

Annual Governance Statement – Financial Improvement Update

Report by Gary Fairley Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

Audit Committee is asked to note this update on the financial related improvement actions as set out in the 2019/20 Annual Governance Statement which in turn enhance compliance with the Council's Local Code of Corporate Governance.

2 Purpose of Report/Executive Summary

At its meeting on 22 June 2020 the Audit Committee, when considering the draft of the Annual Governance Statement for 2019/20, agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions and that the first update would be provided at this meeting.

18 November 2020

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3 Background

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

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' is to ensure that:-

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

An annual review of the adequacy and effectiveness of its overall governance framework is carried out with the output of this being the Annual Governance Statement which is presented to the Audit Committee as an integral part of the Financial Statements.

For 2019/20 the collective review activity identified the areas where improvement in governance arrangements could be made to enhance compliance with the Council's Local Code of Corporate Governance and to demonstrate Best Value, including financial sustainability, financial management and service transformation.

The final 2019/20 Annual Governance Statement highlighted that significant progress has been made in terms of the improvement actions agreed as follows:

1. The medium term financial strategy was approved by Council in June 2019.
2. The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party Business Transformation Steering Group is driving forward the medium term financial strategy including the supporting transformation plans. Throughout the Covid-19 Pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.
3. The workforce strategy was approved by Council in December 2019 and further work, as part of the Covid-19 recovery phase, is now taking place to ensure that workforce planning reflects both the medium term financial strategy and the Council's future plans.
4. The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was

approved by Council in June 2020. Supporting capital projects were also approved by Council in June and August 2020.

5. The Council is continuing to implement financial planning arrangements to address remaining budget gaps, underpinned by robust financial budgeting and monitoring arrangements with a quarterly financial monitoring board now meeting to scrutinise in year and future year savings.
6. The Compact has been developed in partnership with the Third Sector in light of the outcome of consultation work through the Services with Communities and will be presented to Council in October 2020
7. Work is underway with elected members in light of the recommendation to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

In addition the statement noted that other improvement actions were agreed during the year in order to enhance compliance with the Council's Local Code of Corporate Governance:

9. Strengthen resource capacity and skills in the Procurement function to better support Service Managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to demonstrate delivery of value for money.
10. Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
11. Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems.
12. Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.
13. In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee or Council where appropriate. Unfortunately, the reporting process did not improve to the extent anticipated and therefore it is essential moving forward that both CMT and Audit Committee are given their place in terms accurate and timeous reports being provided to allow full analysis and scrutiny of financial matters which will help to ensure greater transparency of practice and stronger governance.

The aim of all these actions being to improve governance arrangements in 2020/21.

The update provided by this report encompasses the financial related items and others within the remit of Corporate Solutions service and therefore this report provides an update in respect of items 1, 3, 4, 5, 9, 11 and 13 from the above.

4 Update on Improvement Actions

AGS 1. MTFS.

Having approved the MTFS in June 2019, the Council subsequently agreed, on the recommendation of the BTSG, the 2020/21 budget on 11 February 2020.

During the year Council has been provided with three COVID Financial Update reports in June, August and latterly on 17th November. The August and November reports complemented the Q1 & Q2 Financial Monitoring reports and together these provided Council with a detailed update on the financial impact of the pandemic and the projected financial position of the Council overall. As reported to Council on 17 November 2020 the projected position for General Fund is a net overspend of £0.485 million for the year which is 0.21% of the revised budget. The general reserve is projected to be £3.410 million at 31 March 2021.

On 26 October 2020 BTSG unanimously endorsed the adoption of a corporate solution to secure financial balance for the 2021/22 and 2022/23 budgets. The three strands of the solution, as noted below, will now be presented to Council in December 2020.

- Applying an increase in Council Tax, in line with that expected to be provided for in the grant settlement, estimated at 4.8%.
Noting that BTSG had previously agreed this as one of the main budget planning assumptions;
- The in-year impact of the Loans Fund review which is reported in more detail elsewhere on today's agenda; and
- Utilising the prior year adjustment which arises from the Loans Fund review.

As indicated BTSG had previously agreed the main planning assumptions on which the budget projected are predicated. In addition applying Council Tax increases, BTSG have agreed the assumptions for Scottish Government Grant (agreed a revised planning assumption of a 1% cut at national level each year) and the provision included for pay awards (agreed maintaining a planning assumption of 3% per annum).

This corporate solution for the financial years in question will be adapted as the details and quantum of the financial flexibilities agreed by Scottish Government are developed. The adoption of the Corporate Solution to the two remaining budgets which fall within the term of this Council will allow officers to commence work on developing a MTFS for the term of the next Council for consideration after the elections in May 2022.

AGS 3. Workforce Plans.

As part of the Covid-19 recovery phase work is now taking place to ensure that service workforce plans are developed which reflects both the medium term financial strategy and the Council's future plans. The endorsement by BTSG of the Corporate Solution to the MTFs, as set out above, provides greater certainty on which to develop these service specific plans. It is intended to bring forward a draft of the Corporate Solutions workforce plan this calendar year and use the learning from that to support the development of plans for all service areas.

AGS 4. The Capital Programme.

An update on both the General Fund and HRA Capital programmes were presented to Council on 17th November 2020. The forward capital programmes reiterate the extent of investment approved by the Council with expenditure of circa £400 million estimated over the period to 2024/25 with a net borrowing requirement of circa £285 million. The Capital Plan and Asset Management Planning Board maintains oversight of the capital plans and oversees the delivery of the wide range of investment projects provided for in the plans.

AGS 5. Financial planning arrangements and financial budgeting and monitoring arrangements.

In addition to the progress outlined at above at 4.1 arrangements for the Financial Monitoring CMT meetings are now well developed with those meetings receiving both the draft quarterly financial monitoring report and appendices for scrutiny and challenge and also where appropriate additional information which outlines the basis of financial projections and the key risk associated with these.

From Q1 2019/20 the reporting arrangements to Council in respect of Adult Health and Social care have been revised to better recognise the Council's obligations arising from the Integration Scheme. Having approved the delegation of a budget to the Integration Joint Board (IJB) the responsibility for delivering services within that budget allocation then sits with the IJB and only as a last resort would the IJB approach its partners, the Council and NHS Lothian, to secure an additional budget allocation. In recognition of this detailed budget monitoring and reporting in respect of Adult Health and Social Care is encompassed in the IJB's Chief Finance Officer Reports to the IJB itself.

Financial Strategy meetings attended by the Chief Executive, Director Place, Chief Officer Corporate Solutions and Financial Services Manager are scheduled on a fortnightly basis and provide a forum to review and refine the financial strategy and address issues as they emerge.

External evaluation of the Council's financial management arrangements is carried out by external audit. As Committee is aware in their 2019/20 Annual Report EY recorded an improved Green Rating for Financial management. The report states that:-

"The Council demonstrates good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial

reporting was clear and consistent throughout the year and improvements have been made to the management and monitoring of the capital programme. We note that while improved governance arrangements have been adopted to approve and monitor savings within the Business Transformation programme, the Council delivered only 71% of planned savings in 2019/20.

Some areas, including the delivery of savings and updating of financial regulations, will require continuing focus and attention”.

AGS 9. Procurement.

Action has been taken to strengthen the capacity and skills in the Procurement Team by recruiting an additional Procurement Officer specifically to support Service Managers within the Roads and Property functions to comply with the Council’s procurement strategy and procedures. Regular meetings to discuss service delivery strategy, new areas of spend, contracts that have or due to expire, current service provision including any off contract spend and supplier performance are now in place across the Directorates.

Arrangements are now being progressed to provide additional capacity through the recruitment of a second Procurement Assistant post which in turn will allow the Procurement Officers to have more capacity to both support and challenge service managers on commodity strategies and routes to market for their services. The additional capacity at the Procurement Assistant level will also assist in ensuring that the provider fitness checks arrangements put in place are sustainable (a recommendation arising from the Following the Public Pound 2018/19 audit). In this respect provider fitness checks have been issued to all parties and the majority returned satisfactorily. Work is now ongoing to chase up the 20 providers who have not yet returned the checks.

In addition the national procurement body, Scotland Excel, were engaged to provide specific support and expertise on the market offering and procurement of a replacement Customer Services Platform. This culminated in securing Council approval for the Online Payments and Services Platform (OPAS) earlier in the year.

Prior to the pandemic discussions had taken place with neighbouring Councils to explore opportunities for a shared approach to procurement. These considered a range of options from collaboration and joint working on specific procurements/areas of mutual interest to a fully aligned shared or hosted service. In the event the neighbouring Councils were unable to commit to taking these discussions beyond the initial exploratory stage.

Following the discussions with neighbouring Councils we continue to engage with Scotland Excel to explore opportunities to secure expert support from them through the consultancy service they offer to member Councils. This service is recognised to have delivered a range of successful projects thought the country and Scotland Excel currently have a wide range of projects underway across Councils, associate members, arms-length organisations and other public bodies. Most

notably this includes a successful programme in Fife Council where the approach is expected to deliver significant savings.

Whilst progress on the engagement with Scotland Excel has been hampered by the pandemic we are now seeking to conclude an arrangement aimed at securing the capacity and skills to take forward a range of key actions and also learning from the approach they have developed with Fife Council. The priority areas for this include:-

- To provide a route map to fully develop contract and supplier monitoring across all Council services to ensure that the Council can consistently demonstrate delivery of value for money.
- To undertake a strategic evaluation of the current arrangements, including capacity and skills, for Procurement and provide advice on the requirements needed to meet the Council's expectation in an effective and efficient manner going forward.
- Review the latest Scotland Excel PCIP assessment and re-evaluate the actions identified and develop a plan to secure improvement in preparation for the next PCIP assessment.
- Develop a Quality Assurance arrangement to ensure the necessary improvement actions are being implemented and to continuously improve this service area.

The 2019 /20 Audit of Procurement and Management of Contracts carried out by internal Audit identified contracts that had expired and recommended that these should be urgently retendered to ensure that the Council is obtaining Best Value. Furthermore the Audit Committee on 10 March 2020 sought details in respect of expired contracts. The Procurement Team had identified from the Contracts Register 50 contracts which had expired and sought instructions from the service leads.

It should be noted that it was never expected that all of these would go through full re-tendering process. This recognises that there are other routes to secure the services/commodities which may be better placed to secure best value. It also takes into account that re-tendering a contract is not a short process and it is not simply a matter of re-issuing previous tender documents. Instead the process must replicate a new procurement. Firstly, there is the need to identify continuing business needs and budget with the service department and to agree instructions. Thereafter, the Procurement Delivery Plan/Commodity Strategy must be agreed with the service leads, to identify suitable routes to market (including, where there is an appropriate business case proceeding by Non Competitive Action), to identify priority contracts and agree timetables. It is only once these have been agreed and committed to, can the contract then be exposed to the market.

Compliant arrangements have now been put in place for 35 of the contracts which had expired. This includes migrating the provision of services/commodities to national framework arrangements, through Scotland Excel, Scottish Government or other organisations who have already secured arrangements through extensive procurement exercises. This route avoids taking an offering to the market for goods

and or services where public sector contracts are already in place and in most cases readily accessible to the Council.

3 are services/ commodities that are no longer required with the remaining 12 have been identified as requiring retendering and or development of a procurement delivery plan/commodity strategy and in this regard the Procurement team are supporting service leads to progress these and have ensured that interim arrangements are appropriate.

AGS 11. Financial Regulations.

At the onset of the pandemic it was recognised that the swift shift to remote working, coupled with an increasing range of expenditure pressures in services would require changes which not only needed to be implemented swiftly but which also required to comply with the Council's financial regulations framework and give assurance that the internal control framework was being maintained.

Accordingly an overview of the Financial Governance arrangements that would be of most relevance during the pandemic was provided to Corporate Incident Management Team (CMT) in April 2020 and subsequently presented to the Group Leaders meeting. These arrangements were designed to; Support the maintenance of strong and effective financial control; Provide effective financial oversight; Allow for both efficiency and completeness in determining the financial impact on the Council; Supporting the development of effective mitigation to maintain financial sustainability; Supporting reporting and or lobbying for additional funding from Scottish Government; and aid the recovery phase.

In this regard attached as Appendix B is a copy of the report taken to CMT on 4 October 2020 which provided an up-to-date overview of the enhancements which were made to the Council's financial assurance and internal control arrangements from March 2020 together with an overview of further work which is being undertaken to further enhance these arrangements.

As referenced earlier in the extract from the EY annual report for 2019/20 it is acknowledged that the Council's Financial Regulations would benefit from an update. As an interim measure these have been updated to reflect changes in the Council's Leadership structure and the wider changes as indicated by EY will be undertaken over the remainder of financial year 2020/21.

AGS 13. Alignment of meeting dates.

As touched on above the schedule of meeting dates now fully supports the quarterly financial monitoring reports being presented to a dedicated Financial Monitoring meeting of CMT. The added challenges brought about by the pandemic earlier in the financial year were such only working drafts of the Q1 financial monitoring appendices were provided to the CMT meeting. However the arrangements for Q2 ensured the full draft of the reports and associated appendices were provided in advance of the CMT meeting.

As evidenced by the Treasury Management midyear report elsewhere on today Audit Committee agenda, the three Treasury Management reports provided through the year are now presented to Audit Committee prior to consideration by Council. In addition the informal Audit Committee sessions have provided an opportunity for Audit Committee members to be briefed during the year on key financial aspects of governance including the unaudited financial statements and the proposed Treasury Management and Investment Strategy.

5. Wider Financial Governance Update

As noted in the Quarter 2 performance report (which will be reported to Cabinet on 1 December and then to Performance Review and Scrutiny Committee on 9 December) 29 of 39 internal/external audit actions in respect of Corporate Solutions are on target (20) or complete (9).

In respect of the remaining actions which are off target over the first half of the financial year much of the available resource to progress these was diverted to responding to COVID 19. As such a number of audit actions which had been progressing well and were nearing completion were delayed. In respect of those that are indicated to be off target:

- One, in relation to where staff fail to engage with the staff debt process, is scheduled to be finalised during November 2020.
- Two, which relate to the issue of feeders systems, have been progressed with a recommendation that they are now replaced with specific actions in respect of the main risk areas relating to Building Maintenance, Roads Maintenance and Waste Disposal.
- Three are in respect of Procurement. These have been delayed as a consequence of the pandemic and the prioritisation of joint working on digital service delivery. These are now being prioritised with support provided by Scotland Excel as outlined above.
- Four continue to be delayed by Covid pressures and extensions have been requested to the end of the calendar year. These include an action in respect of the service workforce plan (which is referenced earlier in this report). Three are in respect of systems documentation and processes which in any event have been adapted as we have responded to the pandemic.

The Corporate Solutions Leadership team is focused on ensuring that the 20 internal/external audit actions that are noted as being on target for completion are progressed to completion within the scheduled target dates.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

There are no direct resource implications arising from this report. The continued areas of improvements will be met from existing resources.

6.2 Digital

There are no direct digital implications arising from this report.

6.3 Risk

There are no specific risk arising from this report. The progress outlined in the report strengthens the Council's governance arrangements and in turn supports effective mitigation of risk.

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

There have been no changes to policies which require an IIA to be completed.

6.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Report Implications

Appendix B – CIMT Report, Update on Financial Assurance and Internal Control arrangements during Covid-19 Pandemic

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Maintaining financial governance and effective internal controls is central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Effective Financial Governance is a core principal of Best Value.

A.5 Involving Communities and Other Stakeholders

There has been no external engagement in preparing this report.

A.6 Impact on Performance and Outcomes

In the main the arrangements set out in the report do not have a direct impact on performance or outcomes.

A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

A.8 Supporting Sustainable Development

No direct impact.



Update on Financial Assurance and Internal Control arrangements during Covid-19 Pandemic

Report by Gary Fairley Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

To note this update on the Financial Assurance and Internal Control arrangements which remain in place during Covid-19 Pandemic together with those areas where further improvement work being undertaken.

2 Purpose of Report/Executive Summary

To provide CMT with an overview of the enhancements to the Council's Financial Assurance and internal control arrangements which have been applied during the period since March 2020 together with an overview of further work which is being undertaken to further enhance arrangements.

08 October 2020

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3 Background

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

Central to these arrangements are the Council’s Financial Regulations which detail the responsibilities of Elected Members, the Chief Executive and Chief Officials within the context of the Council’s political management framework.

As the ‘proper officer’ for the proper administration of the Council’s financial affairs, the Chief Officer Corporate Solutions oversees the operation of the Financial Regulations within the Council and provides to the Chief Executive, and Responsible Officers a written framework which governs the Council’s financial affairs. This framework consists of the Financial Regulations themselves supported by:

Financial Directives: The directives cover all relevant aspects of financial administration with delegated authority to the Chief Officer Corporate Solutions to alter the Financial Directives except for any matters which are covered by the Financial Regulations where Council approval will be required. Changes to the Financial Directives are required to be reported to Audit Committee for their endorsement.

Financial Guidance Notes: These guidance notes provide employees with detailed guidance and advice on specific procedures to be followed and any such guidance notes issued will require the prior approval of the Chief Officer Corporate Solutions.

In addition to this regulatory framework all of the business processes operated by the Council have a range of internal controls inbuilt. These are the mechanisms, rules, and procedures which have been implemented to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud or error. These internal controls encompass such aspects as separation of duties, access controls to systems and data, physical audits, standardised documentation, trial balances, periodic reconciliations, and approval authorities.

The annual internal audit plan also provides further assurance with the core financial business processes and systems being subject to regular audit.

At the onset of the pandemic it was recognised that the swift shift to remote working, coupled with an increasing range of expenditure pressures in services would require changes which not only needed to be implemented swiftly but which also required to comply with the Council financial regulations framework and give assurance that the internal control framework was being maintained.

4 Financial Governance

An overview of the Financial Governance arrangements that would be of most relevance during the COVID19 pandemic was provided to Corporate Incident Management Team (CIMT) in April 2020 and subsequently presented to the Group Leaders meeting. The aim of the report (see Appendix B) was to provide the CIMT and other colleagues understanding of the arrangements and so:-

- a) Support the maintenance of strong and effective financial control;
- b) Provide effective financial oversight;
- c) Allow for both efficiency and completeness in determining the financial impact on the Council;
- d) Supporting the development of effective mitigation to maintain financial sustainability;
- e) Supporting reporting and or lobbying for additional funding from Scottish Government; and
- f) Aiding the recovery phase.

The report identified six broad streams of financial impact on the Council which would have differing governance arrangements.

5. Internal Controls

This section provides CMT with visibility of the changes to internal controls and provides an overview of where existing control remained applicable and effective with the shift to remote working or where new services were implemented at pace. It provides assurance that the governance and internal control regime around these areas remained fit for purpose.

It covers arrangements for

- Procurement
- Purchase to Pay
- COVID Grant Schemes and external payments
- Payroll and Recruitment
- Income collection and Receipts
- Financial transactions including treasury

Procurement

The Procurement regime relied heavily on wet signatures and paper records prior to the pandemic. Given the importance of procurement in fraud prevention and delivering best value, the required procedures in terms of the Procurement Manual were maintained albeit using electronic signatures and e-mail communications for authorisation.

Contract award and variation letters were issued electronically. Formal documents, if required, were signed in part and using e-signatures as per Law Society guidance.

The Procurement team has worked closely with suppliers, Scotland Excel and other public sector colleagues to protect the supply chain. In addition, use was made of the provisions in Regulation 72 of the Public Contracts (Scotland) Regulations 2015 and the Council's Non Competitive Action procedure to modify and extend existing contracts, where appropriate, to avoid disrupting the supply of goods and services. As an example the Occupational Health Service provided by PAM has extended using the Non Competitive Action mechanism recognising that it would have been, at best, untimely to seek to tender and change the service provided in the midst of the pandemic.

Purchase to Pay

The Integra system and associated invoice approval workflows provides a digital route from the ordering of goods and services through to payment of suppliers. Internal control are inbuilt into the systems and associated workflows. As such there is a continued reduction on the reliance for "wet signatures" as a means to evidencing authorisation of orders or payments.

Accordingly the onset of the pandemic meant that nothing significant needed to be changed to maintain the internal control environment. The use of the invoice approval process was however rolled out at pace to additional service areas in March/April as follows:

- Street Lighting
- Energy/Property Management
- Transportation
- Construction & Projects

Invoice approval was also rolled to a specific supplier (Richard Irvin) within Property Services. This facilitated the digital receipt and capture and storage of CP12 (Gas Safety) certificates.

The Performance Indicator for invoice payments for Q1 2020/21 was on target at 95%. This compares to 92.2% for Q1 2019/20 and 88.9% for Q2 2019/20. Of note the total number of invoices and payments has gone up by 11.6% and the average number of days to pay has gone down from 11.3 to 8.8.

The Business Apps team will continue to monitor invoice payment performance on quarter by quarter basis for the rest of the year and continue to progress further improvements and complete the roll out of P2P.

Business Grant Payments, Self Employed and B&B Grants

The main Business Grant scheme which resulted 1,194 awards and payments totalling £13.750 million was administered on the Council's behalf by the City of Edinburgh Council. Edinburgh administer Non Domestic Rates billing and collection on our behalf and the close alignment of this grant scheme to non-domestic rates records meant there was a necessity to have Edinburgh administer the scheme. Edinburgh Council applied their own internal control and financial governance arrangements for the scheme.

In respect of Self Employed and B&B Grants this was of a smaller scale with total payments totalling £161,000 with the schemes administered directly by the Council. A small project team was convened to take this forward with representation from Business Gateway Team, Business Services and Internal Audit.

As there is no dedicated customer platform that would allow customers to submit a digital application, the best approach was to provide a mailbox for applicants to submit the application form and associated supporting evidence. This was fed into an Integra E-form which provided the following stages:

- Input – Business Services
- Scrutiny – Internal Audit/Business Gateway
- Authorisation – Economic Development Manager/Senior Economic Development Officer
- Integra Registration – Business Apps

There is a full audit trail captured in Integra for each e-form at every stage.

A sundry supplier specifically for Self Employed Grants was used and the e-forms used to export a file into Purchase Ledger. Each E-form has its own unique reference number and this was used as the unique ref required for Integra in the Purchase Ledger. The Integra Reg Ref was referenced on the e-form as a final stage once the payment was generated. Payments Team and Treasury team were emailed with number of transactions and total values for each import file processed in Integra. Weekly reporting of stats were submitted to Scottish Government.

Free School Meals

The challenge around Free School Meal (FSM) payments were the volume of recipients for payments and not having a dedicated system to generate a BACS file for these. Bank details for parents/carers were held securely in SEEMiS for School Clothing Grants but there was no functionality available to generate a BACS file in respect of FSM.

Following testing, it was established that Integra was the only application capable of generating a BACS file for the volume of transactions required. Given that the number of payment recipients would be in the thousands, creating suppliers for each payee would have been logistically unworkable and too time consuming given the need to make payments quickly.

The Business Apps team created a specific sundry supplier in Integra to process payments for FSM. With strict control between The Business Applications Manager and Lead Applications Officer for SEEMiS export files with bank details were exported from SEEMiS and imported into Integra using Quick Import functionality.

Each transaction was giving a unique reference (Integra requirement) and a narrative outlining the payment period. The export files from SEEMiS have been updated with the same unique reference and stored in CS16 to provide an audit trail. Each individual Integra import

file was sequentially numbered and also updated on the SEEMiS file stored in CS16. Bank details were authorised in bulk in Integra by Business Applications Manager.

Following the import of a file, the Payments and Treasury teams were emailed the number of transactions and total value to be processed in the payment run. This provided additional transparency and a further check.

Payroll and Recruitment

There have been no changes in the process for payroll checking and reconciliation. The use of Finance e-forms for the request and authorisation of BACS and Bankline payments has been implemented.

E-forms and workflows were already in place for contractual change notifications so no changes were required for these. E-forms and workflows have been implemented for the submission of sickness absence notification and COVID related special leave to remove the requirement for paper based processes. The process for the submission and processing of timesheets has not been changed and this continues to be primarily office based.

In respect of recruitment where interviews were carried out virtually and it was not possible for the physical verification of documents the recruiting manager verification was based on sight of the person at interview and notified to Employment and Reward by email. Physical verification of documents was carried out retrospectively when the candidate commenced employment. This was primarily for schools recruitment.

Disclosure Scotland brought forward the implementation for online PVG requests and this has been introduced though as highlighted at CIMT on 8 October 2020 there are concerns over the performance of Disclosure Scotland at this time.

Income Collection and Receipts

Again there was no requirement to make changes to the income collection processes/procedures. The method of payment available to customers was by necessity restricted reflecting the closure of public facing services. However a range of payment options remained available and payments could be made online or via the automated telephone payment service as the cash office was closed and those working from home were unable to take payments. Staff working in the office were able to continue take payments by telephone.

More recently and following a risk assessment review arrangements have been implemented to allow the contact centre advisors to take payments whilst working at home. As part of this further risk mitigation measures were required to maintain compliance with the requirements of the Payment Card Industry Data Security Standard (PCI DSS).

Financial Transactions including Treasury

Strictly applied internal controls including segregation of duties are in place for financial transactions, particularly Treasury transactions.

The onset of the pandemic saw planned work to adopt e-forms to digitise the authorisation workflows completed. This supports the maintenance of the existing control arrangements and removes reliance on “wet signatures” and paper records. The changes also provide a record in integra of the authorisations for each transaction.

Payments made from the Council’s bank accounts with the Royal Bank of Scotland are either via bankline (business online banking) or the BACS system. Authorisation of bankline transactions have been carried out on the online for some time and the staff who have permissions to authorise payments utilise the security procedures which are part of the bankline system. E-forms have also been adopted to provide a digital record of the authorisations.

The software used to processes BACS files for payment was held securely on a separate PC and so could only be operated from the office. Arrangements have been progressed over the last six months to shift this to allow this to be performed remotely. Progress was reliant on securing the services of the software provider which, given the number of client making the same transition, took time and also required extensive work by Digital Services colleges to maintain network and firewall security aspects.

E- Forms the workflow functionality within the integra financial application has enabled a swift transition away from a paper based systems and controls to digital workflows with controls imbedded in these.

6 Areas for further improvement

There are three main areas of further improvement which are underway.

Firstly a refresh of the Financial Directives was underway prior to the Pandemic. The first stage of this review, to reflect the most up-to-date leadership structure and other more material changes is now reaching completion. As required when approved by the Chief Officer Corporate Solutions these changes will be presented to the next available Audit Committee for their endorsement.

Secondly while records used by procurement can currently be managed electronically the arrangements would benefit from the adoption of the e-form and workflow arrangements put in place elsewhere. This would improve efficiency build in controls and provide better audit trail. Work had started to document workflows to start this process. This work has been delayed due to a change in staff but will re-commence as soon as possible when resources allow.

Prior to the Pandemic a range of improvements were being progressed under the direction of the Financial Transactions Project Board. The work overseen by this board includes data cleansing of financial and other records, improvements to the control of the staffing establishment

in the ITrent system. Roll out of tableau Dashboards, sales to cash, workflows for write off processes and further adoption of e-forms.

Whilst the focus has been on the delivery of changes and maintaining internal controls there is retrospective work required to refresh some of the operational guidance and business continuity plans.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

There are no direct resource implications arising from this report. The further improvements will be met from existing resources.

7.2 Digital

The implementation of the OPAS project and delivery of the Firmstep solution will provide further enhancements, particularly in respect of the mitigation of risk associated with maintaining Payment Card Industry Standards.

7.3 Risk

There are no specific risk arising from this report. The governance and internal control arrangements outlined in the report set out how internal controls have been maintained or enhanced since the onset of the pandemic to provide for the effective mitigation of risk.

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

There have been no changes to policies which require an IIA to be completed.

7.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Report Implications

Appendix B – CIMT Report, Overview of Financial Governance Arrangements related to COVID19

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Maintaining financial governance and effective internal controls is central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Effective Financial Governance is a core principal of Best Value.

A.5 Involving Communities and Other Stakeholders

Engagement with communities or other stakeholders has mainly been limited to the outward facing changes, for example the grant schemes, though these have been regulated by Government.

A.6 Impact on Performance and Outcomes

In the main the arrangements set out in the report do not have a direct impact on performance or outcomes though as noted we have experienced an improvement in the PI for payment of invoices.

A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

A.8 Supporting Sustainable Development

No direct impact



Overview of Financial Governance Arrangements related to COVID19

Briefing Note by Gary Fairley, Chief Officer Corporate Solutions

1. Introduction

This document is designed to provide a brief summary of the Financial Governance arrangements that are of most relevance during the COVID19 pandemic. The aim of what follows is to provide the Corporate Incident Management Team (CIMT) and other colleagues understanding of these and so:-

- g) Support the maintenance of strong and effective financial control;
- h) Provide effective financial oversight;
- i) Allow for both efficiency and completeness in determining the financial impact on the Council;
- j) Supporting the development of effective mitigation to maintain financial sustainability;
- k) Supporting reporting and or lobbying for additional funding from Scottish Government; and
- l) Aiding the recovery phase.

There are six broad streams of financial impact on the Council and these have differing governance arrangements which need to apply. There will undoubtedly be areas of cross over and so where in any doubt as to which stream is most applicable please contact the Financial Services team to discuss.

2. The six identified streams are as follows.

2.1 Policy Changes/Standing Order 19.2

Where specific policy decisions are taken which incur spend, impact on income or otherwise have financial implications. These would be changes which would normally be captured in reports to Cabinet/Council and for elected members to determine. Accordingly, in the absence of these decision making forums the governance route is that of Standing Order 19.2.

“The Chief Executive, after discussion with the Leader of the Council, whom failing the Deputy Leader of the Council, will have authority to take decisions where urgent or immediate action is required. Where such decision(s) is required, the Chief Executive will provide a report to the next available full Council meeting to inform the Council of such decision(s).”

To progress decisions via Standing Order 19.2 (and this covers both financial and non-financial matters) a report, in the normal committee

format, requires to be completed and provided to Democratic Services. The normal approval/checks apply to ensure equalities, Financial, Legal, HR etc. aspects are addressed) and the reports should be “signed off” by Executive Directors or Chief Officers before submission to Democratic Services.

These reports will be passed via Gary Fairley, Chief Officer Corporate Solutions and Alan Turpie, Legal Services Manager, to Dr Grace Vickers, Chief Executive. The Chief Executive will, if minded to approve, discuss these at a weekly meeting with the Leader or Depute Leader of the Council. A record of the decision including any amendments will be shared with the report author.

A Standing Order 19.2 log has been created to record all decisions taken including the financial implications. This log is held centrally and open to key officers who have been advised of the shared folder. This log will be used to prepare a report to Council in due course and also maintains an overview of the financial and service implications.

2.2 Services Delegated to Midlothian Integration Joint Board

This stream encompasses decisions which would normally be taken by the Midlothian Integration Joint Board or which relate to service areas which are delegated to the Integrated Joint Board.

Claire Flannigan, the Chief Financial Officer for the IJB has in place arrangements to capture costs incurred by the IJB in respect of its Mobilisation Plan and or as a consequence of COVID19. The IJB is also required to submit a weekly financial return to Scottish Government.

Accordingly, all financial matters related to IJB services will be captured by Claire and follow the IJB governance arrangements. The Council’s Financial Services team are supporting Claire with this and with the weekly reporting regime.

Along with NHS Lothian, the Council will maintain an overview of the financial impact on the IJB and recognises that, as provided for in the Integration Scheme, the Council may be called on to provide additional financial support to the IJB. Decisions on funding support for the IJB would be for full Council or a matter which would need to be progressed via the Standing Order 19.2 route detailed above.

2.3 Impact on Approved 2020/21 Savings Measures

It is anticipated that the current situation will have an adverse impact on delivery of the approved savings measures within the Medium Term Financial Strategy. This might result in deferred implementation of some measures which could result in an inability to fully achieve savings targets. While the due diligence work carried out at the start of the year “rooted out” a number of weak savings proposals the ongoing situation means that work to deliver a range of the savings may have had to be suspended or slowed down as resources are diverted

elsewhere. Total savings measures for 2020/21 totalled circa £4.4 million with a risk adjustment of £400,000.

Clearly, any material underachievement of these savings will adversely affect the Council's financial stability and so as a matter of urgency the Financial Services team will, in conjunction with CIMT and service managers, reassess all measures and provide the most up-to-date position. As part of this work, the Financial Services team will also explore options to mitigate the immediate impact.

The findings of the initial assessment will be shared with the Corporate Incident Management Team together with any recommendations arising. A routine of regular updates will be established.

This will also be reflected in the overall cost impact reporting touched on later.

2.4 Emergency Spending Not Covered by the Existing Service Budget

This strand encompasses situations where a conscious decision is made to incur expenditure or waive or reduce income, which is not provided for in the service's revised budget.

In normal circumstances where an Executive Director or Chief Officer/Head of Service wishes to incur expenditure or reduce income not originally included in approved revenue budget this would require a supplementary estimate to be approved by Council.

The Council's Financial Directives make provision for emergency situations which are set out in Financial Directives in sections 5.7 to 5.9:-

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

Since the CIMT was activated services will have incurred a range of costs as they have implemented Business Continuity Plans and or Mobilisations Plans in response to the needs of our communities and partners. Examples of expenditure over the last few weeks will include setting up School hubs, increasing Early Years partner provider

payments, cleaning materials, PPE, additional digital equipment (capital), overtime etc.

The Financial Services team will work with you and your service managers to identify and cost emergency spending decisions taken to date and also help develop a proportionate means of capturing these costs going forward. A number of officers within each service have delegated authority to incur expenditure and you should take the opportunity to consider if all of these staff should have the authority to incur emergency expenditure, or whether you wish to restrict this to a smaller group of officers within your service. Again, the Financial Services team can work with you to facilitate this.

Once an overview is available and reported to CIMT a decision can be made on any additions to be made to service budgets to fund these costs.

In terms of financial regulation 5.9 I would anticipate that this can be facilitated through reporting in the quarterly financial overview reports at a summary level.

Again, capturing these costs will also be reflected in the overall cost impact reporting touched on later.

2.5 Ring Fenced or Specific Government Funding Support

Where Scottish Government provide ring fenced funding or specific funding for programmes, this will automatically be added to the relevant service budget. To date this includes the Business Grant Scheme and increase in the Scottish Welfare Fund.

2.6 Other Financial Impacts

Other impacts will include the loss of service income or variations in expenditure from that estimated in the budget. While some of this may be captured as policy decisions (for example facility closure, Tone Zone charging and Garden Waste suspension), there is no doubt that a number of others service variations where there will be an impact on the net cost of the service whether positive or negative. There will also be an impact on Council Tax and Rent collection rates and an assessment will need to be made whether to reduce collection assumption and or increase other bad debt provisions as the year progresses.

In terms of financial governance, these are deemed as performance against revised budget issues and so will be assessed and reported through the existing budget monitoring arrangements. There is clearly urgent work to do to assess for each service the most significant of these and to report to CIMT as soon as possible. The Financial Services Team will work with services managers to assess the position and collate so that an overview can be provided to CIMT. The team will endeavour to separate out COVID19 related variations from those that are for other reasons.

3.0 Impact on Medium Term Financial Strategy

In addition to capturing the financial impact of the Pandemic, the Financial Services team will implement any decisions by CIMT to allocate additional resources to service budgets. They are also already exploring measures to help mitigate the adverse financial impact on the Council's Finances.

4.0 Financial Reporting and Lobbying for Additional Funding from Government

COSLA are coordinating the capture of costs across Local Government to support discussions with Scottish Government aimed at securing further funding support. To facilitate this a template is expected to be issued on 6 April 2020 with the first submission required on or about 24 April 2020 and thereafter an update provide every two weeks. It is recognised that the first submission date will be challenging but it is necessary to set out Local Governments position to Scottish Government as soon as possible.

The capture of this information will sit alongside the need for internal reporting and the Financial Services team will lead on the capture and submission of information to COSLA.

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