

Notice of Meeting and Agenda



Audit Committee

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

Date: Tuesday, 03 December 2019

Time: 11:00

Executive Director : Place

Contact:

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Further Information:

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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

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| 4.1 | Mnute of meeting held on 24 September 2019 submitted for approval | 3 - 10 |
| 4.2 | Action Log | 11 - 12 |

5 Public Reports

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| 5.1 | Internal Audit Mid-Term Performance Report 2019/20 - Report by Chief Internal Auditor | 13 - 30 |
| 5.2 | Internal Audit Work to October 2019 - Report by Chief Internal Auditor | 31 - 36 |
| 5.3 | Internal Audit Recommendations Progress Report 2019 - Report by Chief Internal Auditor | 37 - 42 |
| 5.4 | Risk Management Q2 Update for 1 July 2019 – 30 September 2019 - Report by Risk Manager | 43 - 76 |
| 5.5 | Treasury Management Mid Year Review 2019-2020 - Report by Head of Finance and Integrated Service Support | 77 - 100 |

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 28 January 2020 at 11 am

Minute of Meeting

Audit Committee
Tuesday 3 December 2019
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 24 September 2019	10.00am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Independent Chair)
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Smaill
Councillor Alexander (Substitute)
Councillor Cassidy (Substitute)
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
Allister Short	Joint Director Health and Social Care
Kevin Anderson	Acting Director Resources
Joan Tranent	Head of Children's Services
David Gladwin	Financial Services Manager
Alan Turpie	Legal Services Manager/Monitoring Officer
Stephen Reid	External Auditor, Ernst and Young
Grace Scanlin	External Auditor, Ernst and Young
Jill Stacey	Chief Internal Auditor
Chris Lawson	Waste, Risk and Resilience Manager
Myra Forsyth	Quality and Scrutiny Manager
Gary Thomson	Senior Accountant Projects & Treasury
Mike Broadway	Democratic Services Officer

1. Welcome and Apologies

The Chair, Mike Ramsay welcomed everyone to the meeting, following which there was a round of introductions.

It was noted that Councillors Cassidy and Alexander were substituting for Councillors Baird and Parry, from whom apologies had been received.

2. Order of Business

The order of business was confirmed as that outlined in the agenda.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 24 June 2019 was submitted and approved as a correct record having been proposed by Councillor Muirhead, seconded by Councillor Hardie.

4.2 The Action log was submitted and the following agreed:

- 1) 'Delivering Excellence – Governance Arrangements' – As these actions related to the programme of work agreed as part of last years' Internal Audit Annual Plan it was agreed that it was appropriate to close them off and pick up any outstanding issues as part of this years' Plan - close.
- 2) 'Risk Register – Lothian Buses Pension Fund – Included on the Agenda – Item No: 5.3 – close.
- 3) 'Final Internal Audit Report Follow up Review of Developer Contributions – Training Session on Planning has now been scheduled for Tuesday 3 December 2019 at 1.30 pm - close.
- 4) 'Treasury Management Training Session' – This Training Session has been scheduled for Tuesday 5 November 2019 at 10.00 am.
- 5) 'Annual Accounts 2018/19' – Included on the Agenda – Item No. 5.2 – close.
- 6) 'Audit Committee Performance Self-Assessment' – Noted that this had been presented to Council on 20 August 2019 - close.
- 7) 'Report on "Where does a Councillor go if they lose faith in Senior Officers?" – This report will be included in the Agenda for the Audit Committee meeting on 3 December 2019.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Midlothian Council Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2019	Stephen Reid, EY, External Auditors
Outline of report and summary of discussion		
<p>Stephen Reid on behalf of External Auditors, Ernst & Young LLP presented the draft Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2019.</p> <p>The report advised, inter alia, that the external auditors intended to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2019. In addition, the report provided detailed information on: Financial management; Financial sustainability; Governance and Transparency; and Value for Money.</p>		
Summary of discussion		
<p>Having heard from the External Auditors who responded to Members questions and comments, the Committee discussed a number of issues arising therefrom, viz:- the level of reserves; the current position regarding the Council's legal action relating to the Newbyres housing development; the Medium Term Financial Strategy; and the challenges around Financial Sustainability.</p> <p>The Council Leader, Councillor Milligan, broadly welcomed the terms of the report and advised it was prudent to allow the new management structure to take place and await the budget settlement announcement. He further commented he was disappointed that with regard to some aspects the Council was still rated red as he felt it did not recognise all the hard work undertaken by staff but understood this was because of economic uncertainty and that every other Council in Scotland was in the same position. Mr Reid in response explained that the rating reflected the need for the Council sustain and build on the undoubted progress which had been made.</p> <p>After further discussion, the Chair thanked Mr Reid for his presentation and the work undertaken by EY on behalf of the Council.</p>		
Decision		
<p>The Audit Committee agreed –</p> <ul style="list-style-type: none"> (a) To note and approve the Annual Audit Report; (b) To note that the wording of the section relating to Newbyres would be updated in light of the discussions at today's meeting; (c) To record the Committee's appreciation of the work undertaken by the Finance Team in assisting the External Auditors in the preparation of the report; (d) To record the Committee's thanks to Ernst & Young LLP; and (e) To refer the Annual Audit Report on to the full Council for its interest. 		
Action		
EY/Acting Director, Resources/ Democratic Services		

Report No.	Report Title	Presented by:
5.2	Financial Statements for the year ended 31 March 2019	David Gladwin, Financial Services Manager
Outline of report and summary of discussion		
<p>The purpose of this report dated 11 September 2019 was to present the Council's draft audited Financial Statements for 2018/19 to the Audit Committee and to provide a brief overview of the changes made during the audit process. The Council submitted its unaudited Annual Accounts to the External Auditor by the required date of 30th June 2019 and they were examined in detail at a special Audit Committee on Monday 24th June 2019.</p> <p>Having heard from the Financial Services Manager, who responded to Member's questions and comments, the Committee discussed the increase in the value of the Pension Liability as a consequence of recent legal judgements and enhancements made to both the Management Commentary and the Annual Governance Statement during the Audit.</p>		
Decision		
The Audit Committee approved the 2018/19 Accounts for signature having regard to the appointed Auditor's report for 2018/19.		
Action		
Head of Finance and Integrated Service Support		

Report No.	Report Title	Presented by:
5.3	Lothian Buses Pension Fund	Alan Turpie, Legal Services Manager
Outline of presentation and summary of discussion		
<p>With reference to paragraph 5.1 of the Minutes of 12 March 2019, there was submitted report, dated 10 September 2019, the purpose of which was to advise Members of the Audit Committee of the effect of the assimilation of the Lothian Buses Pension Fund into the general Lothian Pension Fund.</p> <p>The Legal Services Manager in presenting the report highlighted the main sections contained within the report and the concerns raised on the effect of entering into the Deed of Guarantor on the Council. The concerns raised with the Lothian Pension Fund and the responses received from the Fund were outlined in Appendix 1 to this report.</p> <p>In discussing the risks to the Council associated with the Deed of Guarantor, it was felt that this was an area that would require to be carefully monitored.</p>		
Decision		
The Audit Committee noted the report and agreed that an appropriately worded entry be added to the risk register to allow the position to be monitored.		
Action		
Legal Services Manager/ Waste, Risk and Resilience Manager		

Report No.	Report Title	Presented by:
5.4	Risk Management Update for 1 April 2019 – 30 June 2019	Chris Lawson, Waste, Risk and Resilience Manager
Outline of presentation and summary of discussion		
<p>The Risk Manager presented a report dated 12 September 2019 providing the Audit Committee with the 2019/20 quarter 1 strategic risk management update, covering the period 1 April 2019 to 30 June 2019. The Audit Committee had previously requested regular reports on the Council's Strategic Risks. The Strategic Risk Profile sought to provide a strategic look at the current issues and future risks and opportunities facing the Council.</p> <p>The Risk Manager highlighted the main sections contained within the report and thereafter responded to questions and comments raised by Members of the Committee.</p>		
Decision		
The Audit Committee, having considered the current response to the issues, risks and opportunities, noted the quarter 1 2019/20 Strategic Risk Profile report.		
Action		
Risk Manager		

Report No.	Report Title	Presented by:
5.5	Audit Scotland Fraud and Irregularity update 2018/19	Jill Stacey, Chief Internal Auditor
Outline of presentation and summary of discussion		
<p>The Chief Internal Auditor introduced an Audit Scotland report entitled 'Fraud and Irregularity Update 2018/19', which aimed to share information about cases where internal control weaknesses in public bodies have led to fraud and irregularities, to help prevent similar circumstances happening again.</p> <p>The key messages contained in the report were that</p> <ul style="list-style-type: none"> • External auditors have reported a variety of fraud and irregular activities across a range of Scottish public bodies during 2018/19. • During 2018/19, external auditors reported 17 cases of frauds and irregularities valued at almost £674,000. The value of reported fraud and irregularity is small compared to Scottish public sector expenditure. • Common control weaknesses have contributed to the fraudulent and irregular activity reported during 2018/19. 		
Decision		
<p>After discussion, the Audit Committee expressed support for the recommendations arising from the report, which were that:</p> <ul style="list-style-type: none"> • Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action; and 		

<ul style="list-style-type: none"> Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report.
Action
Internal Audit

Report No.	Report Title	Submitted by:
5.6	Proposed Change to the Scheduled Meeting Dates from December 2019 – December 2020	Mike Ramsay, Independent Chair
Outline of presentation and summary of discussion		
<p>There was a report submitted dated 31 July 2019 by the Independent Chair inviting the Committee to consider amendments to the scheduled meetings of the Audit Committee from December 2019 – December 2020 and to recommend to Council to approve these amendments. The details of the recommended amendments were:</p> <ul style="list-style-type: none"> To rearrange the scheduled meeting on 25 August 2020 to Monday 22 June 2020 at 11 am to consider the unaudited Accounts 2019/20. To change the meeting times for the Audit Committee meetings scheduled from December 2019 – December 2020 from 10 am to 11 am to accommodate the Informal Sessions prior to each meeting. 		
Decision		
The Audit Committee agreed to recommend to Council to approve the amendments to the scheduled meeting dates for December 2019 – December 2020 as outlined within the report.		
Action		
Democratic Services		

Report No.	Report Title	Submitted by:
5.7	Internal Audit Follow-Up of Completed Recommendations	Jill Stacey, Chief Internal Auditor
Outline of presentation and summary of discussion		
<p>There was a report submitted by the Chief Internal Auditor dated 12 September 2019 providing an update on the status of the implementation by Management of the audit recommendations made and agreed in Internal Audit Reports in previous years to improve internal controls and governance. It was noted that the review highlighted that of the 60 recommendations tested, 51 (85%) were found to have been completed satisfactorily, and 9 (15%) were identified as requiring further work. A further follow-up audit of the 9 recommendations shown as incomplete indicated that all are now completed with robust evidence to show that these were actually implemented and that the resulting controls were operating effectively.</p>		

Decision
<p>The Audit Committee, having heard from the Chief Internal Auditor:</p> <ul style="list-style-type: none"> Acknowledged the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks. Where satisfied having considered the progress made that no further action was required, at this time.
Action
Internal Audit

Report No.	Report Title	Submitted by:
5.8	Internal Audit Work to August 2019	Jill Stacey, Chief Internal Auditor
Outline of presentation and summary of discussion		
<p>There was a report submitted by the Chief Internal Auditor dated 12 September 2019 providing details of the recent work carried out by Internal Audit and the findings and recommended actions agreed by Management to improve internal controls and governance arrangements.</p> <p>The Chief Internal Auditor outlined the main sections contained within the report and responded to questions and comments raised by Members of the Committee.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> Noted the final assurance reports issued in the period from 1 April to 30 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. 		
Action		
Internal Audit		

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on 3 December 2019 at 11 am

The meeting terminated at 11.47 am

Actions Log

Audit Committee
Tuesday 3 December 2019
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Treasury Management Training Session	24/06/19	Arrange a Training Session with the External Treasury Advisors for the Members of the Audit Committee and all Elected Members	Head of Finance and Integrated Service Support	05/11/19	Completed
2	Report on 'Where does a Councillor go if they lose faith in Senior Officers?'	24/06/19	Legal Services Manager to investigate and provide a report on 'Where does a Councillor go if they lose faith in Senior Officers'.	Legal Services Manager	03/12/19	Verbal update at the meeting
3	Lothian Buses Pension Fund	24/09/19	Add an appropriately worded entry to the risk register to allow the position to be monitored	Risk Manager		Verbal update at the meeting
4	Proposed Change to the Scheduled Meeting Dates from December 2019 – December 2020	24/09/19	The Audit Committee agreed to recommend to Council to approve the amendments to the scheduled meeting dates for December 2019 – December 2020	Democratic Services	11/12/19	Completed

Internal Audit Mid-Term Performance Report 2019/20
Report by the Chief Internal Auditor**1 Purpose of Report**

- 1.1 The purpose of this report is to inform the Audit Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2019, towards completing the Internal Audit Annual Plan 2019/20. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

2 Background

- 2.1 As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 2.2 Internal Audit provides assurance to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council.
- 2.3 The Internal Audit Annual Plan 2019/20 that was approved by the Audit Committee on 12 March 2019 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 2.4 Internal Audit assurance services are also provided during the year to the Midlothian Health and Social Care Integration Joint Board, and a statutory annual internal audit opinion is provided to its respective Management and Board/Audit and Risk Committee to meet its obligations.

3 Half Year Results Against Internal Audit Plan 2019/20

- 3.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 3.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its programme of work to deliver the approved Internal Audit Annual Plan 2019/20. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audits that have not been delivered as planned are marked *.
- 3.3 The Internal Audit function has experienced reduced output arising in the main from the extraordinary impact on staff resources of corporate fraud investigations during the first half of the year. The most significant variations from Plan during the first half of the year to 30 September 2019 are as follows:
- Business Planning, Budget Setting and Monitoring (Assurance - Risk) – Report scheduled 3rd Quarter;
 - Procurement and Management of Contracts (Assurance - Risk) – Report scheduled 3rd Quarter;
 - Social Care Income Charging, Billing and Collection (Assurance - Cyclical) – Report scheduled 3rd Quarter;
 - Commercial Rents (Assurance – Carried Forward) – Report scheduled 3rd Quarter
 - Electronic Payments Systems (Assurance – Carried Forward) – Work rescheduled to 3rd Quarter
 - EU Funded Programme Tyne Esk LEADER (Legislative and Other Compliance) – Report scheduled 3rd Quarter.
- 3.4 The continuous audit approach, in accordance with the Internal Audit Strategy approved by Audit Committee on 12 March 2019, enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example, Business Transformation Board, Capital Planning and Asset Management Board, Learning Estate Strategy Board, and Information Management Group. The continuous audit approach is applied to non-MLC Internal Audit work for the Midlothian Health and Social Care Integration Joint Board.

4 Remaining Internal Audit work in 2019/20 Plan

- 4.1 The Internal Audit staff resources of 5.64 FTE taking account of the shared Internal Audit services arrangement with Scottish Borders Council comprises Chief Internal Auditor (0.5 FTE – shared with Scottish Borders Council; 0.42 FTE Interim Internal Auditor), Principal Internal Auditor (0.72 FTE), Internal Auditor (2.0 FTE), all of whom are CCAB/CIIA professionally qualified experienced auditors, plus Fraud and Audit Officer (2.0 FTE) all of whom are qualified experienced fraud investigators. The Internal Audit activity is aligned to the Corporate Fraud activity to provide assurance and compliance services.

- 4.2 The Internal Audit programme of work for the six months from October 2019 to March 2020, to complete the delayed work and incorporate the remaining planned audit work, requires additional Internal Audit resources within this period to deliver the Internal Audit Annual Plan 2019/20 in full i.e. the continuation of the Interim Internal Auditor to offset the full deployment of the two Fraud and Audit Officers on investigations and other corporate fraud work (non-Internal Audit work). Additional budget is being made available. No change is proposed to the Audit Plan that would require approval by the Audit Committee.
- 4.3 The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 4.4 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report which will also provide the statutory annual Internal Audit opinion on the levels of assurance based on audit findings over the year.

5 The Local Authority Accounts (Scotland) Regulations 2014

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the authority.
- 5.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

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

- 6.1 The MLC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

- 6.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 6.3 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2019/20. The results and any associated improvement actions will continue to be reported to the Corporate Management Team and the Audit Committee within the Internal Audit Annual Assurance Report. This 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.
- 6.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Highland Council in March 2018 and the results were outlined in the Internal Audit Annual Assurance Report 2017/18 reported to the Audit Committee in June 2018. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, indicates that Midlothian Council will be reviewed by East Renfrewshire Council in 2022 and will review East Lothian Council in 2022.

7 Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) Annual Report 2018

- 7.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 7.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams (2018 at Appendix 2).
- 7.3 In particular, the Audit Committee may wish to note that:
- The Group considers learning and development needs and procures training for its members via its Training Sub-Group;
 - Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment (EQA) against the Public Sector Internal Audit Standards (PSIAS); and
 - Sub-groups are in place to deliver specific remits e.g. Computer Audit (CASG) and Counter Fraud (SLAIG).
- 7.4 The Chief Internal Auditor has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Internal Auditors is a member of CASG, and the Fraud & Audit Officers are members of SLAIG; thus attend those Sub-Group regular meetings. The Chief Internal Auditor, Principal Internal Auditor, two Internal Auditors and two Fraud & Audit Officers attended all or part of the SLACIAG Conference in June 2019, which had the theme of 'Connections Collaborations Catalysts', to hear from a range of engaging speakers and to participate in workshops.

8 Report Implications

8.1 Resource

There are auditor resources in place and additional budget is being made available to achieve the Internal Audit Annual Plan 2019/20 to enable the Chief Internal Auditor to provide the statutory audit opinion. Budget monitoring of the Internal Audit function is carried out to ensure service delivery is managed within available financial resources.

8.2 Risk

The Objectives of Internal Audit are set out in its Charter. "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." Specifically as "a contribution to the Council's corporate management of risk".

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2019/20, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.

If planned Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is an unexpected and unplanned level of contingency audit work, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit Committee on the effectiveness of internal controls and governance within the Council. This will be mitigated by way of the additional budget for auditor resources, workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 Single Midlothian Plan and Business Transformation

Themes indirectly addressed in this report:

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

8.4 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 learning outcomes; Reducing the gap in health outcomes; and Reducing the gap in economic circumstances) 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.

8.5 Impact on Performance and Outcomes

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

8.6 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.

8.7 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.

8.8 Ensuring Equalities

There are no direct equalities issues with regard to this report.

8.9 Supporting Sustainable Development

There are no direct sustainability issues with regard to this report.

8.10 IT Issues

There are no direct IT issues with regard to this report.

8.11 Consultation

Midlothian Council's Corporate Management Team were consulted on performance at half year and the proposals relating to the additional resources required to deliver the Internal Audit Annual Plan 2019/20 in full.

9 Recommendations

The Audit Committee is therefore asked to:

- a) Note the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2019/20 by the mid-year point; and
- b) Acknowledge the additional auditor resources for the second half of the year to enable full delivery of the approved Internal Audit Annual Plan 2019/20.

Date: 14 November 2019

Report Authors: Jill Stacey, Chief Internal Auditor
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APPENDIX 1

AUDIT	DAYS	COMMENTARY	STATUS
Assurance - Risk-Based			
Change and Transformation Programme	30	Continual audit approach to monitor implementation of improvements to the governance and accountability arrangements for the change and transformation programme including processes for benefit (financial and other) identification, tracking and realisation.	Continuous audit approach. Assurance Report scheduled 3rd Qtr.
Business Planning, Budget Setting and Monitoring	25	Evaluate the implementation of improvements to ensure that budgets set for 2019/20 are sustainable and based on realistic plans, and that appropriate scrutiny and challenge is undertaken on revenue budget monitoring reports to enable service delivery within approved budget.	* Slight delay compared to 2nd Qtr schedule in programme of work - Report 3rd Qtr.
Workforce Planning	30	Review the Service workforce planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives, and to address issues such as recruitment and retention.	Follow-Up 3rd Qtr; other elements rescheduled to 4th Qtr to reflect new Senior Leadership structure.
Procurement and Management of Contracts	35	Review the processes and internal controls relating to the procurement journey to ensure these adequately address the key risks, and assess compliance with the procurement framework and adequacy of contract monitoring arrangements.	* Slight delay compared to 2nd Qtr schedule in programme of work - Report 3rd Qtr.
Automated Invoice Payments	20	Assess the authorisation controls, including segregation of duties, and security controls over payments.	Scheduled 4th Qtr
Leisure Management Booking System	10	Evaluate the income management controls on Leisure Management online booking systems to ensure income is accurately collected.	Scheduled 4th Qtr
Information Governance (Records Management)	30	Continual audit approach to review the Information Governance framework, specifically on the theme of Records Management i.e. Plan and actions to comply with good practice.	Continuous audit approach to engage as 'critical friend' on IMG. Assurance Report scheduled 4th Quarter.
Capital Investment	30	Assess compliance with Accounts Commission good practice - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of capital programme/projects.	Scheduled 3rd Qtr
	210		

AUDIT	DAYS	COMMENTARY	STATUS
Assurance - Cyclical			
MLC Annual Assessment of Internal Control and Governance	20	Prepare an annual assurance report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming the statutory opinion on adequacy of the Council's arrangements for risk management, governance and internal control based on key elements in the Local Code of Corporate Governance.	Ongoing follow-up of improvement actions set out in Annual Governance Statement 2018/19. Annual evaluation of internal controls and governance arrangements scheduled 4th Qtr.
Attendance Management	20	Assess the controls in place to manage sickness absence across the Council, including compliance with policy and procedures, which underpin the effective use of resources.	Final Report issued 5 September 2019, and Executive Summary to Audit Committee 24 September 2019.
Social Care Income Charging, Billing and Collection	25	Review the mechanisms in place to raise charges for Social Care clients in a timely manner and the process of collection and recovery of those charges, including the reliance upon various elements, namely: Care Plan, Funding, Contract, and Financial Assessment.	* Slight delay compared to 2nd Qtr schedule in programme of work - Report 3rd Qtr.
Asset Registers	20	Review of systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities.	Final Report issued 12 September 2019, and Executive Summary to Audit Committee 24 September 2019.
Environmental Health	20	Review the business practices and ways of working within Environmental Health to ensure that regulatory obligations are met and risks are appropriately managed.	Scheduled 3rd Qtr
	105		

AUDIT	DAYS	COMMENTARY	STATUS
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Assurance - Carried Forward from 2018/19

Community Engagement	30	Monitor implementation of any improvement actions arising from the Best Value Assurance Review 2019 on systems and procedures in place to assist the Council to engage with and communicate to the community in setting, delivering and reporting on its vision, priorities and plans.	Scheduled 4th Qtr
ICT Operational Processes	30	Evaluate the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering to them. Assess response to Audit Scotland report May 2017 "Principles for a digital future: Lessons learned from public sector ICT projects"	Scheduled 3rd Qtr.
Commercial Rents	25	Assess internal financial controls and governance arrangements linked to Corporate priorities, including estate management.	* Slight delay compared to 2nd Qtr schedule - Report 3rd Qtr.
Electronic Payments	15	Review of security and authorisation controls, including segregation of duties.	* Slight delay compared to 2nd Qtr schedule; rescheduled 3rd Qtr to reflect planned development.
	100		

AUDIT	DAYS	COMMENTARY	STATUS
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Legislative & Other Compliance

EU Funded Programme Tyne Esk LEADER	10	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.	* Slight delay compared to 2nd Qtr schedule - Report 3rd Qtr.
	10		

AUDIT	DAYS	COMMENTARY	STATUS
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Consultancy

Consultancy	60	Add value by influencing and offering ways to ensure adequate governance, risk management and internal controls in change and transformation. In its 'critical friend' role provide: an independent view and challenge of a sample of programmes and projects; and an objective assessment of self-evaluation arrangements that underpin the provision of Best Value.	Ongoing
	60		

AUDIT	DAYS	COMMENTARY	STATUS
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Other

PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to the Audit Committee.	Scheduled 4th Qtr
MLC Audit Committee Self-Assessment	5	Provide assistance to Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance.	Self-Assessment 28 May 2019; Chair's Report to Audit Committee 24 June 2019 and to Council 20 August 2019. Improvement actions in progress.
MLC Recommendation Follow Up Reviews	30	Undertake 2 reviews: the first assesses performance against closing Audit Actions by the agreed due date; and the second includes a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.	Completed Recs Report to Audit Committee 24 September 2019. Second review scheduled 3rd Quarter.
Contingency	30	Support / undertake any investigations and other reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.	On request and in agreement by Chief Internal Auditor.
Help Desk Enquiry system	31	Provide guidance and advice to Management and Staff on internal controls. Manage any enquiries received through the whistle-blowing facilities offered by the Council.	Ongoing. Tracker in place to record enquiries and monitor response timelines and content.

AUDIT	DAYS	COMMENTARY	STATUS
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Other (Cont'd)

MLC Administration of Audit Scotland Reports	4	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.	Ongoing. Tracker in place to coordinate relevant Management presenting reports to relevant Committee.
Support for Risk Management, SOC and Integrity Groups	15	Attend and provide support to the Risk Management Group, Serious and Organised Crime Group and the Integrity Group.	Ongoing.
MLC Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards/Committees as relevant.	Ongoing
MLC Audit Planning for 2020/21	10	Renew risk assessment, develop and consult on proposed coverage within the Internal Audit Annual Plan 2020/21.	Scheduled 4th Qtr
	145		

MLC Total	630
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AUDIT	DAYS	COMMENTARY	STATUS
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Non MLC

Midlothian Health and Social Care Integration Joint Board	70	Audit reviews and support to be determined and agreed by the Midlothian Health and Social Care Integration Joint Board Audit and Risk Committee for review of the adequacy of the IJB's arrangements for risk management, governance and internal control for delegated resources.	MIJB Internal Audit Annual Plan 2019/20 approved by MIJB Audit and Risk Committee on 7 March 2019. Audit work ongoing. MIJB Internal Audit Annual Assurance Report will be presented to IJB Audit and Risk Committee in June 2020.
	70		

Overall Total	700
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ANNUAL REPORT FROM THE CHAIR – 2018

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2018.
- 1.4 SLACIAG has two sub-groups whose work is also reflected in this report.
- The Computer Audit Sub-Group (CASG) and,
 - The Scottish Local Authorities Investigators' Group (SLAIG).

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2018

- 2.1 We held our AGM in June 2018. The Chair Andrea McMahon completed her two year term of office and was succeeded by the Vice-Chair Eilidh Mackay until March 2020. The AGM was delayed from March 2018 due to the "Beast from the East" bringing extreme weather conditions and leading to the rare cancellation of a scheduled meeting.
- 2.2 During 2018 we invited the Chairs of both CASG and SLAIG to join the SLACIAG Management Committee to benefit from their sectoral expertise and support our joined up inclusive approach. The SLACIAG Constitution was amended to reflect this change.
- 2.3 During the year our Constitution underwent a number of other minor changes and remains under review to ensure it is fit for purpose going forward.
- 2.4 SLACIAG usually meets four times in year but due to the adverse weather conditions referred to section 2.1 met three times during 2018. Business coverage was as follows:

SLACIAG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2018	South Lanarkshire Council, Hamilton	<ul style="list-style-type: none"> • Cancelled due to adverse weather
June 2018	Perth & Kinross Council, Perth	<ul style="list-style-type: none"> • Health & Social Care Integration with speakers from Scottish Government & NHS.

		<ul style="list-style-type: none"> • Training Proposal – IT and Contract Management workshops (including contribution from CIPFA representative). • PSIAS External Quality Assessment (EQA) – debrief and next steps. • Exchange of experience – fraud.
September 2018	Fife Council, Cupar	<ul style="list-style-type: none"> • PSIAS External Quality Assessment (EQA) – update. • Counter Fraud with speakers from Audit Scotland. • Best Value Assurance Reports with speaker from Audit Scotland. • Exchange of Experience – fraud.
November 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • Agile Projects with speaker from ISACA. • Care Inspectorate speaker. • SLACIAG Conference 2019 – planning. • Consultation on new Audit Scotland publication “How Councils Work: Managing risk through internal controls” with a speaker from Audit Scotland.

2.5 All of the meetings continue to be well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing as we continue a period of significant change across Local Government and for Internal Audit. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams, particularly through CASG and SLAIG, as well as Heads of Internal Audit.

2.6 There is a continuing healthy interest in supporting various working groups (e.g. training and PSIAS External Quality Assessment) and the Management Committee. However at the AGM in June 2018 there were no nominations or volunteers for the position of Vice-Chair. Also due to a lack of volunteers the Secretary (Paul Doak, North Ayrshire Council) and Treasurer (Kevin O’Kane, Stirling Council) agreed to remain in office.

2.7 The Management Committee from June 2018 is as follows:

SLACIAG MANAGEMENT COMMITTEE 2018		
Eilidh Mackay	East Ayrshire Council	Chair SLACIAG
Paul Doak	North Ayrshire Council	Secretary SLACIAG
Kevin O’Kane	Stirling Council	Treasurer SLACIAG
Andrea McMahon	Renfrewshire Council	former Chair SLACIAG
Jill Stacey	Scottish Borders Council / Midlothian Council	former Chair SLACIAG
Colin McDougall	West Dunbartonshire Council	SLACIAG member
Francis Scott	Glasgow City Council	SLACIAG member
Jackie Clark	Perth & Kinross Council	SLACIAG member
Pamela Redpath	Dundee City Council	SLACIAG member
Crawford McIntyre	Shetland Islands Council	SLACIAG member (retired 2018)
Paul Macaskill	Western Isles	SLACIAG member (appointed to Committee on retirement of Crawford McIntyre)
Peter Moore	East Lothian Council	Chair CASG
Barry Moncur	East Dunbartonshire Council	Chair SLAIG

- 2.8 March 2018 marked the first PSIAS deadline for completion of External Quality Assessments (EQAs), an exercise to be completed at least 5 yearly. Most members participated in a SLACIAG peer review approach. Learning from that first EQA process informs the peer review approach going forward.
- 2.9 At the AGM In June 2018 the Treasurer presented the draft annual accounts which were approved for audit. The Group's healthy financial position allowed the subscription rates to be held at the current level for another year and will allow a variety of training opportunities to be promoted as well as subsidised delegate fees for the 2019 conference to allow maximum attendance.
- 2.10 At the June 2018 meeting a discussion of training proposals around IT and Contract Management has informed planning for our 2019 Conference. The SLACIAG Conference is held every two years, in June. The next conference is scheduled for 13-14 June 2019 and will be held at Dumfries House, Cumnock.
- 2.11 The SLACIAG Management Committee meets twice each year and during 2018 met in June and December. The Chair represents SLACIAG at meetings of the CIPFA Scotland Branch Executive Committee.
- 3. COMPUTER AUDIT SUB-GROUP**
- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group with business as follows:

CASG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2018	East Renfrewshire Council	<ul style="list-style-type: none"> • Cyber Essentials presentation by Scottish Canals including carrying out an in-house "phishing" exercise • SEEMIS audit carried out by Fife Council • GDPR update presented by Glasgow City Council
August 2018	South Ayrshire Council	<ul style="list-style-type: none"> • Information security presentation from the Digital Office • Training proposals – Digital Change and Contract Management • Public Contracts Scotland presentation
November 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • GDPR update speaker from Information Commissioners Office • Group discussion cover common systems register and internal audit coverage • Duplicate payment testing carried out by Falkirk Council • Starters and leavers audit carried out by South Lanarkshire Council

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum and there is regular engagement with the Crown Office and Procurator Fiscal Service (COPFS).
- 4.2 The Group has heard from speakers on various topics of interest as follows:

SLAIG MEETINGS 2018		
Date	Host	Topics / Speakers
February 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • Presentation from Scottish Social Security Agency • Police Scotland Update • Crown Office/FES/OAG/LA • Benchmarking • Scottish Government Counter Fraud Forum • GDPR • SLACIAG Update • Training • Legislation • NAFN Update • Joint Working with SFIS Update
May 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • GDPR Presentation – ICO • SDS Presentation • FSS Presentation • Crown Office/FES/OAG/LA • Scottish Government Counter Fraud Forum • Benchmarking • Legislation • NAFN Update • CIPFA Training • Joint Working with SFIS Update
September 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • Cybercrime Presentation – Police Scotland • Benchmarking/Statistics Presentation & Discussion • Licensing & SOC Presentation • SLAIG constitution & roles • GDPR • Crown Office/FES/OAG/LA • Scottish Government Counter Fraud Forum • Legislation • NAFN Update • Joint Working with SFIS Update • NFI Presentation – Audit Scotland
November 2018	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> • Police Scotland

		<ul style="list-style-type: none"> • OSCR • Cabinet Office • SLAIG constitution & roles • Tenancy fraud • Benchmarking • Crown Office/FES/OAG/LA • NAFN Update • Joint Working with SFIS Update
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5. SUMMARY

- 5.1 In summary, SLACIAG has had another successful year, and I believe that, individually and collectively, this professional network helps to reinforce the important statutory role of internal audit.
- 5.2 Firstly, I would like to take this opportunity to thank the Committee and all Group members for their strong support and contributions during my first year as Chair, and for the high levels of attendance at the quarterly meetings. The network relies on contributions from every one of us.
- 5.3 Secondly, I would particularly like to thank those colleagues who have remained as office bearers beyond their expected term and look forward to colleagues volunteering for current office-bearer vacancies (Vice-Chair) and for future opportunities to ensure the continued strength of our network.
- 5.4 Thirdly, I would like to thank those Councils who hosted our meetings during the year and all of the speakers who gave up time in their busy schedules to contribute to our learning and exchange of experience.
- 5.5 Finally, I would like to note the contributions of Crawford McIntyre, Shetland Islands Council, who retired at the end of 2018, for his longstanding and active contribution to the Management Committee and to Olwen Sinclair, Orkney Islands Council, who took up a new job opportunity in year, for her support to the group over many years. They will both be missed.

Eilidh Mackay B.A. (Hons), CPFA
Chair of SLACIAG
5 March 2019

Internal Audit Work to October 2019
Report by Chief Internal Auditor**1. Purpose of the Report**

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.

2. Progress Report

- 2.1 The Internal Audit Annual Plan 2019/20 was approved by the Audit Committee on 12 March 2019. Internal Audit has carried out the following work in the period from 31 August to 1 November 2019 associated with the delivery of the Plan (Internal Audit Activity) to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 2.2 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 of the reviews.
- 2.3 Internal Audit has issued a Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (arising from the legislative and other compliance audit that was undertaken).
- 2.4 An Executive Summary of the Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (legislative and other compliance audit), including audit objective, findings, audit opinion on the compliance with the SLA, and recommendations, is shown in Appendix 1.

Current Internal Audit Assurance Work in Progress

2.5 Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Business Planning, Budget Setting and Monitoring	Drafting the Report
Social Care Income Charging, Billing and Collection	Drafting the Report
Commercial Rents	Drafting the Report
Procurement and Management of Contracts	Testing Underway
Environmental Health	Testing Underway
Change and Transformation Programme	Testing Underway
Workforce Planning	Follow-Up
Electronic Payment Systems	Planning
ICT Operational Processes	Planning

Internal Audit Consultancy and Other Work

- 2.6 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) On request by Chief Executive, Acting Director Resources (now Executive Director Place) and Director Education, Communities and Economy carried out Internal Audit Consultancy work to ascertain the key timelines and current status in relation to school estate and housing developments. This was in response to concerns raised by third parties.
 - b) In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, Information Management Group, and Early Learning and Childcare Expansion meeting.
 - c) Completed follow-up review of previous audit recommendations – checked on the progress with implementation of Audit Actions and produced reports for Management and the Audit Committee.
 - d) 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.
 - e) Attended and provided support for the Risk Management Group.
 - f) Attended the SLACIAG quarterly meeting and ISACA Event.

Recommendations

- 2.7 Recommendations in the Final Internal Audit Report on EU Funded Programme Tyne Esk LEADER (legislative and other compliance audit) are suggested changes to existing procedures or processes to improve practices for Midlothian Council as the Accountable Body for the Tyne Esk LEADER programme to mitigate the risk of non-compliance with the SLA.

- 2.8 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	1
Medium	2
Low	2
Sub-total reported this period	5
Previously reported	10
Total	15

Recommendations agreed with action plan	15
Not agreed; risk accepted	0
Total	15

3. Report Implications

3.1 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.

3.2 Risk

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 non-compliance with the SLA associated with the EU Funded Programme Tyne Esk LEADER.

3.3 Single Midlothian Plan

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include 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

3.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

3.6 Adopting a Preventative Approach

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

3.7 Involving Communities and Other Stakeholders

This report has been presented to the Corporate Management Team (comprising Chief Executive, Directors and Heads of Service) to outline the key messages of assurance and areas of improvement. The Director of Education, Communities and Economy, and Economic Development Manager have agreed the Final Internal Audit Report as set out in the relevant Executive Summary within Appendix 1.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is asked to:

- a) Note the Final Internal Audit Report issued in the period from 1 September to 1 November 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20;
- b) Note the Internal Audit Assurance work in progress and Internal Audit Consultancy and Other Work carried out in accordance with the Internal Audit Charter, Strategy and Plan; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Date: 15 November 2019
Report Authors: Jill Stacey, Chief Internal Auditor
E-Mail: Jill.Stacey@midlothian.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programme Tyne Esk LEADER</p> <p>Category: Legislative and Other Compliance</p> <p>Date issued: 16 October 2019 Draft; 24 October 2019 Final</p> <p>Level of Assurance: Substantial Assurance</p>	<p>The purpose of this legislative and other compliance audit, required by the SLA, was to assess the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme to comply with the SLA.</p> <p>The LEADER programme is part of the Scotland Rural Development Programme 2014-2020 which aims to promote economic and community development within rural areas of Scotland. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme. Midlothian Council (MLC) is the Accountable Body for the Tyne Esk LEADER programme.</p> <p>In the case of Tyne Esk LEADER, the SLA was signed on 30 December 2015. The funding allocation for the Tyne Esk Leader Programme was £3,490,768, with 25% of this for administration of the programme. Tyne Esk LEADER has now allocated £3,308,957, with £2,516,189 allocated to projects and the remainder allocated to administration.</p> <p>The programme is nearing its end and is closed to new Expressions of Interest from potential applicants. A LAG meeting will be held in December 2019 for the programme's final applications to be reviewed for approval.</p> <p>Internal Audit are able to provide substantial assurance that MLC has complied with the SLA in terms of the governance of the programme, grant application management, and administration of grant claim processes.</p> <p>We made the following recommendations to ensure the programme's continued success and compliance with requirements set out in the SLA:</p> <ul style="list-style-type: none"> • A revised Memorandum of Understanding should be agreed by the LAG and Council aligned to Scottish Government's principles. (Medium) • LEADER needs to be sufficiently staffed to deliver the programme and ensure adequate follow-up of claims submitted. (High) • The risks of the LEADER programme should be correctly reflected in the Pentana Performance system. (Low) • The performance monitoring aspects of the Communications Plan should be progressed. (Low) • Issues identified from the sample of 4 projects should be reviewed to determine if similar issues have occurred in any other projects. (Medium) 	1	2	2	<p>Management have agreed the factual accuracy of the report, accepted the report findings and agreed the implementation of the Internal Audit recommendations.</p> <p>Interim staff resources arrangements have already been put in place.</p> <p>This Internal Audit Report was submitted to the Scottish Government along with the Programme's Annual Confirmation Certificate by the due date of 8 November 2019.</p>

Internal Audit Recommendations Progress Report

Report by Chief Internal Auditor

1 Purpose of Report

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

2 Background

- 2.1 Internal Audit makes recommendations for improving internal control and to assist the Council deliver its objectives. Where Management agree these recommendations, the actions are updated to Pentana Risk (the Council's performance management system) along with a date by which Management should have completed the agreed action.
- 2.2 Each year, Internal Audit undertakes two follow up reviews on recommendations raised. The first samples recommendations which have been reported as complete and reviews the adequacy of the actions taken (reported to the 24 September 2019 Audit Committee). The second reports on the progress Management have made in completing and closing the recommendations by the expected date (which is the subject of this report).
- 2.3 Part of the Audit Committee's role is to monitor progress in addressing risk-related issues reported to the Committee and to consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 2.4 A new Protocol for agreeing extensions to due dates for Internal Audit recommendations made was implemented in August 2019 to ensure that Internal Audit has oversight of this and to provide a visible audit trail in Pentana Risk system.

3 Performance

- 3.1 Over the period 2016/17 to October 2019, Internal Audit has raised a total of 391 recommendations. 339 of these are reported as having been completed (87%), 43 have not yet reached their due date (11%), and 9 are showing as overdue (2%).
- 3.2 Contrasting this performance to the previous Internal Audit report presented to the Audit Committee in January 2019 (covering the period 2015/16 to October 2018), Internal Audit had raised a total of 457 recommendations. 395 of these were reported as having been completed (86%), 46 had not reached their due date (10%) and 16 were showing as overdue (4%).

- 3.3 There is a reduction in overdue recommendations compared to the previous year's report.
- 3.4 The progress on implementation of Internal Audit recommendations has been discussed with the Corporate Management Team (CMT) on 13 November 2019 as part of their responsibility to design and maintain adequate risk management, governance and internal control processes and checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence.
- 3.5 CMT had a discussion on the overdue actions, the reasons why they were not completed by the original due date, and risk mitigations in place in the interim. In accordance with the new Protocol, revised due dates for completion of the overdue Internal Audit recommendations have been proposed by relevant Management, were discussed at CMT, and have been agreed by Internal Audit based on the further work required to implement these recommendations in full. These are summarised in Appendix 1.

4 Report Implications

4.1 Resource

There are no direct resource implications arising from the report.

4.2 Risk

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

4.4 Key Priorities within the Single Midlothian Plan

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

4.5 Impact on Performance and Outcomes

The report identifies the performance of the Council in closing Internal Audit recommendations by the agreed implementation date.

4.6 Adopting a Preventative Approach

Adoption of the Internal Audit recommendations assists in preventing the risks facing Midlothian Council materialising through the strengthening of the control environment and management of risks, therefore assisting the organisation in achieving its objectives.

4.7 Involving Communities and Other Stakeholders

The Council delivers its services through appropriate engagement with communities or other stakeholders.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5 Recommendations

The Audit Committee is asked to:

- a) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;
- b) Consider whether it is satisfied with the progress made by Management or whether any further action is required; and
- c) Note that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.

Date: 14 November 2019

Report Contacts:

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James.Polanski@Midlothian.gov.uk

Appendices:

Appendix 1 – Overdue Internal Audit recommendations for Midlothian Council

Appendix 1 Internal Audit Recommendations – Overdue Actions

Audit Recommendation (Risk Rating)	Original Due Date	Progress	Revised Due Date	Service
2015/16 - Devolved School Management Scheme				
A standard training course and training pack over the operation of school budgets including the DSM allocations should be provided to head teachers and support staff when they take on budgetary responsibilities. A record of this should be maintained. (Medium)	30-Sep-2017	50%	30-Jun-2020	Education
2016/17 - Monitoring of External Care Homes				
The Mosaic system should be updated to allow staff to send workflow notifications relating to the care home. (Medium)	31-Dec-2018	50%	30-Apr-2020	Finance and Integrated Service Support
2018/19 - Follow-up of Audit Recommendations				
Where staff fail to engage with the staff debt process, the process of issuing memos to Heads of Service to enable disciplinary action to be progressed needs to be re-established. (Medium)	31-Dec-2018	75%	30-Jun-2020	Customer and Housing Services
2018/19 - Following the Public Pound				
The 'Provider Fitness Check' process should be rolled out to all relevant contracts with outside bodies within the Education, Communities and Economy Directorate. (Medium)	31-Mar-2019	50%	31-Mar-2020	Finance and Integrated Service Support
2018/19 - Revenue Financial Budget Monitoring				
The vacant post of Senior Accountant supporting Education, Communities and Economy Directorate should be filled. The Council should consider full adoption of a Finance Business Partner model in order to facilitate better decision making. (Medium)	31-Mar-2019	50%	30-June-2020	Finance and Integrated Service Support
2018/19 - Workforce Strategy and Planning				
The Council's Workforce Strategy should be reviewed in order to ensure it properly fits with the revised priorities arising as reflected in financial, business and transformation plans. (High)	01-Oct-2019	33%	31-Dec-2019	Finance and Integrated Service Support
Revision to Service Workforce Plans and Action Plans are also required for reasons set out in recommendation WFPLAN.01 including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting. (High)	01-Oct-2019	37%	31-Mar-2020	All Services
A formal review process for monitoring the delivery of Service Workforce Plans and Action Plans should be introduced, along with evaluation of outcomes against performance measures and targets. (Medium)	01-Oct-2019	25%	31-Dec-2019	Finance and Integrated Service Support
Workforce planning processes should be aligned with business and financial planning processes, through timetabling and closer working of HR Business Partners with Performance and Finance colleagues to support Directors and Service Managers. (Medium)	01-Oct-2019	60%	31-Mar-2020	All Services

Risk Management Update for 1 July 2019 – 30 September 2019**Report by Chris Lawson, Service Manager – Waste, Risk & Resilience****1 Purpose of Report**

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2019/20 quarter 2 strategic risk management update, covering the period 1 July 2019 to 30 September 2019.

2 Background

Midlothian Council have taken a range of steps to reduce manage spend within available budgets, while continuing to deliver key services to our local communities. The Council have operated within the balanced budget set for 2019/20 for the first six months of this financial year. Work has continued on develop the medium term financial plan, with the purpose of continuing to place the Council's finances on a more secure footing.

Transformational change has, and continues to be vitally important to the Council as it seeks to improve local outcomes against a backdrop of growing demand and reducing resource.

As a consequence of UK election Scottish Government will not publish its budget on 12 December. The Scottish Budget bill is expected to be delayed until sometime in January 2020. Officers are monitoring the position and will update councillors on developments and the implications of these for the 20-21 budget. The continued financial outlook is challenging, with uncertainty associated with future years grant settlements and the economic impact of the UK's exit from the European Union scheduled for until 31 January 2020, pending any amendments by Parliament and the European Union.

Council Services have given consideration to business critical functions/services reliant on goods or services from within the EU as the prospect of the UK leaving the EU without a transition deal on 31 October 2019 had continued through quarter 2. The Council worked with strategic partners including the Scottish Government in preparation for a no deal scenario. In response the Council's EU Exit Working Group has met regularly with the purpose of overseeing final Service and Council preparations for a no deal exit from the European Union.

The Council's EU Exit Working Group will continue to monitor external developments and support preparations for a departure currently scheduled for the 31 January 2019.

2.1 Strategic Risk Profile update

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan seen as the tool to put the Council's finances on a more stable footing.

Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target.

The highest risks set out within the strategic risk profile at quarter 2 are associated with the 'Early Years expansion', the 'abuse claims project' and the 'Scottish abuse inquiry'.

The risk rating set against Asset Management has been reviewed this quarter with the rating increased to a high risk. This reflects the challenges managing the need for increased assets to meet the growth demand against the current financial backdrop of reducing revenue. The Capital and Asset Management Board is putting in place interventions to allow it to more robustly monitor the of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.








2.3 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.







Top Issues	Likelihood	Impact	Score	Evaluation	
The Change Programme	5	4	20	High	
Financial Stability	3	4	12	Medium	

The Strategic Risks for the Council are summarised in table 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Early Years Expansion (1140 Hours)	4	5	20	High	
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	
Asset management	4	5	20	High	
The Longer Term Change Programme	4	4	16	High	
Information Security	3	5	15	Medium	
Cyber Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Financial Sustainability in future years	3	4	12	Medium	
Growing Council	3	4	12	Medium	
Care at Home	3	4	12	Medium	
UK decision to leave the EU	3	4	12	Medium	
Governance and standards	3	4	12	Medium	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Climate change	3	3	9	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

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

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

2.6 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

2.6.1 Financial Stability

On 1 October 2019 an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 of that report to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 of the same report be subject of further consultation with communities.

Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

2.6.2 The Change Programme

The Council had identified a need to carry out a series of bottom up service reviews, this work was proposed to have an initial 3 phases of review in the report to Council, Land Services review is now completed with measures reflected in 2019/20 budget. Waste Services is complete. Roads Services is due to have an initial meeting mid-year. Sport and Leisure review is underway.

Monitoring the oversight of the Change Programme is delivered through dashboard reporting prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board. This is in addition to continued quarterly financial reporting by Financial Services.

2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Financial sustainability in future years

On 1 October an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 be subject of further consultation with communities.

Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

2.7.2 Growing Council

Midlothian Council was identified in 2018 as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 - 2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.

Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report is being presented to council on 12 November 2019. In addition the updated learning estate strategy will be reported to February council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

The learning estate strategy and a refresh of the capital strategy will be presented together at February Council.

2.7.3 Scottish abuse inquiry and Abuse Claims

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.

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. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.

2.7.4 Cyber Security

Over the past year the Council have been monitoring reports of cyber-attacks on public sector networks. In recent months attacks have been made on a number of public sector organisation, raising the potential for an attack to be directed at Midlothian Council.

2.7.5 Early Years Expansion (1140 Hours)

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140 from August 2020 the council has commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in 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.

Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report is being presented to council on 12 November 2019. In addition the updated learning estate strategy will be reported to February council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

The learning estate strategy and a refresh of the capital strategy will be presented together at February Council.

2.7.7 The Longer Term Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Business Transformation Board;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWIM programme;
- An updated Capital Strategy and Reserves Strategy; and
- Operational savings encompassing financial discipline measures.

2.8 STRATEGIC OPPORTUNITIES

2.8.1 City Deal

South East Scotland Region City 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.

2.8.2 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.

2.8.3 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.

2.8.4 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.

2.8.5 Borders Rail

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor. Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

2.8.6 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.

3 Report Implications

3.1 Resource

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

3.2 Risk

The Strategic Risk Profile seeks to articulate the significant issues, risks and opportunities facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Impact on Performance and Outcomes

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

3.5 Adopting a Preventative Approach

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

3.6 Involving Communities and Other Stakeholders

Consultation has taken place with Senior Managers responsible for leading responses to key Strategic Issues, Risk and Opportunities.

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

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

3.9 IT Issues

No additional issues other than those relating to the Strategic Risk Profile.

4 Recommendations

Audit Committee is recommended to:

Note the quarter 2 2019/20 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: 15 November 2019

Report Contact:

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Background Papers: **Appendix 1** Strategic Risks Profile
Quarter 2 2019/20

Strategic Risk Profile




Quarter 2 2019/20




ISSUES .

SRP.IR.02 The Change Programme



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p>Risk effect Slow or delayed proposals/savings arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	<p>Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources</p>	<p>1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. 2. Delivering Excellence Management Tools to support the application of the framework. 3. Action to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales. Section 95 Officer will rely on that evidence determining if change programme savings are deliverable</p> <p>. Financial Strategy. . Leadership from all Elected members Executive Team and Senior Leadership Group. . Appropriated governance in place across the Change Programme. . Links between Change Programme and Workforce Plans . Resilience planning. . Senior Leadership Group regularly considering Change Programme and budget position. . Capacity to deliver change. The MTFS replaces the change programme. 4. Health and Social Care transformation board monitoring the 12 transformation strands on a monthly basis. 5. Council have set a balanced budget for 2019/2020 within which services expected to operate within. Timetable for quarterly financial reports in place.</p>	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.02	Bottom up Service Reviews - Phase 1	Q2 19/20: Bottom up Service review - remit of working group and proposed initial 3 phases of review programme set out in report to Council, Land Services review completed with measures reflected in 2019/20 budget proposals. Waste Services complete. Roads Services due to have initial meeting mid-year. Sport and Leisure review is underway.	Director of Resources	31-Mar-2020	
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q2 19/20: On 1 October an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 be subject of further consultation with communities. Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	31-Dec-2019	
SRP.IA.02.04	Revenue Service Review	Q2 19/20: Preparatory work being carried out ahead of initial engagement for Service Review to be carried out in 2019-20.	Head of Adult and Social Care	31-Mar-2020	

SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p>Risk event Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p>Risk effect A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Head of Finance and Integrated Service Support;	<ol style="list-style-type: none"> 1. There is an approved Capital Strategy and Reserve Strategy in place 2. There is an approved budget for 2019/20 3. There are arrangements in place to monitor financial performance including quarterly reporting to Council and 6 weekly reporting to BTB through the change dashboards 4. First iteration of the Medium Term Financial Strategy approved at June Council. The budget projections included in the MTFS incorporate the risk causes identified. 5. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 6. Monitoring the oversight of the Change Programme through the Change Programme Dashboard prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. Change programme dashboards to be verified by finance team supported in addition to continued quarterly financial reporting by Financial Services. 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 	3	4	


			delivery on assets required to support capital growth.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q2 19/20: On 1 October an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 be subject of further consultation with communities.</p> <p>Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.</p>	Chief Executive	31-Dec-2019	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	<p>Q2 19/20: Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report is being presented to council on 12 November 2019. In addition the updated learning estate strategy will be reported to February council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.</p> <p>The learning estate strategy and a refresh of the capital strategy will be presented together at February Council.</p>	Director of education, Director Place	28-Feb-2020	

RISKS .


SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p>Risk event: Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. 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> <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>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	<ol style="list-style-type: none"> 1. Development of Medium Term Financial Strategy. 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. 	3	4	



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.	Q2 19/20: On 1 October an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 be subject of further consultation with communities.	Chief Executive	31-Dec-2019	

		Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.			
SRP.RA-02.04	Financial discipline Delivery of services within approved budget	Q2 19/20: The key message of ensuring robust financial discipline in all areas of the Council has resulted in an improved financial position at the close of quarter 2 when compared with previous years. The Chief Executive has emphasised the need for this much needed control and underlined the benefit to the organisation of such an approach.	Chief Executive	31-Mar-2020	


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> <p>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</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	<ol style="list-style-type: none"> 1. Financial Strategy and Change Programme 2. Leadership from all elected members, Executive Team and Senior Leadership Group. 3. Appropriated governance in place across the Change Programme. 4. Links between Change Programme and Workforce Plans 5. Resilience planning. 6. Senior Leadership Group regularly considering Change Programme and budget position. 7. Capacity to deliver change. 	4	4	




Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q2 19/20: On 1 October an update report was presented to Council on the Medium Term Financial Strategy, the report recommended to move the in principle decisions shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining, in principle, decision in appendix 2 be subject of further consultation with communities.</p> <p>Council was asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.</p>	Chief Executive	31-Dec-2019	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	<p>Q2 19/20: The reducing capacity available in schools, as a result of the rising population is causing a potential risk. The school estate capacity report and pupil intake limit report is being presented to council on 12 November 2019. In addition the updated learning estate strategy will be reported to February council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider school estate needs.</p> <p>The learning estate strategy and a refresh of the capital strategy will be presented together at February Council.</p>	Director of education, Director Place	28-Feb-2020	

SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's	<ol style="list-style-type: none"> 1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Statutory Inspection. 6. Local Scrutiny Plan 	3	3	

		Services; Head of Property and Facilities Management; Director of Resources				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	Q2 19/20: Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	31-Mar-2020	
SRP.RA.03.0 3	Demographic Growth	Q2 19/20: A refresh of the capital strategy will be presented to council before 2020. The Capital and Asset Management board is putting in place interventions to allow it to more robustly monitor the delivery of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management. Capital and Asset Management board will re-evaluate a number of key strategic projects and make recommendations to council.	Director of Education Communities and Economy; Director Resources; Head of Finance and Integrated Service Support	31-Jul-2020	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	Q2 19/20: The reducing capacity available in schools, as a result of the rising population is causing a potential risk. The school estate capacity report and pupil intake limit report is being presented to council on 12 November 2019. In addition the updated learning estate	Director of education, Director Place	28-Feb-2020	


		strategy will be reported to February council. The multi-disciplinary group are meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider school estate needs. The learning estate strategy and a refresh of the capital strategy will be presented together at February Council.			
SRP.RA-02.06	Resourcing of Regulatory inspection of Children's Service	Q2 19/20: Children's Services have allocated a Service Manager to lead on preparatory work and the duration of the external inspection of the Service to ensure the inspection gives a fair review of Council processes.	Head of Children's Services	31 Mar 2020	

SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<p>Risk cause Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation 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</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	<p>Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.</p> <p>Attendance / Wellbeing 1. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 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. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p>Performance 1. Council-side and 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. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p>Organisational Change</p>	3	4	

	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>1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees.</p> <p>2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>3. Agreed protocol for accessing the Redeployment Fund.</p> <p>Conduct</p> <p>1. Resolution Policy encourages early intervention in workplace issues.</p> <p>2. Professional standards and values to be re-enforced in structured format.</p> <p>Communication</p> <p>1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Workforce Strategy	Q2 19/20: Continuing on with the delivery of the workforce strategy actions. Internal Audit have reviewed the workforce strategy and assessed that though Council substantive assurance, work will continue through 2019/20 to deliver the recommendations arising from the audit.	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	31-Dec-2019	


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>	<p>Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources</p>	<p>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.</p>	3	5	


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</p>	<p>Head of Adult and Social Care; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services;</p>	<p>1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover</p>	3	4	

	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.		7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place			
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SRP.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 on going 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 skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Head of Property and Facilities Management; Director of Resources, Head of Finance and Integrated Service Support;	<ol style="list-style-type: none"> 1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy: <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Introduction of Capital Plan and Asset Management Board 	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	<p>Q2 19/20: A refresh of the capital strategy will be presented to council before 2020. The Capital and Asset Management board is putting in place interventions to allow it to more robustly monitor the delivery of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.</p> <p>Capital and Asset Management board will re-evaluate a number of key strategic projects and make recommendations to council.</p>	Director of Education Communities and Economy; Director Resources; Head of Finance and Integrated Service Support	31-Jul-2020	

SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	Q2 19/20: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys. Capital spend works carried out during summer, on-going through quarter 2. Continuing to develop property asset management plans, priority spend on basis of independent surveys.	Head of Property and Facilities Management	31-Dec-2019	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	Q2 19/20: Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.	Director of Resources	31-Mar-2020	


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 Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Director of Resources, Service Manager -Waste Risk and Resilience	<p><u>Potential</u> sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q2 19/20: Contingency Improvement Plan drafted and due to be shared with newly formed Risk and Resilience Group ahead of reporting to CMT for approval. Procurement process underway to source technology systems to support the development and interrogation of Business Continuity application during an incident.	Service Manager - Waste Risk and Resilience	31-Mar-2020	


SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.10	Risk cause Code of conduct for Members and employees actions falling short of International Standards. Risk event Failure in openness, accountability, clarity. Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	Potential sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement.	3	4	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.02	Review of Standing Orders, Scheme of Administration, including delegated authority.	Q2 19/20: The Council have a cross party group reviewing the Standing Orders, Scheme of Administration, including delegated authority within Midlothian Council to ensure they reflect the current needs of the organisation.	Chief Executive	31-Mar-2020	

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities. Risk effect Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's	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	2	3	


		Services; Head of Property and Facilities Management; Director of Resources				
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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</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	<ol style="list-style-type: none"> 1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 	3	3	


SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.13	Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act Risk event Council Services not responding to the Climate Change Act with sufficient pace. Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.	Director of Education Communities and Economy;	1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018.	3	3	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 1	Climate change reporting	Q2 19/20: The Council Statutory report to Scottish Ministers on Public Body Climate Change Duties 2018/19 will be reported to Cabinet before the end of November. A Climate Change Strategy and Action plan proposal will be reported to CMT in November 2019.	Director of Education Communities and Economy	31-Dec-2019	


SRP.RR.14.1 Scottish Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	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. 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. 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	Head of Children's Services;	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. The Inquiry Team have established a Project Plan covering: 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. The Project Team have established a Project Plan covering:	5	4	


	for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.		<p>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</p> <p>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</p> <p>6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council.</p> <p>7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	Q2 19/20: A project team in place with project Plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan.	Head of Children's Services;	31-Mar-2020	
SRP.RA.14.0 2	Foster Care Case Study	Q2 19/20: In August 2019 all 32 Local Authorities received a Section 21 in relation to 'Foster Care Case Study'. This is a significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. There is on-going liaison with other local authorities and legal services around progressing this request which is due in January 2020.	Head of Children's Services;	31-Jan-2020	


SRP.RR.14.2 Historic 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</p>	Head of Children's Services	<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 the they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p>	4	5	


	<p>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>		<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. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	<p>Q2 19/20: Assess the ongoing financial impact of compensation/redress. Compensation/redress scheme has been developed and the funding of claims is understood an assessment on the potential financial impact should be carried out, supported by the Council's finance team.</p>	Head of Children's Services;	31-Mar-2020	


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>	<p>Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's</p>	<p>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.</p>	3	4	


		Services; Head of Property and Facilities Management; Director of Resources				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	<p>Q2 19/20: A refresh of the capital strategy will be presented to council before 2020. The Capital and Asset Management board is putting in place interventions to allow it to more robustly monitor the delivery of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.</p> <p>Capital and Asset Management board will re-evaluate a number of key strategic projects and make recommendations to council.</p>	Director of Education Communities and Economy; Director Resources; Head of Finance and Integrated Service Support	31-Jul-2020	


SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause 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</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of	<p>01 – EU Exit Working Group</p> <p>02 – Taking a risk management approach to identifying and assessing anticipated impacts</p> <p>03 – Working with a range of national and local bodies to inform preparatory arrangements.</p> <p>04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	4	

	further economic growth.	Property and Facilities Management; Director of Resources				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.A 2	Preparations for potential no deal	Q2 19/20: The Council continues to monitor this developing situation and prepare accordingly. The Council will work with key strategic partners in preparing for the potential impacts associated with exiting the EU with or without a negotiated deal.	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	31-Jan-2020	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations. Risk event Employees required to undertake tasks they are not competent to.	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director	01 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 02 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 03 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 04 – Comprehensive training programme in place to support those with	3	5	


	<p>Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly.</p> <p>Non-compliance with policy and procedure</p> <p>Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect</p> <p>Serious injury of ill health impact on employees and or service users.</p> <p>Negative impact on outcomes for customers/service users.</p> <p>Service users and employees exposed to hazards where statutory requirements exist.</p> <p>Statutory health and safety - duty of care over services users and employees not met.</p> <p>Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter)</p> <p>Significant financial penalties from Criminal Prosecution.</p>	<p>of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources</p>	responsibility for managing health and safety.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.2-1	Development of Health, Safety and Wellbeing Strategy and review of Health and Safety Policy	Q2 19/20: Midlothian Council have developed a Health safety and Wellbeing Strategy which was approved by CMT on 30 October 2019. The Strategy reflects the on-going work to fully embed the key principles of a successful health and safety management system, while reflecting the priorities set by the regulator in this are for the coming years. As a result of the recent changes to the Senor Management Structure, the health and safety team have reviewed the Council's Health and Safety Policy, this was presented to CMT on 30 October 2019 and was approved.	Service Manager Waste, Risk and Resilience	31-Mar-2020	Complete


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</p> <p>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>Head of Education;</p> <p>Head of Property and Facilities Management;</p>	<p>1. Learning Estate Strategy</p> <p>2. Early Years Expansion to 1140 hours updates</p> <p>3. Capital Strategy</p>	4	5	

	<p>Risk event Failure to resource and plan for these rises will significantly impact the Council's ability to fulfil its statutory obligations in relation to these groups.</p> <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.RA.03.03	Demographic Growth	<p>Q2 19/20: A refresh of the capital strategy will be presented to council before 2020. The Capital and Asset Management board is putting in place interventions to allow it to more robustly monitor the delivery of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.</p> <p>Capital and Asset Management board will re-evaluate a number of key strategic projects and make recommendations to council.</p>	Director of Education Communities and Economy; Director Resources; Head of Finance and Integrated Service Support	31-Jul-2020	


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</p>	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director	<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 	3	5	


	<p>organisational measures are deemed insufficient.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources</p>				
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OPPORTUNITIES .

SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Director of Education Communities and Economy;	1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for 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 Risk – capacity on Borders Rail ? = Growing Council risk	5	4	


SRP.OP.02 Borders Rail

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


SRP.OP.03 Easter Bush - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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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.	Director of Education Communities and Economy;	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	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A1	A702 Trunk Road Improvements	Q2 19/20: City Deal business case for Easter Bush expansion includes A702 road scheme to improve long term strategic access. Through liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Director of Education Communities and Economy;	31-Mar-2020	

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.	Director of Education Communities and Economy;	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. Merge City Deal and Easter Bush ? - see IJ	3	5	

SRP.OP.05 Growing Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome. This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP)	5	5	

	housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.	of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources				
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SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	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. .	Head of Adult and Social Care; Head of Children's Services; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh	4	5	

		Services; Head of Property and Facilities Management; Director of Resources				
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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	Q2 19/20: Funding approved by Scottish government to create a STEM centre as a replacement for Beeslack High school Research is being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.	Head of Education;	31-Aug-2023	

Treasury Management Mid-Year Review Report 2019/20

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to inform members of the Treasury Management activity undertaken during the first half of 2019/20, the forecast activity for the second half of 2019/20, an update to the Treasury and Prudential Indicators for 2019/20, and the link across to the Council's Capital Investment Strategy.

2 Background

Treasury management

The Prudential Code recommends that the main Treasury Management reports are presented to Audit Committee in advance of consideration by Council. However as the next scheduled Audit Committee meeting is on 3 December 2019 this mid-year report is being presented to Council today in advance of consideration by Audit Committee to both avoid delay in its consideration and to allow it to be considered at the same as the second quarter financial reports. Any comments arising from Audit Committee consideration of the report on 3 December 2019 will be reported to Council either by way of a separate report or as part of the minutes of Audit Committee.

In addition, Treasury Management training has been arranged for elected members on the 5th November 2019, with the training being run by the Council's treasury management advisers, Link Asset Services. In advance of this meeting, members will have a copy of this mid-year report, alongside the capital plan monitoring reports and financial monitoring – general fund revenue report, which will provide Members with the most up to date position on the Council's treasury management position, capital and revenue budgetary position in advance of the training workshop.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined as:

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

Council, on 12 February 2019, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2019/20.

3 Economic update for first half of 2019/20

The key points from economic activity in the first half of 2019/20 are as follows:-

- Borrowing rates dropped to historically low levels, with longer term Public Works Loan Board (PWLB) rates almost halving to drop significantly below 2.00% from August 2019;
- Consumer Price Inflation has hovered around the Bank of England's target of 2.00% during 2019, falling to 1.7% in August. It is likely to remain close to 2% over the next two years; however this is heavily dependent on the outcome of the Brexit negotiations;
- The Bank of England Base Rate has remained unchanged at 0.75% throughout the first half of the year. With so many variables over the coming months in relation to the outcome of Brexit and the likely general election, interest rate forecasts are subject to material change as the situation evolves;
- The expectation is that both new fixed term and variable rate investment opportunities and temporary loan rates will follow any movements in Base Rate.

An economic update for the first part of the 2019/20 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2.

4. Treasury Activity during first half of 2019/20

The main points arising from treasury activity in the year to 30 September 2019 were:-

- Taking advantage of the historically low PWLB rates in the latter part of the first half of the year, two new long term loans were sourced from PWLB on 25 September 2019 as follows:-
 - £10 million maturity loan with a 20 year tenor at a fixed interest rate of 1.76%;
 - £10 million maturity loan with a 50 year tenor at a fixed interest rate of 1.68%;
- Long term borrowing of £0.447 million matured, this being £0.316 million of Market Loans, £0.113 million of Salix loans and £0.018 million PWLB Annuities;
- The level of short term borrowing has been temporarily reduced to nil as a result of Capital Grant and Developer Contribution receipts during the summer;
- Two short term investments beyond a duration of 1 day were placed:-
 - £10 million fixed term deposit for 1 year, placed with Bank of Scotland on 26 June 2019, earning an interest rate return of 1.25%. In addition, the existing £20 million with Bank of Scotland on 175 days' notice at an interest rate of 1.13% was converted to a fixed term deposit for 1 year, also earning an interest rate return of 1.25%;
 - £10 million fixed term deposit for 18 months with Rushmoor Borough Council, earning an interest rate return of 1.15%;
- The average interest rate earned on external investments was 1.16%, exceeding the benchmark rate of 0.73%.

The Council's loan and investment portfolio as at 30 September 2019 is shown in tables 1 and 2 below (position at 31 March 2019 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2019 and 30 September 2019.

Loan Type	31 March 2019		30 September 2019	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
PWLB Annuity	674	8.90%	656	8.90%
PWLB Maturity	187,224	3.73%	207,224	3.37%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	19,464	2.68%	19,149	2.68%
Temporary Market Loans	9,000	0.78%	0	n/a
Other Loans	916	0.00%	803	0.00%
Total Loans	237,279	3.60%	247,832	3.42%
Underlying Borrowing Requirement*	274,582		283,772	
Internal Borrowing	37,303		35,940	

* The Underlying Borrowing Requirement is the Capital Financing Requirement excluding the "Public Private Finance" (PPP) Contract Liabilities

Table 2: Council's Investment Portfolio at 31 March 2019 and 30 September 2019

Investment Type	31 March 2019		30 September 2019	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
Money Market Funds	9,767	0.78%	23,012	0.73%
Bank Notice Accounts	49,985	1.00%	44,985	1.20%
Deposits with other Local Authorities	15,000	1.70%	25,000	1.48%
Total Investments	74,752	1.11%	74,286	1.16%

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields that has influenced PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5. Expected Treasury Activity during second half of 2019/20

Borrowing

Long term borrowing of £8.823 million will mature in the second half of 2019/20, this being £8.400 million maturity loan with PWLB, £0.317 million of Market Loans, £0.087 million of Salix loans and £0.019 million PWLB Annuities;

The £8.400 million maturity loan with PWLB which matures on 14 December 2019 has already been refinanced with new longer term PWLB borrowing as outlined in Section 4 above.

On 9 October 2019 the UK's Debt Management Office announced that with immediate effect, all long term loan rates available to Local Authorities from the Public Works Loans Board (PWLB) would be increased by 100bps (1.00%) on top of the existing loan terms. This now means that rates are now Gilts+180bps for all Local Authorities that qualify for the Certainty Rate, rather than the previous Gilts+80bps.

At the same time, the Government has legislated to increase its lending limit for PWLB loans from £85 billion to £95 billion to ensure that PWLB loans can continue to be offered to Local Authorities. A copy of this announcement is attached as Appendix 3.

This now places PWLB rates either level, or potentially higher, than other loan rates available in the marketplace. The Council, along with its Treasury advisers Link Asset Services, will monitor how the marketplace as a whole reacts to this change in PWLB margins and what products other private sector providers may be able to offer the Council.

The Council borrowed two £10 million maturity loans from PWLB in September 2019, in advance of the increase in rates outlined above to finance the Council's capital plans. Had the Council delayed the decision to borrow in September 2019 to a date beyond 9 October 2019, the impact on the Council's loan charges would have been an extra £200,000 per annum (£20,000,000 loan x 1% increase in interest rate). Based on the two loan tenors of 20 years and 50 years, this would have cost the Council £7 million more in interest costs over the lives of the loans.

It is expected that no further long-term borrowing will be sourced in the second half of 2019/20, and that temporary borrowing will be sourced to finance capital expenditure, taking advantage of the rates in this market sitting at less than the Bank of England Base Rate.

However, given the current forecasts of capital expenditure, as presented to Council elsewhere on today's agenda, and any revisions to these forecasts, for 2019/20 and beyond as previously reported to Council, consideration will be given to borrowing now (for capital expenditure beyond 2019/20) if it is determined that this would offer value compared with forward interest rate projections. Equally,

consideration will continue to be given as to whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

Appendix 4 provides forecasts for interest rates from the Council's Treasury Management advisor, Link Asset Services. The forward forecast rates, which incorporate the increase to the PWLB rates as outlined above, are in line with the Council's forward budgeted borrowing projections that have been incorporated into previous Medium Term Financial Strategy reports, which mitigates any pressure on the medium term financial strategy from increased loan charges.

Investments

In accordance with the Code, it is the Council's priority to ensure security of capital, then liquidity, and finally to obtain an appropriate level of return which is consistent with the Council's risk appetite. As noted in Section 3 and detailed in Appendix 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line, or below, with the current 0.75% Bank Rate. The evolving position with regard to Brexit prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

£25.000 million of the Council's investments are held in fixed term deposits with other Local Authorities that mature in March 2020 and January 2021, £30.000 million in a fixed term bank deposit account that matures in June 2020, and £14.985 million in bank notice accounts (with the notice period equating to 180 days).

Day to day liquidity to meet cashflow requirements are sourced from the Council's three Money Market Funds, which operate on an instant access basis. Interest rates receivable from these funds fluctuate on a daily basis and broadly track the Bank of England Base Rate (with a slight lag following any base rate drop/increase due to the slightly longer tenor duration of these funds). As of 30 September, the interest rates across the three funds lay between 0.71% and 0.73%.

The Head of Finance & Integrated Service Support confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.

Given the current low interest rate environment, it is proposed that Council officers, in conjunction with Link Asset Services, continue to review the range of investment options available to the Council within its stated investment policy in the Treasury Management & Annual Investment Strategy approved by Council on 12 February 2019 in order

to select only the most creditworthy counterparties to ensure the security of Council funds, and from that list select the range of investment products that offer best value to the Council's investment portfolio.

An updated list of approved Countries for Investments as at 30 September 2019 is included as Appendix 5).

Expected Loan & Investment Portfolio at 31 March 2020

Taking all of the above into account, the expected loan and investment portfolio at 31 March 2020 is shown in Tables 7 and 8 below:-

Table 7: Council's forecast Loan Portfolio at 31 March 2020

Loan Type	31 March 2020	
	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	637	8.90%
PWLB Maturity	207,224	3.37%
LOBO	20,000	4.51%
Market Loans	18,831	2.68%
Temporary Market Loans	20,000	0.75%
Other Loans	716	0.00%
Total Loans	267,408	3.21%
Underlying Borrowing Requirement	314,618	
Internal Borrowing	47,210	

Table 8: Council's forecast Investment Portfolio at 31 March 2020

Investment Type	31 March 2020	
	Principal Outstanding £000's	Weighted Average Rate
Money Market Funds	10,000	0.70%
Bank Notice Accounts	14,985	1.10%
Bank Fixed Term Deposit Accounts	30,000	1.25%
Other Local Authority Fixed Term Deposits	25,000	1.48%
Total Investments	79,985	1.23%

6. Prudential Indicators 2019/20

The following prudential indicators have been refreshed from those reported to Council on 12 February 2019 in the original Treasury Management and Annual Investment Strategy Statement 2019/20, based on the actual outturn for 2018/19 and the Council's Capital Plans for 2019/20 to 2022/23, and are shown in Table 9 (see also Appendix 6):-

Table 9: Prudential Indicators 2019/20 – Mid Year Update

Indicator	2019/20 Original Estimate £000's	2019/20 Current Position £000's	2019/20 Revised Estimate £000's
2019/20 Capital Expenditure	99,892	19,619	78,789
2019/20 Required Borrowing	61,093	9,190	43,613
2019/20 Underlying Borrowing Requirement*	346,056	283,772	318,195
2019/20 Gross External Borrowing	287,869	247,832	256,431
Operational Boundary – Borrowing	352,977	289,447	324,559
Authorised Limit – Borrowing	524,349	524,349	524,349
2019/20 Capital Financing Requirement**	428,888	366,604	401,027

* Excludes "On balance sheet" PPP schemes.

** Includes "On balance sheet" PPP schemes.

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

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements. This was recommended to be £524.349 million in the Treasury Strategy report presented to Council on 12 February 2019 and subsequently agreed by Council.

7 Report Implications

7.1 Resource

Expenditure from Treasury Management activity i.e. loan charges, is reported in quarterly financial positions to Council, with Quarter 2 monitoring reflected in the Financial Monitoring 2019/20 – General Fund Revenue report that will be presented to Council on 12 November 2019.

7.2 Risk

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved and these have recently been reviewed and updated.

7.3 Single Midlothian Plan and Business Transformation

Themes addresses in this report:-

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

7.4 Impact on Performance and Outcomes

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

7.5 Adopting a Preventative Approach

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

7.6 Involving Communities and Other Stakeholders

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

7.7 Ensuring Equalities

There are no equality issues arising from this report.

7.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

7.9 Digital Issues

There are no Digital Services implications arising from this report.

8 Summary

Treasury Management activity during the year to 30 September 2019 has been effective in minimising borrowing costs and maximising investment income within the parameters set by the strategy for the year.

No further long-term borrowing is forecast for the remainder of 2019/20, reflective of the borrowing undertaken in the first half of the year and the General Services and HRA capital plans reported elsewhere on today's agenda. Consideration will continue to be given to whether borrowing now (for capital expenditure beyond 2019/20) to secure historically low rates offers value compared with forward interest rate projections, and/or whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

The investment climate remains challenging given the low interest rate environment and creditworthiness concerns. Officers will continue to review the investment opportunities available to the Council.

The Prudential Indicators have been updated to reflect current capital expenditure and income projections.

9 Recommendations

It is recommended that Council:-

- a) Note that this Treasury Management Mid-Year Report 2019/20 will be scrutinised by the Audit Committee at its next meeting on 3 December 2019 and that any comments arising from the Audit Committee's consideration of the report will be reported to Council either by way of a separate report or as part of the minutes of Audit Committee in order to fulfil its role on scrutiny of treasury management.
Subject to the above:
- b) Note the report and the treasury activity undertaken in the period to 30 September 2019, as outlined in Section 4;
- c) Note the forecast activity during the second-half of the year as outlined in Section 5;
- d) Approve the revisions to the Prudential Indicators in Section 6 of this report.

18 October 2019

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Appendices

- Appendix 1: Economic Update for first part of 2019/20 financial year
- Appendix 2: PWLB Borrowing Rates 1 April 2019 to 30 September 2019
- Appendix 3: PWLB Borrowing Rates Announcement
- Appendix 4: Link Asset Services Interest Rate Forecasts
- Appendix 5: Approved Countries for Investments as at 30 September 2019
- Appendix 6: Prudential Indicators Detail

Appendix 1: Economic Update for first part of 2019/20 financial year

UK

This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than

115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA

President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

Eurozone

Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SPD coalition government.

China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.

Japan

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

World Growth

The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

Appendix 2: PWLB Borrowing Rates 1 April 2019 to 30 September 2019

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2019 to 30th September 2019

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%



Appendix 3: PWLB Borrowing Rates Announcement



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Dear Chief Finance Officer,

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9 October 2019

Public Works Loan Board (PWLB) interest rates

1. The Government recognises that the freedoms for local authorities to borrow under the Prudential Framework are fundamental to supporting local capital strategies and authorities' organisational objectives, including regeneration, supporting local growth and service delivery. The PWLB supports this activity by on-lending Government borrowing from the capital markets to local authorities to deliver capital investment.
2. The maximum net amount of PWLB loans that can be outstanding at any time is subject to a statutory limit. In order to ensure that lending continues to be available for local authorities that need it, the Government has legislated to increase the lending limit from £85bn to £95bn.
3. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) in 2010, to better reflect the availability of capital finance, and lowered it to 80bps over gilts in 2013 for qualifying authorities.
4. Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.
5. This restoration of normal PWLB lending rates will apply to all new loans with immediate effect. The Government will monitor the impact of this change and keep rates policy under review.
6. As always, the Government will continue to work with individual authorities on a case-by-case basis if they have concerns over their financial position.

Signed,

Local Government & Reform Team, HM Treasury

Appendix 4: Link Asset Services Interest Rate Forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.20	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.10	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.00	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond yields / PWLB rates. There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, 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 thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we have seen during the last half year is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, The Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- **The Bank of England** is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 5: Approved Countries for Investments as at 30 September 2019**AAA**

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

Appendix 6: Prudential Indicators Detail

Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget:-

Capital Expenditure by Service	2019/20 Original Estimate £000's	Current Position £000's	2019/20 Revised Estimate £000's
Resources	16,273	1,970	12,711
Education, Community & Economy	25,203	8,628	29,742
Health & Social Care	4,605	546	1,250
Council Transformation	2	2	2
Provision for return of contingencies	-710	0	-417
HRA	54,519	8,473	35,501
Total	99,892	19,619	78,789

Forecast levels of capital expenditure on:-

- Resources has decreased by £3.562 million compared to budget, due to rephasing of projects from 2019/20 to 2020/21, in particular the rephasing of expenditure for the Vehicle & Plant Replacement programme, Destination Hillend, EWIM Phase III and the block Property Upgrades projects;
- Education, Community & Economy has increased by £4.539 million, due to the construction of Hopefield, Cuiken and Lawfield Primary Schools, and the construction of the Rosewell Development Trust hub, running as scheduled compared to the planning assumption that these projects would have an element of delay, and the inclusion of new projects at Woodburn, Tynewater and Burnbrae Primary Schools;
- Health & Social Care has decreased by £3.355 million reflecting the delay in the Highbank Intermediate Care Provisioning project as a result of the decision to delay the commencement of construction works until St. Mary's Primary School has been decanted to the new Hopefield Primary School;
- HRA has decreased by £19.018 million to reflect the rephasing of the Phase II to IV programmes.

Prudential Indicator for the Financing of the Capital Programme & Borrowing

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (principal repayments). This direct borrowing need is also supplemented by maturing debt and other treasury requirements.

Capital Financing	2019/20 Original Estimate £000's	Current Position £000's	2019/20 Revised Estimate £000's
Total Capital Expenditure	99,892	19,628	78,789
Capital Grants	18,554	6,197	22,559
Capital Receipts	0	15	15
Capital Reserves	1,900	2,437	2,437
Developer/Other Contributions	10,104	2,321	10,164
Total Financing	30,558	10,970	35,176
Borrowing Required	69,334	8,658	43,613

Total expected financing has increased from £30.558 million to £35.176 million.

