible – making decisions and working quickly to respond to emerging issues. Having a clear vision and purpose is important, but also being agile and flexible in an uncertain environment.</p>
<p> Emotionally intelligent – showing empathy, understanding and dealing with the 'whole person'. The impacts on the health and wellbeing of the workforce and communities demands greater emotional intelligence from leaders.</p>	<p> Culture focused – being open and honest, inspiring trust and respect, and having empathy are all important, as are encouraging learning, improvement, innovation and collaboration. Leaders need to focus on creating the right organisational culture.</p>
	<p> Enables community empowerment – supports communities to take more control, builds effective relationships with communities, and shows strong public sector leadership on community empowerment. These can help improve outcomes and reduce inequalities.</p>

Source: Audit Scotland

- 3.4** Of the three themes identified in the report, two identify a number of recommendations and actions for leadership as follows:

Organising the council: recommendations (Actions for leadership)

- Councils together with their partners and communities should revise their strategic plans, including Local Outcomes Improvement Plans to realign priorities and provide a roadmap for recovery and renewal. They should also consider how this contributes to the national recovery strategy set out by the Scottish Government.
- Elected members and senior managers need to work together to drive change, make decisions and deliver recovery and renewal.
- Councils should consider the leadership skills needed for now and in future. This includes clear succession planning arrangements and a structured programme of induction for new elected members.
- Councils' governance arrangements should ensure that their elected members have sufficient information to support the scrutiny and decision-making needed for recovery and renewal.
- Councils need to clearly set out how they are evaluating new service models and learning lessons from the response to Covid-19.
- Councils should have a clear plan for developing the use of data in their councils, this includes data skills, data standards and data tools.
- Councils must ensure that financial plans and overarching recovery strategies and actions are clearly aligned, including funding to deliver on their duty to address inequalities.
- Councils must have clear plans for management of reserves.
- Councils should update their workforce plans to build on lessons learned, address skills gaps and build a resilient workforce for the future. This will include monitoring the wellbeing of the workforce, and the effectiveness of health and wellbeing initiatives.

Meeting local needs: recommendations (Actions for leadership)

- While some progress has been made in improving the use of data in decision-making, councils need to have a clear sense of where increased demand and service backlogs exist so that they can identify areas of high risk and direct resources accordingly. This information also needs to be more transparent and publicly available.
- A key priority for councils' recovery and renewal is assessing the impact of the pandemic and service disruption on the most vulnerable and learning from this to inform how they support those most affected and address inequalities. This will need better local data to improve understanding.
- Where councils plan to continue with the changes made to services during the pandemic, they need to conduct impact assessments and consult the community. With the expansion of

digital services, councils need to assess and mitigate the impacts of digital exclusion.

- Councils need to ensure that partnership working forged in the pandemic with their communities, partners and the voluntary sector remains in place. They also need to learn what made it work and harness this to transform future engagement. The momentum and energy from communities may be lost if public bodies don't capitalise on what has been achieved.

- 3.5** The detailed narrative within the report largely reflects Midlothian's experiences with regard to the initial and ongoing period of the pandemic and our response in terms of actions already taken or planned align well with the recommendations noted, particularly with regard to the approval by Council in June 2020 of [Midlothian's Route Map through and out of the crisis](#) and ongoing development of the five year strategic plan.
- 3.6** The report also includes a supplement document which is designed to support elected members in scrutinising and understanding how well their council is planning recovery and renewal and the questionnaire is included in Appendix D for information for officers and for convenience should members find completing the checklist useful.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There are no direct resource implications as a result of this report.

4.2 Digital

There are no direct IT issues arising from this report at this time.

4.3 Risk

There are no additional direct risks associated with this report.

4.4 Ensuring Equalities

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

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Background information/Links

Appendix C – Timeline of key events

Appendix D – Local Government in Scotland Overview 2022 – Supplement 1

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances
- Reducing the impact of climate change

This report does not directly impact Midlothian Council's key priorities but the key messages and recommendations provide an opportunity for reflection in terms of Midlothian's experience and response to Covid-19.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The overview report reiterates the need for skilled leadership, learning lessons from the pandemic, collaborating with partners and communities and making best use of resources to improve outcomes, all of which support delivery of Best Value.

A.5 Involving Communities and Other Stakeholders

The report references the importance of collaborating with partners and communities as we plan for renewal and recovery.

A.6 Impact on Performance and Outcomes

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does highlight the importance of wider strategic planning which includes a focus on partnership working. In addition the importance of data as a vital tool to plan, make decisions, direct resources and monitor progress is also identified as a key principle of leadership.

A.7 Adopting a Preventative Approach

This report supports current actions and plans in place to adopt preventative approaches moving forward.

A.8 Supporting Sustainable Development

This report supports current actions and plans in place to ensure sustainable development approaches moving forward, in particular our ambition to achieve net zero.

APPENDIX B - Background Papers/Resource Links

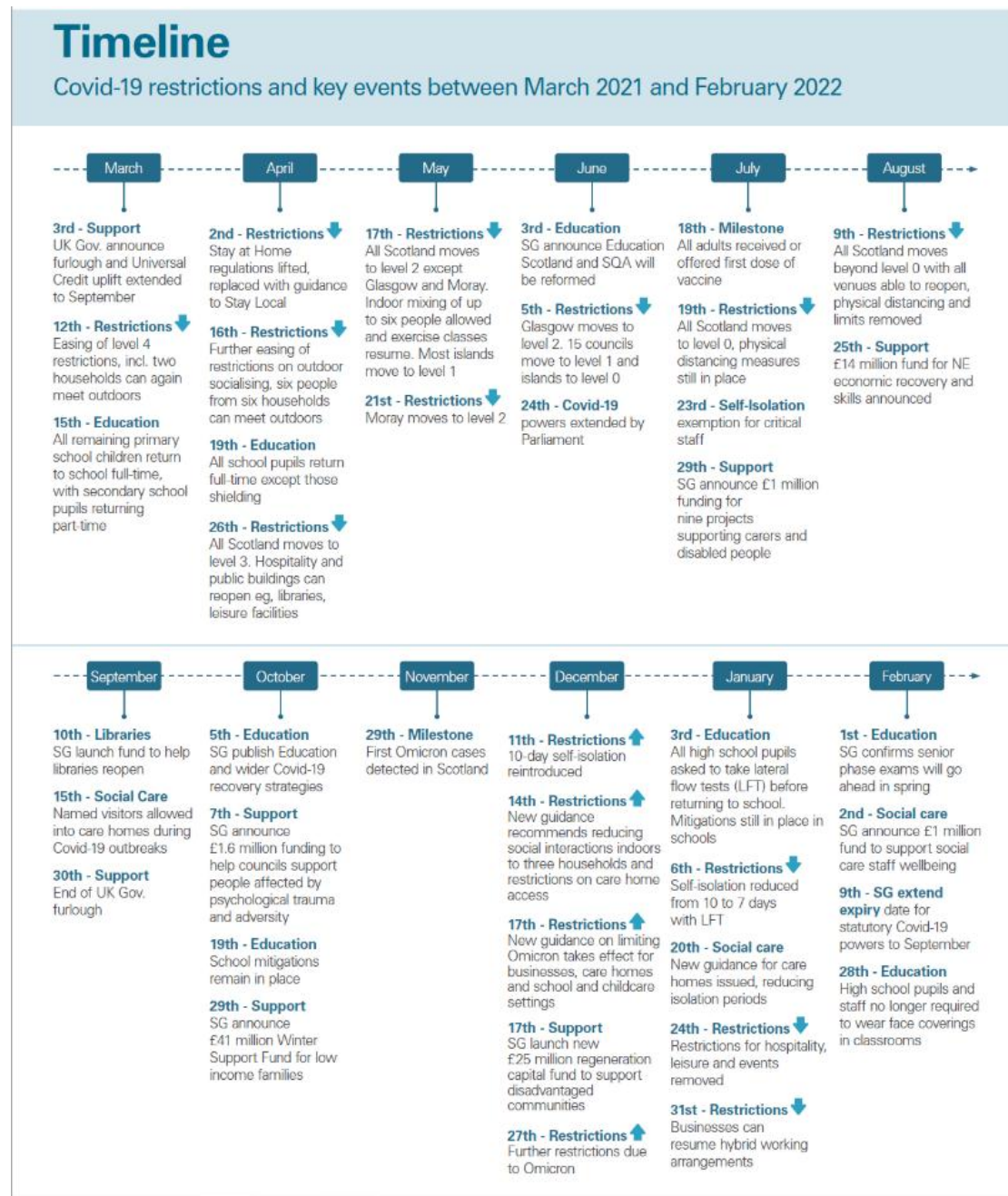
1. Local Government in Scotland Overview 2022

[Local government in Scotland Overview 2022 | Audit Scotland \(audit-scotland.gov.uk\)](#)

2. Midlothian's Route Map through and out of the crisis

[Midlothian Route Map |](#)

APPENDIX C - Timeline



APPENDIX D – Local Government in Scotland Overview 2022

Supplement 1 – Questions for elected members

This checklist captures a number of questions for elected members to consider and relates to the [Local Government in Scotland Overview 2022](#). It is designed to support elected members in scrutinising and understanding how well their council is planning recovery and renewal.

Questions for elected members to consider	What do I know	Do I need to ask any further questions
Leadership – planning, strategy, and improvement		
<ol style="list-style-type: none"> 1. Does my council have clear plans for recovery and renewal, that outline: <ul style="list-style-type: none"> • what it needs to do in the short, medium, and longer term • the outcomes it will achieve • and the investment needed? 2. Is my council together with our partners, reviewing and aligning strategic plans and priorities (including Local Outcome Improvement Plans) to deliver recovery and renewal? Has it consulted with communities on these priorities? 3. Do recovery plans for my council consider key themes, including: <ul style="list-style-type: none"> • New ways of working • Inequalities • Education recovery • Economic recovery • Climate emergency • Health and wellbeing – community and workforce 4. Has my council considered the Scottish Government National Recovery Plan and Programme for Government as part of the refresh of its strategic plans and recovery plans? 5. Does my council have clear plans for restarting paused, closed, or reduced services and dealing with any service backlogs caused by the pandemic? 6. Do I know how my council is learning lessons from the pandemic response and evaluating new service models to inform improvement and drive recovery and renewal? Am I assured my council is building on innovations made during the pandemic: <ul style="list-style-type: none"> • Supporting vulnerable groups • Working in partnership • Faster decision-making • Delivering services differently – eg digital • Working differently – remote and hybrid 7. Do I know how well my council uses data and what plans it has to develop data skills, data standards, and data tools? 		

Leadership – skills		
<p>8. Is my council clear on what leadership skills are needed to drive forward recovery and renewal, and are there arrangements in place to deliver these?</p> <p>9. Am I aware what succession planning arrangements and leadership development arrangements are in place for the council management team? Am I satisfied these are appropriate?</p> <p>10. Do I have access to training and learning materials that meet my needs as an elected member? Have I taken up available opportunities that will assist me in being effective in my role?</p>		
Governance		
<p>11. Do I have access to clear, timely, and sufficiently detailed information that allows me to carry out my governance and scrutiny role?</p> <p>12. Do I have a clear picture of where my council is in terms of recovery and renewal:</p> <ul style="list-style-type: none"> • what new service demand, unmet needs, and what backlogs exist? • what changes to services have taken place and what impact assessments have been carried out for changes that have continued or are proposed? <p>13. Am I satisfied that the governance arrangements in place in my council offer sufficient transparency and opportunities for public participation?</p> <p>14. Do I understand what my responsibilities are when serving on external bodies (eg, ALEOs) and joint boards or committees?</p> <p>15. Am I familiar with the Councillors Code of Conduct for elected members?</p>		
Finance		
<p>16. Am I clear about the financial challenges facing the council and how they are being managed?</p> <p>17. Has my council developed longer term financial plans that clearly link to recovery plans?</p> <p>18. Does my council have clear and robust plans in place for the management of reserves?</p>		
Workforce		
<p>19. Does my council have detailed corporate and service workforce planning in place? Have these plans been updated to reflect the impact of Covid-19? Do these include plans for managing impact of pandemic on staff wellbeing?</p> <p>20. Does my council understand any specific areas of skills shortages that risk delivery of its objectives? Eg social care, facilities management</p>		

Meeting local needs

21. Does my council understand the changing demographic profile, poverty levels, and cost of living increases in our council area and how this will impact on demand for council services?
22. Does my council have data and an understanding at a local level of the impact of the pandemic on different groups, in particular how inequalities have been exacerbated?
23. Does my council have plans in place to address these unequal impacts?
24. Does my council have plans in place to address key priorities and areas of reform, including social care and climate change?

Community empowerment and collaboration

25. How well is my council involving communities and citizens in driving recovery plans and reshaping services? What needs to improve?
26. How well is my council collaborating with local partners, including the third sector in planning, and delivering services?

