

Minute of Meeting

Audit Committee
Monday 29 January 2024
Item No: 4.2

Audit Committee – Special meeting



Date	Time	Venue
Tuesday 5 December 2023	11:00am	Council Chamber/Hybrid

Present:

Councillor Milligan (Chair)
Councillor Smaill
Councillor Bowen
Councillor McCall (MS Teams)
Councillor Imrie (substitute for Councillor McEwan)

In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Nick Clater	Head of Adult Services
Alan Turpie	Legal and Governance Manager / Monitoring Officer
David Gladwin	Chief Financial Officer
Gary Thomson	Senior Finance Officer
Duncan Stainbank	Chief Internal Auditor
Derek Oliver	Chief Officer Place
Saty Kaur	Chief Officer Corporate Solutions
Claire Gardiner	Audit Scotland
Patricia Fraser	Audit Scotland
Robert Dick	Audit Scotland
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair took the opportunity to welcome those in attendance to the meeting. Apologies were intimated on behalf of Councillor McEwan, and that Councillor Imrie was in attendance as substitute.

2. Order of Business

The order of business was as detailed in the agenda.

3. Declarations of interest

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

4. Minutes of Previous Meetings

No previous minutes were submitted to this meeting.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Annual Audit Report to Members and the Controller of Audit year ended 31 March 2023.	Audit Scotland External Auditors
Outline of report and summary of discussion		
<p>This report summarises the findings from the 2022/23 annual audit of Midlothian Council (the Council). The scope of the audit was set out in an annual audit plan presented to the June 2023 meeting of the Audit Committee.</p> <p>This Annual Audit Report comprises:</p> <ul style="list-style-type: none">• significant matters arising from an audit of Midlothian Council's annual accounts.• conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice:<ul style="list-style-type: none">○ Financial Management○ Financial Sustainability○ Vision, Leadership, and Governance○ Use of Resources to Improve Outcomes.• conclusions on Midlothian Council's performance in meeting its Best Value duties. <p>Claire Gardiner, Audit Scotland presented this report advising that this report concludes the 2022/23 audit work, and that section 1 was previously presented to the committee along with the annual report and that today the focus would be the wider section of the report. Ms Gardiner outlined the relevant sections of the report and highlighted the key findings and areas of focus as detailed within the report.</p>		

Ms Gardiner thanked all the council staff involved in this and the financial statements audit work and highlighted that this first year has been challenging but commented on the good progress in getting to know the team.

Thereafter Ms Gardiner in responding to a question raised by Councillor Smaill regarding the budget setting and the adverse variances in particular regarding Hillend and the reduction in the contribution to the Integration Joint Board, advised that this will be a consideration as part of the audit work next year and Ms Gardiner highlighted that this is an area of ongoing challenge and was across most Councils where there are significant challenges in the budget setting. Councillor Smaill advised that the Internal Audit team are looking at the Hillend situation and commented positively on the work done by Mr Oliver on the business maintenance services.

The Chair, Councillor Milligan commented positively on the budget setting process which was done fairly, openly and transparently and that the chief officers of the Integration Joint Board (IJB) were advised at the start of the budget setting process that a percentage of savings would be looked at across all services and one of the consequences of the budget cutting savings was the funding of the transformation programme to move on to electronic appointments. Councillor Milligan also highlighted that the IJB advised that they have received fair funding from Midlothian over the years and that the challenge for the IJB will be to find smarter ways of working. Councillor Milligan also commented on the Hillend situation and the dependency on both the revenue budget and capital budget and how these are both linked and that council is short of what they require for capital funding and the only way to increase this is by revenue cost for borrowing therefore these both must be linked for forth coming budgets.

The Chief Financial Officer, Mr Gladwin confirmed the comments made by Councillor Milligan with regards the IJB and provided clarity on the Hillend situation advising that the issues were not related to the loan charges but the income expected from the alpine coaster and advised that the business case was carefully pulled together and scrutinised by officers and that the income target had not been achieved but highlighted that this was a unique situation with Hillend due to the civil work and the complexities with the water pipes and this could not have been anticipated so this has been the contributor to the loss income in the financial year.

Mr Gladwin then provided an explanation on reserves advising that although the audit report is accurate and is a fair reflection of these figures these could be misunderstood and he provided an explanation on the details of the reserves and what is earmarked, committed reserves, repairs and renewal fund and the general fund and also details on the underspends and overspends for last year. He further highlighted the reserves need be viewed intelligently and that when the figures appear in national reports, they can be misunderstood and misrepresented and highlighted the sound financial planning reasons behind reserves that Midlothian Council hold.

The Chair also commented on the reserves supporting the explanations from the Chief Financial Officer.

The Provost, Councillor McCall commented on the positive report highlighting the positive partnership working with community planning partners, comments on leadership, engaging with communities, gender balance and engaging in local equality groups. Councillor McCall also acknowledged that the report highlighted that Midlothian Council is the only council in Scotland with an all-female council leadership team.

Decision

The Audit Committee approved this report and recommended that it is presented to Council.

Action

Chief Financial Officer

Report No.	Report Title	Submitted by:
5.1a	Midlothian Council Best Value Thematic Work 2022/23	Audit Scotland, External Auditors
Outline of report and summary of discussion		
<p>Patricia Fraser, external auditor presented the Midlothian Council Best Value Thematic Work 2022/23 highlighting the work performed and the production of this report marks the move to more regular reporting on how the Council is performing regarding its duty of best value and that an overarching best value assurance report and this will be due on the last year of the audit appointment and provided an explanation on the best value reporting leading up to 2026/27.</p> <p>Ms Fraser advised that the thematic report was a positive report with some areas highlighted which present challenges to the Council. Ms Fraser also highlighted from the work carried out including discussions with officers and members and review of plans, strategies, and committee minutes it was clear that Midlothian council continues to demonstrate ongoing commitment to best value. It was noted that all the recommendations in the 2019 report had been actioned and furthermore the council continues to develop performance reporting and medium-term financial planning as well as strengthening officer member relationships.</p> <p>Ms Fraser then highlighted some of the key messages as detailed in the report and commented on the Transformation blueprint which aligns with the five-year budget strategy to 2027/28. Ms Fraser further highlighted some of the main sections as contained within the report and advised that robust financial planning and delivery of the transformation blueprint are critical to delivering financial sustainable services in the medium to long-term and that management have provided responses to addressing the risks associated with these actions and are included in appendix 1 of the report.</p> <p>Ms Fraser expressed her sincere thanks to officers and members of the council for the assistance they provided in performing the work and producing this report, particularly Mr Gladwin.</p> <p>Councillor Smaill raised the concerns with regards to the population in Midlothian and that it is not reflected in the settlement from the Scottish government and asked the Chief Financial Officer if there was any update on this situation.</p>		

Councillor Milligan also commented on the population growth and provided an overview of actions that have already taken place to address this and advised that the paragraph on page 53 should be amended as the funding allocation does not align with the growth in population.

Mr Gladwin agreed that perhaps the wording should be amended in paragraph 53 and provided an update on discussions which have taken place and advised on a future meeting to discuss the position Midlothian is in and that the funding does not sit alongside the growth. Mr Gladwin also advised on what they were hoping to achieve at this meeting and provided an update on the work that has been done with regards to the census figures. Councillor Milligan provided further details on the work that has been undertaken to highlight the growth in Midlothian with the Scottish Government highlighting that this has been ongoing for many years.

Ms Fraser welcomed the discussion and advised that she was happy to amend the report to reflect the discussion that had taken place and confirmed that after these amendments had been done to the report, the revised report would be sent to Mr Gladwin.

The Chief Executive thanked Ms Fraser for her comments and asked if the publication of the census data could be referenced as well and explained that the Council considered 2022 census data at October 2023 Council meeting and where they previously thought Midlothian was growing at 15.8% it was growing faster at 16.1% so this was something that had to be closely monitored. The Chief Executive also highlighted although their estimates were relatively accurate the data was still out and highlighted that this council was growing across all age groups, and this had an impact on revenue and capital spend. She further advised that it was agreed at the October council meeting to write formally to UK government, Scottish government and COSLA to ask that the most up to date census data be considered in any funding applications for Midlothian.

Ms Kaur in responding to a question raised by Councillor Smaill with regards to workforce planning and the workforce comparative to other Scottish councils, confirmed we are quite a lean council, but we are not alone on this and explained some of the challenges in recruitment in some sectors of the council, but also advised that this was being addressed. Ms Kaur also highlighted some of the digital transformation work, which was taking place, the work through apprenticeships and grow your own staff. Ms Kaur highlighted that at Cabinet there was a discussion about working with the workforce and celebrating successes and officers were keen to expand on this. Ms Kaur further advised on some of the work around foster carers, recruitment campaigns, different ways of working and generic working and the work done with neighbourhood services.

The Chair also commented on the staffing situation in Midlothian compared with other councils and the challenges Midlothian face.

Mr Fraser confirmed to the committee that the thematic review next year would be on workforce planning and innovation.

The Chair highlighted on P54 (paragraph 67) that 600 people attended a budgeting event and highlighted that nothing had happened within the last 2 or 3

years so was unsure what this referred too. The Chair also highlighted that the consultation detailed in paragraph 68 was all done online.

Councillor Bowen also advised on a typo on page 44 of the report and in response Ms Fraser confirmed that she would check on the comments from the Chair and also confirmed they had identified some other typos within the report, and this would be proofread before the report was finalised.

Decision

Audit Scotland would make the necessary checks and amendments to the document as discussed prior to it being finalised.

Action

Audit Scotland.

Report No.	Report Title	Submitted by:
5.2	Treasury Management Mid-Year Review Report 2023/24	Chief Financial Officer
Outline of report and summary of discussion		
<p>The purpose of this report was to inform members of the Audit Committee, and subsequently Council, of the Treasury Management activity undertaken during the first half of 2023/24 and the forecast activity for the second half of 2023/24 in accordance with the Treasury Management and Annual Investment Strategy approved by Council on 21 February 2023. It also provided an update to the Treasury and Prudential Indicators for 2023/24.</p> <p>The Chief Financial Officer, Mr Gladwin on presenting this report highlighted the main sections as contained within the report and outlined the contents of the appendices attached. Mr Gladwin introduced Gary Thomson who was in attendance to answer any questions as Gary provided strategic direction for the council's treasury function.</p> <p>Councillor Smaill expressed his congratulations on the report and the confidence the council now has on the treasury management, Councillor Smaill followed on with questions regarding reduction on deposits and capital spend and secondly on debt rescheduling.</p> <p>Mr Gladwin in responding to Councillor Smaill's first question advised that he was correct on his assumption that the cash balances are running down as the capital expenditure catches up and the council is in a position not to take more borrowing because of the cash balances and advised that they do not want to lock into borrowing at high interest rates so looking at ways to minimise this.</p> <p>Mr Gladwin advised with regards to debt rescheduling, the Council has done this in the past although not a lot and advised that this is not something they would jump into without getting a detailed appraisal on what benefits this would bring as they must ensure they are not getting short term gains for long term pressures, Mr Gladwin then passed over to Mr Thomson to provide further clarity on this.</p>		

Mr Thomson advised with regard to debt rescheduling they would be looking at that on a discounted cash flow basis and one of the options that has been actively looked at was the replacement of the PWLB Annuities loan explaining that in paying this off early although there would be a premium this would be spread over the remaining life of the loans but this would be offset on the discounted cash flow basis by the saving on the interest cost on the loan which would no longer be incurred.

Mr Gladwin in responding to a further question raised by Councillor Smail regarding the council becoming an active trader of the deposit positions, advised that the current treasury policies and practices would not allow the council to do this so it is not something that would be considered. Any changes to existing practices would have to be discussed at the Audit Committee and approved through Council.

The Chair commented that this was a very good report and goes some way to get the council back up to number 1 in the performance chart. The Chair also commented that it would be interesting to know if the Council was sitting mid-market what the difference would be from being the top players as a comparative council. He expressed his thanks to David Gladwin, Gary Thomson, and the rest of the finance team for the fantastic report.

The Chair also expressed his thanks to the External Auditors for their time and support and thanked everyone for their attendance.

Decision

The Audit Committee noted the report and in particular, noted the following recommendations which are proposed to be put to Council on 19 December 2023:-

- a) Note the report and the treasury activity undertaken in the period to 30 September 2023, as outlined in Section 5;
- b) Note the actual and forecast activity during the second-half of the year as outlined in Section 6;
- c) Approve the technical revisions to the Prudential Indicators in Section 7 of this report;
- d) Note the loans fund rate performance relative to other Scottish Local authorities, as outlined in Section 8, and the cash saving (compared to the Scottish Average) that the Treasury Management function brings to support the Council's in-year revenue budget.

6. Private Reports

None

7. Date of Next Meeting

Date of Next Meeting: Monday 29 January 2024 at 11am.

The meeting terminated at 11:58 am