Appendix B

MIDLOTHIAN COUNCIL AUDITED ANNUAL ACCOUNTS

2021/22

Midlothian

www.midlothian.gov.uk

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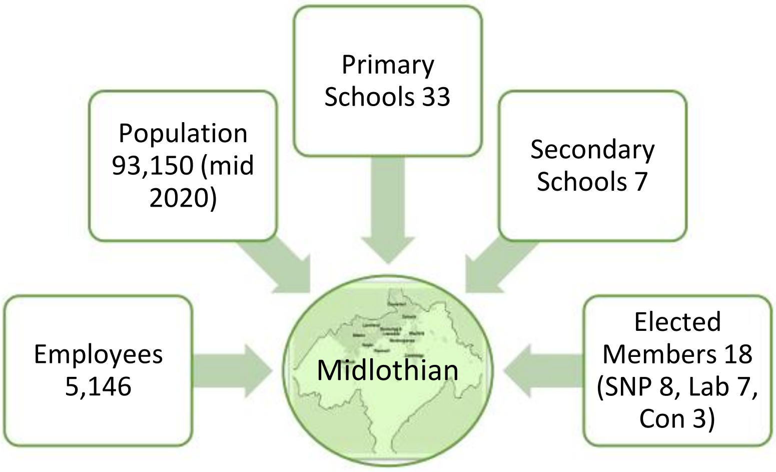
Management Commentary

The Management Commentary is intended to assist users in understanding the objectives and strategy of the Council and provide a review of its business and financial performance for the year. It also outlines the principal risks and uncertainties which are likely to affect the future development and performance of the Council.

The Annual Accounts present the financial position and performance of the Council demonstrating the stewardship of public funds that support the Council's vision and key priorities. The format and content of the Annual Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

About Midlothian Council

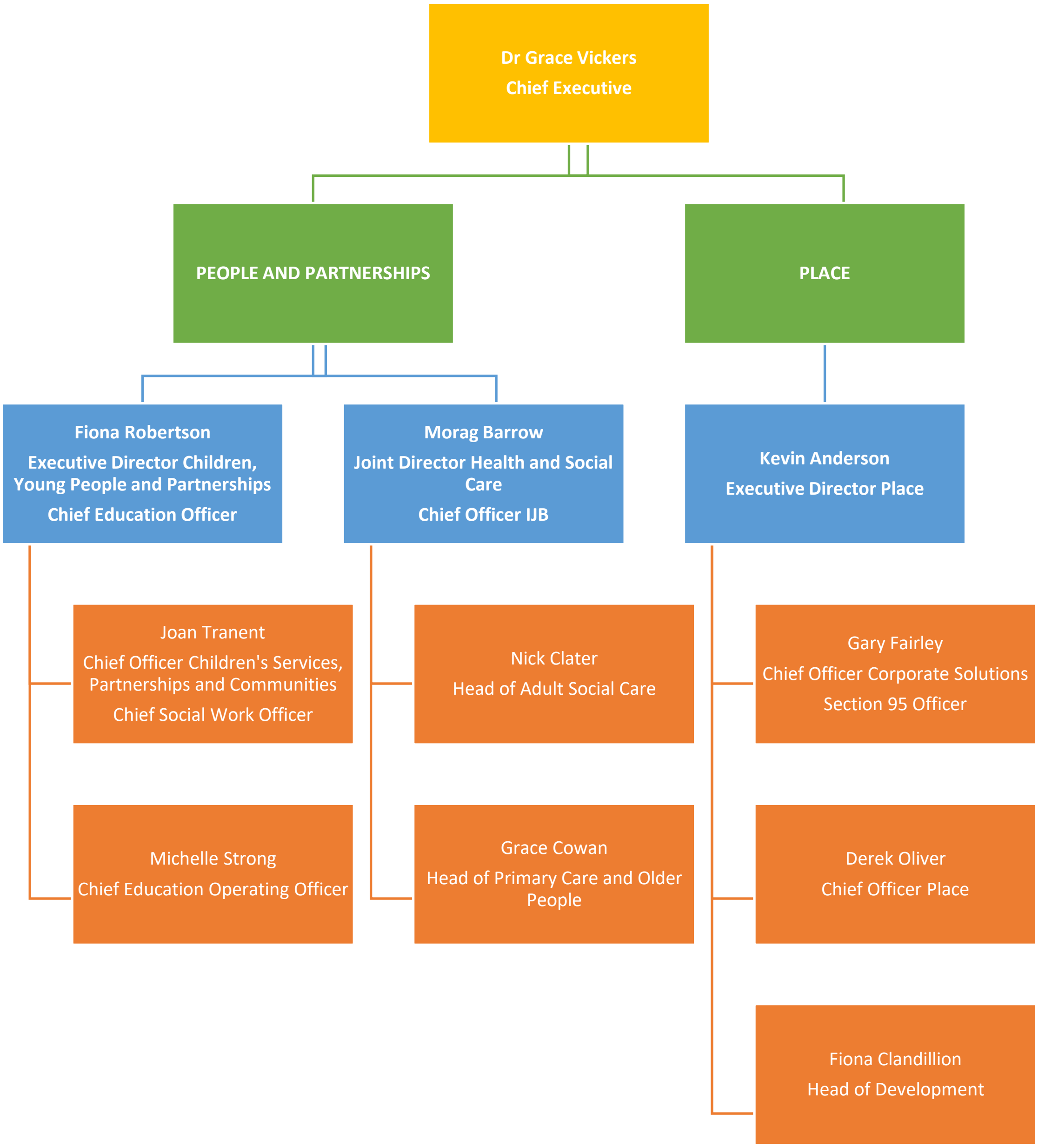
Midlothian Council is located south of Edinburgh centred on the main towns of Penicuik, Dalkeith, Bonnyrigg and Lasswade. One of the smaller local authority areas, but also the fastest growing, it has emerged as a world centre for the Bioscience industry. Some key facts about Midlothian are:



2022 Local Election Results

Local elections in Midlothian took place on the 5th May 2022, resulting in the SNP having eight councillors elected, Labour had seven councillors elected and the Scottish Conservatives had three Councillors elected. Special Council on 24 May 2022 approved an SNP administration with an SNP Council Leader, Kelly Parry.

Council Service Structure



Key Priorities and Objectives

Midlothian Council's vision and priorities are set out in the Single Midlothian Plan 2021-22 (SMP). These priorities are delivered through the Community Planning Partnership (CPP) which sets out how we work with communities and partners to deliver our vision, which is based on two key principles of 'People' and 'Place'. The principles aim to improve quality of life for everyone and safeguard the resources we have today for future generations and is encapsulated in the following vision statement "***Midlothian – A Great Place to Grow"***.

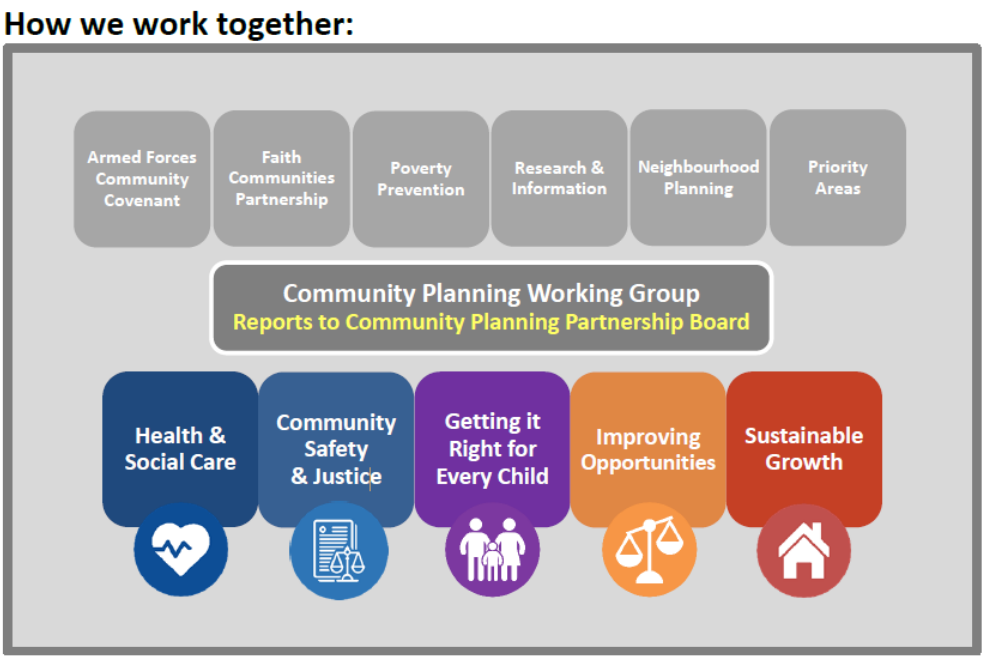
The Council outlines its key objectives and associated performance indicators in annual service plans formally approved each year. These plans primarily relate to the Council's core, and often, statutory duties, which are mainly the responsibility of the local authority rather than the wider CPP.

The top priorities in the SMP for 2021/22 were as follows:

- Reduce the economic circumstances gap;

- Reduce the gap in learning outcomes;
- Reduce the gap in health outcomes; and
- Reduce Midlothian carbon emissions to net zero by 2030.

The SMP incorporates five overarching thematic groups, which support the achievement of outcomes. Quarterly public performance reporting reflects this thematic approach and the chart below demonstrates this:



The Medium Term Financial Strategy (MTFS) was approved by Council in June 2019. The public consultation visionary exercise supporting development of the MTFS highlighted the following key priorities for what Midlothian should be like in 2040:

- **A sense of belonging** – Pride in communities, working in partnership, transparency in decision making and accessibility in service provision;
- **A balanced infrastructure** – Manageable housing numbers, vibrant towns, protected green spaces, a clean carbon neutral environment and improved community transport;
- **Learning and working together** – High quality education and training, jobs close to where people live, a main provider of local food production, maximising technical solutions;
- **Integrational opportunities** – Reimagined older peoples services, being able to grow old in the one community, with support and good access to health and social care.

The annual Balanced Scorecard measures progress towards these outcomes and is used to demonstrate ongoing improvements and reflect the ongoing challenges within Midlothian. The full detail behind the performance indicators measured by the balanced scorecard for 2021/22 can be found on the Council's website [Balanced Scorecard | (midlothian.gov.uk)].

At Council in June 2019 the adoption of a Service Dominant Logic was approved which means that we will place our citizens and communities at the heart of our daily work. Also approved at Council in June 2019 were the key drivers for change as shown in the diagram below.

Key Achievements and Highlights for 2021/22

Achievement	Commentary
Awarded £3.3 million of Bus Partnership Fund	This has been awarded to the Edinburgh and South East of Scotland City Deal local authorities to help tackle the negative effects of congestion on buses, so that bus journeys are quicker and more reliable, which will in turn encourage more people to use the bus. This is an essential part of the work we are doing to promote active travel as we progress towards achieving our carbon neutral by 2030 ambition.
Keep Scotland Beautiful Green Flag Award for Penicuik to Dalkeith Walkway	A new green space to win the Green Flag Award this year, the Penicuik to Dalkeith Walkway is along the former railway line which was assessed and the accolade acknowledges quality green open spaces across the country that help to boost our nation's health and wellbeing. More about the walkway.
Newbattle Digital Centre of Excellence awarded the European Digital Schools Award.	This is one of the first schools ever to receive this award which is a fantastic achievement and a great demonstration of our world-class vision in action.
Funding via Promise Partnerships 'A Good Childhood Fund' secured,	This one year funding will be used to increase the capacity of our existing Family Group Decision Making team and support the introduction of Life long links. Both initiatives seek to ensure children remain in the care of, or maintain connection to family, even if they can't remain in the care of their parents. We are excited that the funding will facilitate additional staff, training and support to improve outcomes for our looked after children.
Provision of Affordable Housing	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in December 2020. To address the need for affordable housing the SHIP details potential sites for 2,602 new affordable homes to be built during 2021-26. During 2021/22 176 new Council Houses were completed, this brings the total completed to 1,422 over the past 15 years, net of demolitions and disposals. In addition, 15 properties were purchased during the year to add to the overall housing stock.

Financial Performance for 2021/22

Financial information is part of the Council's Performance Management Framework with the General Fund and Housing Revenue Account (HRA) financial performance regularly reported to Council. This section summarises our financial performance for 2021/22. Full details of the Council's financial performance was reported to Council on 28 June 2022 and is available on the Council's website.

Usable Reserves

The Council holds funds in a number of Usable Reserves for various purposes. Details of the balances and prior year comparatives are shown in the table below, more detail can be found in the Movement in Reserves Statement on Page 37:

Useable Reserve	**Purpose**	**2021/22 £000**	**2020/21 £000**
General Fund Non-Earmarked Reserve	Funds held as a general contingency.	5,597	3,812
General Fund Earmarked Reserve	Funds held for specific purposes (***see note 8***).	26,835	25,860
Housing Revenue Account	Funds held for investment in the Council's housing stock.	28,084	48,385
Capital Fund	Funds set aside for major capital developments or asset purchases.	22,178	24,158
Repairs and Renewals Fund	Funds held for specific types of repairs and maintenance work.	3,718	3,897

General Fund Performance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. Government Grants, Council Tax Income, fees and charges, Non-Domestic Rate Income (subject to pooling arrangements) and interest / returns on investments provide resources for the General Fund. The General Fund is split between uncommitted balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances that are earmarked for specific purposes (see ***note 8***).

The Comprehensive Income and Expenditure Statement (CIES) on page 36 sets out the Council's funding and spending in accordance with accounting requirements which is different to the way we report performance in the year. The Expenditure and Funding Analysis (EFA) on page 40 provides a link between the budget management reports, reported within the year and the figures in the CIES.

The table below shows actual outturns against budget for each of the Council's General Fund Service areas as well as a reconciliation to assist users of the Accounts to navigate from the Midlothian Council Budget Monitoring position to the first column in the Expenditure and Funding Analysis (EFA).

Budget Monitoring 2021/22				Building the EFA		
Service Area	**Revised Budget**	**Net Expenditure**	**(Under)/ Overspend**	**Budget Monitoring Net Expenditure**	**Adjustments for Internal Reporting Purposes**	**Net Expenditure Chargeable to the General Fund and HRA Balances**
Management and Members	1,962	1,901	(61)	1,901	(50)	1,851
Children's Services, Partnerships & Communities	22,405	21,870	(535)	21,870	0	21,870
Education	107,049	104,270	(2,779)	104,270	(9,795)	94,475
Adult Health & Social Care	1,715	1,721	6	1,721	27	1,748
Midlothian Integrated Joint Board	50,598	50,598	0	50,598	0	50,598
Place	36,910	37,487	577	37,487	(2,786)	34,701
Corporate Solutions	21,677	20,890	(787)	20,890	(6,917)	13,973
Housing Revenue Account	0	0	0	0	(16,593)	(16,593)
Joint Boards	571	571	0	571	0	571
Central Costs	57	706	649	706	(46)	660
Non-Distributable Costs	935	906	(29)	906	0	906
Loan Charges	2,492	2,465	(27)	2,465	46,160	48,625
NDR- Discretionary Relief	70	77	7	77	(77)	0
Investment Income	(111)	(17)	94	(17)	17	0
Capital Expenditure Financed from Revenue Balances	48	43	(5)	43	0	43
Allocations to HRA, Capital Account, etc.	(5,248)	(5,232)	16	(5,232)	5,232	0
Net General Fund Expenditure	**241,130**	**238,256**	**(2,874)**	**238,256**	**15,172**	**253,428**
Less Funding:						
Scottish Government Grant	185,321	185,609	288	185,609	(77)	185,532
Council Tax Income	55,477	55,408	(69)	55,408	(5,053)	50,355
Total Funding	**240,798**	**241,017**	**219**	**241,017**	**(5,130)**	**235,887**
General Fund Utilisation/(Enhancement) of Reserves	**332**	**(2,761)**	**(3,093)**	**(2,761)**	**20,302**	**17,541**

The most significant areas contributing to both adverse and favourable variances against budget in Council service areas were:

- Costs exceeding income generated by £0.788 million for the Building Maintenance Service. Issues were encountered with productivity and job management combined with difficulties in obtaining material and rising prices;
- Costs of settling or providing for insurance claims of £0.595 million. During 2021/22 a number of potentially higher value claims were received, some dating back many years. Work continues to understand the nature of claims and to refine possible settlement costs;

Offset by:

- Reduced running costs in some service areas of £1.925 million;
- Reduced costs of £2.289 million stemming from lower actual pupil numbers than provided for in the budget;
- Lower than budgeted costs of £0.242 million for family placements and residential respite.

Covid-19

Scottish Government provided additional revenue funding to the Council in 2021/22 of £9.021 million. £4.036 million was provided as general support with a further £4.985 million provided to meet specific costs including support to individuals, families and communities and to support education recovery. £10.806 million of covid funding received in 2020/21 was carried forward for use in 2021/22 and future years. £8.478 million of this has been carried forward to meet COVID-19 pressures in 2022/23 and beyond.

The Council administered, on an agency basis (those associated with Non Domestic Rate valuations were processed by the City of Edinburgh Council (CEC) on the Council's behalf), several COVID-19 funding streams on behalf of the Scottish Government. The total value of grants processed, mainly relating to business support, was £5.431 million of which £4.843 million was processed by CEC.

General Fund Reserve 2021/22

The Council approved the Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve of 2% of net expenditure (excluding resources delegated to the IJB), which equates to £3.650 million. In 2021/22 there was an increase of £2.760 million in the General Fund Reserve comprising an underspend of £3.093 million as detailed above, planned utilisation of reserves during the year of £0.307 million, planned increase in reserves by applying fiscal flexibilities of £3.365 million and budgets to be carried forward for use in 2022/23 of £19.923 million. This total increase is offset by a decrease in earmarked reserves of £23.314 million which were utilised in the year. The effect of the 2021/22 movement of £2.760 million on the General Fund Reserve balance is demonstrated in the table below with uncommitted reserves £1.997 million in excess of the approved minimum level. Further details are provided in the Movement in Reserves Statement on page 37:

2020/21		2021/22		
Total Reserves £000	General Fund Reserve	Uncommitted Reserves £000	Earmarked Reserves £000	Total Reserves £000
(13,428)	Balance Brought Forward	(4,048)	(25,624)	(29,672)
(16,244)	(Increase in)/use of balances	(1,549)	(1,211)	(2,760)
(29,672)	**General Fund Reserve Balance**	**(5,597)**	**(26,835)**	**(32,432)**

The movement in the Earmarked General Fund balance of £2.760 million is outlined in ***Note 8*** on page 62, which reflects the movements attributable to Earmarked Reserves.

Housing Revenue Account (HRA) Performance

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The Housing Revenue Account records all income and expenditure relating to the Council's own housing stock. Rents paid by tenants' funds the revenue expenditure on housing management, repairs and maintenance and in part financing of capital expenditure. The table below provides analysis of financial performance for 2021/22:

2020/21 £000	Housing Revenue Account Balance Spend	2021/22 £000
(44,395)	Opening Balance	(48,385)
(1,789)	(Positive) / Adverse Variance against Budget	(374)
(2,201)	Planned Decrease of HRA Reserve	20,675
(48,385)	**Closing Balance**	**(28,084)**

Overall, the majority of operational costs showed favourable variances at the year-end due to re-phasing of the Capital Plan resulting in reduced borrowing costs for the year. The closing balance on the Housing Revenue Account reserve is £28.084 million, this has reduced significantly from the previous year to due to using reserves to finance capital expenditure of £25 million. This is committed to fund the Council's ambitious capital investment plan, which currently runs to 2036/37, to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with costs of borrowing met from rental income and planned utilisation of the HRA reserve, which is projected to reduce to approximately £2 million by the end of the plan.

Capital Expenditure 2021/22

Capital expenditure represents money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The difference between capital and revenue expenditure is that the Council receives the benefit from capital expenditure over a period exceeding one year. In 2021/22 the final budget for capital investment was £23.115 million (2020/21 £24.940 million), which was underspent by £0.022 million. The table below identifies actual capital spend during the financial year for key projects:

2020/21 Budget £000	2020/21 Actual £000	General Fund Capital Spend	2021/22 Budget £000	2021/22 Actual £000
10,383	10,319	School Estate (1)	6,071	5,831
7,380	7,380	Zero Waste	0	0
1,841	1,841	Roads, Pavements and Street Lighting	4,421	4,421
1,495	1,495	Fleet Replacement and Upgrades	1,455	1,455
1,383	2,101	Digital Assets	6,294	6,294
903	903	Centralised Property Upgrades	686	686
1,555	1,530	Other Capital Projects	4,572	4,790
24,940	**25,569**	**Total Spend**	**23,115**	**23,093**

1. Includes £0.384 million audit adjustment for additional expenditure for Danderhall Primary School.

The table below demonstrates the breakdown of the Housing Revenue Account Capital Spend for 2021/22:

2020/21 Budget £000	2020/21 Actual £000	Housing Capital Spend	2021/22 Budget £000	2021/22 Actual £000
14,225	14,486	New Social Housing and Market Purchases (1)	35,530	35,530
866	866	SHQS Improvement Works	3,235	3,235
384	280	Other Small Capital Projects	2,005	2,134
15,475	**15,632**	**Total Spend**	**40,770**	**40,899**

1. Includes £1.422 million audit adjustment for additional expenditure for new social housing sites.

A combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and borrowing funded this expenditure. ***Note 32*** in the financial statements provides a full analysis of capital expenditure and the financing required.

Treasury Management and Investment

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and endorsed by Scottish Government, provided it operates within a series of indicators. The Council's capital expenditure is a key driver of treasury management activity and these indicators are relevant for the purposes of establishing an integrated treasury management strategy, which demonstrates that the Council's capital investment plans are affordable, prudent and sustainable.

Financial Indicator	2020/21	2021/22	Commentary
Capital financing requirement	£293.114m	£307.247m	Reflects the Council's underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Actual external borrowing	£274.795m	£323.271m	The actual external debt and long-term liabilities position of the Council. The actual figures should never exceed the Council's Authorised Debt Limits, which are calculated in line with the requirements of the Prudential Code for Capital Finance in local authorities.
Under/(Over) Borrowed	£18.319m	£(16.024)m	This demonstrates that the Council's capital borrowing requirement has been fully funded by loan debt and that borrowing has been secured to fully cover the current and part of the future borrowing requirement arising from the Council's capital plans whilst borrowing rates are historically low.
Ratio of finance costs to net revenue stream – General Fund	2.03%	1.08%	This is a measure of how affordable the Council's capital plans are. It takes actual finance costs as a % of net revenue spend. The reduction in 2021/22 reflects the application of a principal repayment holiday, one of the Fiscal Flexibilities adopted to mitigate the financial impact of COVID.
Ratio of finance costs to net revenue stream – HRA	37.5%	38.27%	As above.
External Loans Fund Interest Rate	3.31%	3.22%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	2.95%	2.98%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average 'loans fund rate' figure for the council.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from Public Works Loan Board (PWLB). ***Note 19*** and ***Note 20*** of the financial statements provides further details on the Council's borrowing.

Balance Sheet

The table below summaries the Council's Balance Sheet as at 31 March 2022. The Balance Sheet brings together assets and liabilities, year-end balances, money owed to and by the Council and reserves. More information on the balance sheet is provided on page 38.

	31 March 22 £000	31 March 21 £000	Change £000
Long-term Assets	1,125,065	974,101	150,964
Current Assets	192,355	160,076	32,279
Current Liabilities	(102,024)	(87,361)	(14,663)
Long-term Liabilities	(468,956)	(510,838)	41,882
Net Assets	**746,440**	**535,978**	**210,462**

Movements in the net assets of the Council are attributed to:

- **Long-term Assets** – Asset growth of £64.377 million as well as gross upwards movement in asset values of £85.141 million flowing from valuation work undertaken during 2021/22 as well as increase in long-term debtors and investments of £2.856 million; this is offset by movement in depreciation and other downward movements of £1.410 million;
- **Current Assets and Long-term liabilities** – The reduced requirement for Long Term Public Works Loans Board borrowing is reflected in the Balance Sheet at 31 March 22 with decreased long-term liabilities sitting alongside higher short term and liquid deposits.

Pension

The impact of the Local Government Pension Scheme and Scottish Teachers Superannuation Scheme on the Council's accounts has been disclosed in ***Notes 34*** and ***35*** to the accounts. As at 31 March 2022, the Council's share of the Lothian Pension Fund showed a net pension liability of £54.160 million (2020/21 £141.030 million). This figure represents the amounts that the actuary estimates at 31 March 2022 that the Council will have to pay out in future years for all pension entitlements earned by current and previous staff which exceeds the assets held by the fund. This is a decrease of £86.870 million from 31 March 2021. In the period to the accounting date investment returns have been significantly greater than expected (compared to last year's discount rate assumption). Also the real discount rate for obligations (discount rate net of inflation) has increased compared to the previous year's accounting date, this has served to reduce the Employer's obligations. The Council continues to monitor and measure this pension liability and make changes to cash contributions as required as part of the regular assessment made by an independent actuary. The 2020 triennial actuarial valuation, on which the funding of the pension fund is determined, shows an increase in the overall funding position to 104% (99% in 2017). This indicates that based on current assumptions and projections all future pension costs can be met.

Risks and Uncertainties Facing the Council

Covid-19 Pandemic Recovery

The removal of COVID-19 restrictions at the start of 2022 has seen the economy start to recover to pre-pandemic levels. However inflationary pressures through higher energy prices, costs of materials and supply chain disruptions still pose a risk to the Council and businesses alike, which is further exacerbated by the current situation in the Ukraine and Brexit. A relevant local assessment is to be found in 'State of the Economy: May 2022' published by the Chief Economist to the Scottish Government. This report summarises recent developments in the global, UK and Scottish economies and provides an analysis of the performance of, and outlook for, the Scottish economy. The full document can be found at: State of the economy: May 2022 - gov.scot (www.gov.scot).

The Covid-19 pandemic has brought unprecedented financial pressure on the Council, which has faced significant additional costs and lost income as a result of the curtailment of social and economic activity due to Scotland's efforts to contain the spread of the virus.

In order to help Scottish Councils cope with the additional financial pressures Scottish Government have made available grant support for 2020/21, 2021/22 and 2022/23 to provide general financial assistance, as well as a large number of funding streams to target particular policy areas.

Whilst the additional funding is welcome the full range of financial impacts for 2022/23 and beyond, are not yet fully apparent at this stage as the exact terms of the country's emergence from the pandemic and the re-establishment of patterns of social and economic activity remain unclear.

Financial Pressures on Revenue and Capital Resources

Like all local authorities Midlothian Council is facing a period of unprecedented change with many factors affecting the need to adapt as an organisation. These pressures are only likely to increase as it reacts to future challenges, not least those which have been demonstrated so dramatically by the ongoing Covid-19 pandemic. Some of the challenges the Council face include:

- Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures;
- Pay and other inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2021/22, and again for 2022/23, the Scottish Government published a one year budget and grant settlement. In May 2022 the Scottish Government published a Resource Spending Review (RSR) which provided financial planning parameters through to 2026/27. In respect of grant support to Councils the RSR indicated that settlements would remain cash flat through to 2025/26 with a small increase for 2026/27. This represents a challenging outlook for local government with a real terms reduction in grant income at a time when costs and service demands continue to rise. There are a number of factors, which will continue to influence the actual level of grant support the Council might expect for 2023/24 and beyond. Among these will be a range of economic factors which will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government. The next major update will be set out in the government's budget bill for 2023/24 expected to be presented to Parliament in December 2022;
- Requirement to maintain the physical condition of major capital assets such as roads and schools;
- Potential impact on local economy following Covid-19 pandemic over the coming years.

Whilst an assessment of economic factors can be made at this time, based on various sets of published information the impact of Scottish Government's tax and spending priorities will only become apparent when the Scottish Government's 2023/24 budget is published in December 2022.

In February 2022 the Council set a balanced budget for 2022/23, which included a council tax increase of 2.38% for the financial year thus reducing further pressure placed on non-earmarked reserves of which £2 million was utilised to further assist in achieving a balanced budget. In the context of reduced funding and growth in demand for services, the Council has a considerable challenge to ensure its future expenditure plans are sustainable. When setting the 2022/23 budget the Council adopted a corporate solution as described further in the Development of the Medium Term Financial Strategy in 'How the Council Manages Risk Section' below and has avoided the need for any additional service cuts. The Council intends to consult on a strategic plan and associated Medium Term Financial Strategy which will encompass the budgets to be determined during the term of Council elected in May 2022.

How the Council Manages Risk

Action	Commentary
Service Risk Registers	The service Risk Registers contain operational risks and are managed by each Service Management Team. The Risk Management Group provides further scrutiny of service risks and significant risks are added to the corporate risk register.
The Corporate Risk Register	The Corporate Risk Register managed by the Corporate Management Team provides assurance through scrutiny and challenge and ensures that the significant risks facing the Council have been identified and effective treatment actions are implemented. The Corporate Risk Register is then submitted to Audit Committee for approval which provides effective scrutiny and challenge as part of the Council's corporate governance arrangements.
Covid Response	As the situation with the COVID-19 pandemic continued to evolve, Midlothian Council ensured critical services to its citizens continued to be delivered as a priority. The Council worked with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19, which had impacted the Council's ability to ensure a balanced financial position. A Route Map through and out of the Crisis was also approved at Council on 16 June 2020 which seeks to both support recovery and to retain the best elements of transformation which took place in response to COVID-19. The Route map can be found on the Council's website Midlothian Council > Meetings 16 June 2020.
Development of a Medium Term Financial Strategy	The Council's Long Term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 25 June 2019 Council agreed a Medium Term Financial Strategy (MTFS) 2020/21-2022/23, which set out budget projections for 2020/21-2022/23 and has continued to be updated and reviewed during the budget setting process for 2020/21, 2021/22 and 2022/23 accordingly. The MTFS sets out cost projections for pay inflation, price inflation and the impact of demographic changes together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

Looking Ahead

Moving into 2022/23, the Council anticipates a continued easing of the Covid-19 financial impacts with focus shifting towards medium and long-term recovery. As well as dealing with the impact on Council services, the Council will be a key partner in helping our citizens, communities and businesses to recover from the harms that have been caused and to providing support during the subsequent cost of living crisis. The pandemic and cost of living crisis will cause many as yet unseen harms, and Councils will be required to identify the anticipated impacts as quickly as possible and put in place plans of action to address them and many of those plans will require funding deployed towards that effort.

In addition to the impact of the Covid-19 pandemic and a range of inflationary pressures, Midlothian Council also faces additional pressure with being the fastest growing local authority in Scotland, resulting in greater demand for services. The General Services Capital Plan will also see further major investment in the following areas over the coming years:

Capital Expenditure	Commentary
School Infrastructure	• Equipped for Learning Programme; • Wide-ranging school building, extension and refurbishment programme; • A replacement of Beeslack Community High School and refurbishment of Penicuik High School

Capital Expenditure	Commentary
	• A new school campus proposed at Shawfair; • Replacement schools for Mayfield Campus and Lasswade Primary.
Provision of Care Services	A new care facility in Bonnyrigg which will provide accommodation for those in need of high quality care.
Carriageway and footway infrastructure	• Continuing investment in improved roads, footpaths and lighting across Midlothian; • As part of the Edinburgh and South East Scotland City Region Deal major investment is also planned in the new A701 Relief Road and A702 link which will support planned investment in new research and technology facilities at Easter Bush.
Social Housing	• A continuation of the new build housing programme and upgrading of existing housing.

The Council has recognised the need for a strategic step change in the form of the development, agreement and implementation of a Medium Term Financial Plan, mentioned earlier, together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

On 20 June 2022 The Scottish Government published its National Care Service (Scotland) Bill. The measures set out in the bill will make Scottish Ministers accountable for adult social care and so have a fundamental impact on local government with responsibility for Care, Children's and Criminal Justice services transferring from Local Government to newly formed National Care Boards. The transfer of these responsibilities is planned during the life of the current Scottish Parliamentary term and would see the transfer of services which represent approximately 30% of the Council budgeted net expenditure.

The Council continues to regularly monitor its financial position and provide full financial updates to the Council Management Team and the Council as appropriate, including options on addressing any new budget and spending pressures. This may include further use of reserves, reallocation of committed reserves, changes to capital spend, opportunities available through review of the Loans Fund or other cost savings. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward.

The Council will continue to assess the potential impact of Brexit, including the possible financial and economic impacts. From a financial perspective, the potential impact on future Scottish Government grant funding levels, and from an economic perspective, the potential lack of skilled resource and the impact on the local economy.

In delivering services, it is important to recognise that people are our most important asset. Our people have the potential to have a positive impact every day and can deliver life-changing impacts for our communities. Therefore, to maximise that positive impact, it is imperative that we work as One Council by removing any institutional barriers; and eliminate silo working to enable the organisation to implement simple solutions which make a big difference. This means placing our citizens and communities at the centre of our daily work; growing our own talent and empowering our staff and thereby enabling Midlothian to fulfil its potential as a Great Place to Grow.

Conclusion

2021/22 was a year of unprecedented challenges. The Council had to deal with the continuing impacts of a global pandemic as well as continued increasing demand pressures. Despite these pressures, the Council made significant improvements across a range of areas and the Council continued to invest for the future in its asset base to provide essential infrastructure to support the growing population and it is important to appreciate these improvements.

We have concluded the year in a period of unprecedented uncertainty but with a focus on meeting the financial and service challenges identified in the Medium Term Financial Strategy to ensure the Council has continued financial sustainability.

Acknowledgments

I would like to acknowledge the tremendous effort in producing the Annual Accounts and express my thanks to my own team and to colleagues throughout the Council for the significant dedication and commitment shown throughout the year in financial matters.

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Gary Fairley
Chief Officer Corporate Solutions
Date:

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Officer, Corporate Solutions;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

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Councillor Kelly Parry
Leader of the Council
Date:

The Chief Officer, Corporate Solutions Responsibilities

The Chief Officer, Corporate Solutions is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the code).

In preparing these Annual Accounts, the Chief Officer, Corporate Solutions has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority code;
- Kept proper accounting records, which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements present a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the Council (and its group) for the year ended 31 March 2022.

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Gary Fairley
Chief Officer, Corporate Solutions
Date:

Annual Governance Statement

Introduction

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

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement;

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

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

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

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

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

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

The Council's Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community including the achievement of 'social value' (community benefits) through service planning and commissioning.

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

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

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

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

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

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

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

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

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

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

A Medium Term Financial Strategy was approved by Council in June 2019. The 2022/23 budget was approved by Council in February 2022. Given the significant fiscal challenges which lie ahead a new 5 year strategic plan and medium term financial strategy is being prepared for the cross party Business Transformation Steering group's consideration. In light of the Scottish Governments recent Resource Spending Review announcement this will equate to a budget gap of approximately £38 million over the next 5 years. This coupled with the rate of inflation will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets. The National Care Service Bill, if enacted, will have a significant impact upon Council expenditure, resources, staff, assets and liabilities. The Bill and supporting documents, including the Financial Memorandum, do not currently contain sufficient detailed information to allow the full impact upon the Council to be assessed. A Council Officer Working Group has been established to review the Bill and supporting documents and to engage in future consultation and Co-Design.

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

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

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

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

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

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

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

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

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

In respect of the implementation of the remaining Best Value Audit Actions (numbers 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the

Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value.

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

Improvement Areas of Governance

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

1) Review and update the Financial Regulations and Financial Directives and associated guidance have been refreshed and reviewed, where necessary, to reflect system and organisation changes and embed arrangements to support regular review and updating. A refresh of the Financial Regulations was reported to Midlothian Council on 28th June 2022 and Financial Directives to Audit Committee on 29th June 2022. Reform of the short life officer/member working group to review and update the Scheme of Delegation, Standing Orders and Scheme of Administration to reflect the decision-making aspirations of the new Council with a review to reporting to Council by March 2023.

2) In order to build on the good work commenced following the appointment of the new Chief Procurement Officer, actions to strengthen resource capacity and skills in the procurement function are being progress in order to provide improved support to Service Managers, further strengthen compliance with the Council's procurement strategy and procedures to consistently ensure integrity and compliance with high ethical standards expected by the Council, and improve contract monitoring to demonstrate delivery of value for money.

3) Following reports to CMT, we have adopted as part of our business as usual work (i) the enhancement of the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value and (ii) continue to refine quarterly monitoring reports for both revenue and capital, where appropriate, to support robust scrutiny and maintain transparency of performance against financial plans in line with the new medium term financial strategy once this is approved.

4) Building on the Route Map through and out of the crisis to continue to ensure that the Strategic Boards, supporting the work of the Business Transformation Board and the cross-party Business Transformation Steering Group secure the required outcomes at the required scale and pace including the development and implementation of the new 5 year Strategic Plan and underpinning medium term financial strategy.

5) Review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level.

Conclusion and Opinion on Assurance

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

______________________________	______________________________
Councillor Kelly Parry Leader of the Council Date:	Dr Grace Vickers Chief Executive Date:

Remuneration Report

Introduction

The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

The following report details Midlothian Council's remuneration policy for its senior councillors and senior employees, providing full details of the remuneration and pension benefits they receive. This report also provides information on the number of employees whose annual remuneration was £50,000 or more as well as summary information in relation to employees' exit packages agreed during the year.

Information disclosed in the tables in this report is subject to audit by Ernst & Young LLP to report on whether that information has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014 (with the exception of the table in note 4.4). All other sections of the Remuneration Report, including the table in respect of Trade Union Facility Time, are read and considered to identify any material inconsistencies with the financial statements.

Remuneration of Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183) as amended. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as Leader of the Council, Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility within the Council's political structure.

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2021/22 the Regulations set the salary for the Leader of the Council at £31,010 (2020/21 £29,760) and the salary for the Provost set at £23,257 (2020/21 £22,320).

The Regulations also set out the remuneration that may be paid to Senior Councillors and total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. For 2021/22, the maximum salary which could be paid to a Senior Councillor was £23,257 (2020/21 £22,320) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors (excluding the Provost and the Leader) should not exceed £167,446 (2020/21 £160,696). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within those maximum limits.

The Regulations also permit the Council to pay contributions or other payments as required by the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor Members of the pension scheme.

In addition to the Senior Councillors of the Council, the regulations also set out the remuneration payable to Councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board. The Regulations require the remuneration and any pension contributions, if a member of the Local Government Pension Scheme, to be paid by the Council of which the Convener and Vice-Convener is a member. The Council is reimbursed by the Joint Board for any additional remuneration paid to a member from being a Convener or Vice-Convener of a Joint Board.

Details of the Remuneration of Council Leader, Provost and Senior Councillors are shown in the table below:

Total Remuneration 2020/21	Councillor	Date From	Date To	Salary	Expenses	Total Remuneration 2021/22
£33,226	**D Milligan** Council Leader	Apr-21	Mar-22	£31,010	£474	£31,484
£22,350	**J Muirhead** Depute Leader	Apr-21	Mar-22	£23,257	£30	£23,287
£22,587	**P Smaill** Provost and Group Leader	Apr-21	Mar-22	£23,257	£214	£23,471
£22,486	**M Russell** Depute Provost	Apr-21	Mar-22	£23,257	£129	£23,386
£0	**C Cassidy** (1) Group Leader	Dec-21	Mar-22	£6,052	£0	£6,052
£22,304	**C Johnstone** (1) Group Leader	Apr-21	Dec-21	£17,443	£0	£17,443
£22,577	**R Imrie** Cabinet Member	Apr-21	Mar-22	£23,257	£333	£23,590
£22,352	**S Curran** Cabinet Member	Apr-21	Mar-22	£23,257	£0	£23,257
£22,320	**J Hackett** Cabinet Member	Apr-21	Mar-22	£23,257	£0	£23,257
£190,202	**Total**			**£194,047**	**£1,180**	**£195,227**

(1) FYE of Group Leader £23,257

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2021/22 was £0.382 Million (2020/21 £0.369 million). Detailed figures for these costs are available on the Council's website, members' remuneration details for 2021/22.

Remuneration of Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Committee (SJC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. The salaries of the Executive Directors, Chief Officers and Heads of Service are all now based on a fixed percentage of the Chief Executives salary.

The salaries of all other employees are set by reference to:

- **Teaching staff** – The Scottish Negotiating Committee for Teachers (SNCT);
- **Other staff** – The Scottish Joint Committee (SJC).

The table overleaf details the remuneration paid to Senior Employees (as defined in the regulations) of the Council during the financial year:

Total Remuneration 2020/21	Senior Employee	Date From	Date to	Total Salary, Fees & Allowances 2021/22
£119,569	**G Vickers** Chief Executive	Apr-21	Mar-22	£121,494
£48,241	**M Barrow** Joint Director: Health and Social Care (1)	Apr-21	Mar-22	£53,805
£103,690	**K Anderson** Executive Director: Place	Apr-21	Mar-22	£104,690
£103,690	**F Robertson** Executive Director : Children, Young People & Communities	Apr-21	Mar-22	£104,690
£87,522	**G Fairley** Chief Officer - Corporate Solutions (S95 Officer)	Apr-21	Mar-22	£88,522
£87,522	**J Tranent** Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	Apr-21	Mar-22	£89,022
£87,522	**A White** (to Jul 21 FYE: £89,022**)** Head of Adult Health and Social Care (Chief Social Work Officer)	Apr-21	Jul-21	£28,840
£64,964	**A Turpie** Legal Services Manager (Monitoring Officer)	Apr-21	Mar-22	£65,776
£702,720	**Total**			**£656,839**

(1) Post joint funded 50:50 with NHS Lothian, M Barrow Full Time Equivalent £107,611.

Subsidiary Entities

None of our subsidiaries have remunerated employees.

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), which is administered by the Lothian Pension Fund. From 1 April 2015, this became a career average salary pension scheme, although it was a final salary scheme until that date. This means that pension benefits are based on an average of the pay over the number of years that a person has been a member of the scheme.

From 1 April 2009, a five-tier contribution system is in place with contributions from scheme members based on how much pay falls into each tier. This is designed to give more equality between costs and benefits of scheme membership. Part-time workers contribution rates are worked out on the whole time pay rate for the job, with actual contributions paid on actual pay earned.

The tiers and contribution rates are as follows:

Pensionable Pay 2021/22	Contribution Rate
On earnings up to and including £22,300	5.5%
On earnings above £22,301 and up to £27,300	7.25%
On earnings above £27,301 and up to £37,400	8.5%
On earnings above £37,401 and up to £49,900	9.5%
On earnings above £49,901	12%

There is no automatic lump sum on retirement. Pension scheme members may opt to commute pension for a lump sum payment up to the limits set by the Finance Act 2004. The rate and basis at which employees accrue their pension benefits has changed over time, this is shown in the table below:

Time Period	Pension Benefit Accrual Basis	Pension Benefit Accrual Rate	Lump Sum Basis
From 1 April 2015	Career Average	1/49th pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60th pensionable pay each year	n/a
Prior to 1 April 2009	Final Salary	1/80th pensionable pay each year	3/80th final pensionable salary and years of pensionable service

The value of accrued benefits has been calculated on the basis of the age at which the person will become first entitled to receive a pension on retirement without reduction on account of its payment at that age, without exercising any option to commute pension entitlement into a lump sum, and without any adjustment for the effects of future inflation.

The pension entitlements for Senior Councillors for the year to 31 March 2022 are shown in the tables below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Senior Councillors In-Year Pension Contributions

Year to 31 March 2021	Senior Councillors	Year to 31 March 2022
£4,843	C Johnstone (to Dec 21) (1)	£3,872
£0	C Cassidy (from Dec 21) (1)	£1,344
£4,843	R Imrie	£5,163
£4,843	S Curran	£5,163
£4,843	J Hackett	£5,163
£19,372	**Total**	**£20,705**

(1) Group Leader FYE £5,163

Senior Councillors Accrued Pension Benefits

	Pension at 31 March 2022	Lump Sum at 31 March 2022	Pension Difference from 31 March 2021	Lump Sum Difference from 31 March 2021
Senior Councillor	**£000**	**£000**	**£000**	**£000**
C Johnstone	2	0	1	0
C Cassidy	2	0	0	0
R Imrie	6	2	1	0
S Curran	2	0	0	0
J Hackett	2	0	0	0
Total	**14**	**2**	**2**	**0**

The pension entitlements for Senior Employees for the year to 31 March 2022 are shown in the tables below, together with the contribution made by the Council to each Senior Employees (as defined in the regulations) pension during the year.

Senior Employees In-Year Pension Contributions

Year to 31 March 2021	Senior Employees	Year to 31 March 2022
£25,946	**G Vickers** Chief Executive	£26,971
£22,501	**K Anderson** Executive Director: Place	£23,240
£22,501	**F Robertson** Executive Director : Children, Young People & Communities	£23,240
£18,992	**G Fairley** Chief Officer - Corporate Solutions (S95 Officer)	£19,651
£18,992	**J Tranent** Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	£19,646
£18,992	**A White** (to Jul 21, FYE: £19,646) Head of Adult Health and Social Care (Chief Social Work Officer)	£5,066
£14,097	**A Turpie** Legal Services Manager (Monitoring Officer)	£14,601
£142,021	**Total**	**£132,415**

Senior Councillors Accrued Pension Benefits

	Pension at 31 March 2022	Lump Sum at 31 March 2022	Pension Difference from 31 March 2021	Lump Sum Difference from 31 March 2021
Senior Employee*	**£000**	**£000**	**£000**	**£000**
G Vickers	15	0	4	0
M Barrow	21	54	0	0
K Anderson	59	104	3	1
F Robertson	10	0	2	0
G Fairley	49	85	2	1
J Tranent	34	41	3	0
A White	23	9	1	0
A Turpie	34	55	2	1
Total	**245**	**348**	**17**	**3**

* See Senior Employees in-Year Pension Contributions table above for post title.

All senior employees (as defined in the regulations) shown in the tables above except M Barrow are members of the Local Government Pension Scheme. M Barrow is employed by NHS Lothian and is a member of the NHS pension scheme. The pension figures shown relate to the benefits accrued as a consequence of total local government service, not solely on the current appointment.

Remuneration of Other Employees by Pay Bands

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or above, this information is detailed in the table below:

Total Employees 2020/21	Remuneration Band	Non-Teaching Employees 2021/22	Teaching Employees 2021/22	Total Employees 2021/22
60	£50,000-£54,999	13	73	86
54	£55,000-£59,999	15	58	73
16	£60,000-£64,999	9	15	24
17	£65,000-£69,999	3	17	20
3	£70,000-£74,999	4	0	4
2	£75,000-£79,999	1	3	4
1	£80,000-£84,999	0	1	1
4	£85,000-£89,999	4	1	5
1	£95,000-£99,999	0	1	1
2	£100,000-£104,999	2	0	2
1	£115,000-£119,999	0	0	0
0	£120,000-£124,999	1	0	1
161	**Total**	**52**	**169**	**221**

Exit Packages

Termination benefits are amounts payable because of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and to replace them with debits for the cash paid to the pension fund and the pensioners and any such amounts payable but unpaid at the year-end.

Details of the cost to the Council of voluntary redundancy packages for the year are as follows:

Total Employees 2020/21	Total Cost 2020/21 £000	Remuneration Band	Total Employees 2021/22	Total Cost 2021/22 £000
1	16	£0-£19,999	0	0
3	215	£20,000 +	2	84
4	**231**	**Total**	**2**	**84**

Trade Union Facility Time

The Council is now required to publish details of Trade Union facility time incurred during the year. Further information is published on the Council's website: [Trade union facility time | Midlothian Council]

For the reporting year 2021/22, the equivalent of 5.6 FTE employees (across 14 individuals) of paid time facility was made available. The proportion of their working hours spent on facility time is as follows:

Percentage of Time	Number of Employees
1% - 50%	12
51% - 99%	1
100%	1

The percentage of the total pay bill spent on facility time (calculated as total cost of facility time ÷ total pay bill) is:

Total cost of facility time	£213,568
Total Pay Bill	£163,972,065
Percentage total	0.13%

Time spend on paid Trade Union activities as a percentage of total paid facility time: 10,519 hours = 100%

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Councillor Kelly Parry
Leader of the Council
Date:

____

Dr Grace Vickers
Chief Executive
Date:

Independent Auditor's Report

Independent Auditors Report to the members of Midlothian Council and the Accounts Commission

Opinion

We certify that we have audited the financial statements in the annual accounts of Midlothian Council and its group for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Group and Council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement in the Housing Revenue Account, the Council Tax Income Account, and the Non-Domestic Rate Account, and any other disclosures presented as financial statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22(the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the Council and its Group as at 31 March 2022 and of the income and expenditure of the Council and its Group for the year then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 26 July 2016. The period of total uninterrupted appointment is six years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the Council and its Group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Council's current or future financial sustainability. However, we report on the Council's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risk of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatements that we identified and our judgements thereon.

Responsibility of the Chief Officer Corporate Solutions and Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer Corporate Solutions is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer Corporate Solutions determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer Corporate Solutions is responsible for assessing the ability of the Council and its Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the Council and its Group.

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the Council and its Group are complying with that framework;
- Identifying which laws and regulations are significant in the context of the Council and its Group
- Assessing the susceptibility of the financial statements to material misstatements, including how fraud might occur; and
- Considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

We have audited the part of the Remuneration Report described as audited. In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Chief Officer Corporate Solutions is responsible for other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.
- We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed, in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen Reid, for and on behalf of Ernst & Young LLP

Ernst & Young LLP

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2022 and its cash flows. The annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), which is based on International Financial Reporting Standards (IFRSs). Every effort has been made to use plain language; where technical terms are unavoidable they have been explained in the Glossary.

The four principal statements and their relationships are explained in more detail below:

- **Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding analysis and the Movement in Reserves Statement.

- **Movement in Reserves Statement** – this shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund balance and Housing Revenue Account (HRA) balance movements in the year following those adjustments.

- **Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement** – this shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Group and Council Comprehensive Income and Expenditure Statement

			2020/21					2021/22	
Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure	
£000	£000	£000	£000	Service	£000	£000	£000	£000	*Notes*
2,080	(13)	2,067	2,067	Management and Members	1,963	(2)	1,961	1,961	*EFA*
22,855	(2,264)	20,591	20,591	Children's Services, Partnerships and Communities	25,089	(2,005)	23,084	23,084	*EFA*
125,681	(19,538)	106,143	106,143	Education	143,474	(19,855)	123,619	123,619	*EFA*
5,136	(945)	4,191	4,191	Adult Health and Social Care	4,689	(3,152)	1,537	1,537	*EFA*
114,837	(67,198)	47,639	47,639	Midlothian Integrated Joint Board	125,635	(71,305)	54,330	54,330	*EFA*
68,605	(24,955)	43,650	43,650	Place	77,816	(28,779)	49,037	49,037	*EFA*
38,171	(25,383)	12,788	12,789	Corporate Solutions	37,946	(24,170)	13,776	13,776	*EFA*
39,372	(29,780)	9,592	9,592	Housing Revenue Account	(37,864)	(30,274)	(68,138)	(68,138)	*EFA*
567	0	567	567	Lothian Valuation Joint Board	571	0	571	571	*EFA*
65	0	65	65	Central Costs	706	0	706	706	*EFA*
1,363	0	1,363	1,369	Non- Distributable Costs	880	0	880	882	*EFA*
418,732	**(170,076)**	**248,656**	**248,663**	**Cost of Services**	**380,905**	**(179,542)**	**201,363**	**201,365**	
		0	(4,150)	Share of Operating results of Associates and Joint Ventures			0	(4,302)	*40*
		30	30	Other Operating (Income) or Expenditure			5,367	5,367	*9*
		17,801	17,801	Financing and Investment Income and Expenditure			17,868	17,868	*10*
		(258,062)	(258,062)	Taxation and Non-Specific Grant Income			(260,714)	(260,714)	*11*
		8,425	**4,282**	**(Surplus) or Deficit on Provision of Services**			**(36,116)**	**(40,416)**	*13*
		(90,163)	(90,163)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment assets			(65,853)	(65,853)	
		31,746	31,746	Re-measurement of the net defined benefit liability/(asset)			(111,171)	(111,171)	
		2,585	2,715	Other (Gains) / Losses			2,678	1,701	
		(55,832)	**(55,702)**	**Other Comprehensive (Income) and Expenditure**			**(174,346)**	**(175,323)**	
		(47,407)	**(51,420)**	**Total Comprehensive (Income) and Expenditure**			**(210,462)**	**(215,739)**	

Group and Council Movement in Reserves Statement

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2021	**(29,672)**	**(48,385)**	**(24,158)**	**(3,897)**	**(106,112)**	**(429,866)**	**(535,978)**	**(5,909)**	**(541,887)**
Movement between Lothian Valuation Joint Board 2020/21 Unaudited and Audited Accounts	0	0	0	0	**0**	0	**0**	(17)	**(17)**
Revised Balance 31 March 2021	**(29,672)**	**(48,385)**	**(24,158)**	**(3,897)**	**(106,112)**	**(429,866)**	**(535,978)**	**(5,926)**	**(541,904)**
Movement in Reserves during 2021/22									
Total Comprehensive Expenditure and Income	25,583	(61,700)	1,980	0	**(34,137)**	(176,325)	**(210,462)**	(5,277)	**(215,739)**
Adjustments between accounting basis and funding basis under regulations ***(Note 7)***	(28,164)	82,001	0	0	**53,837**	(53,837)	**0**	0	**0**
Transfers to/(from) other statutory reserves	(179)	0	0	179	**0**	0	**0**	0	**0**
(Increase)/Decrease in year	**(2,760)**	**20,301**	**1,980**	**179**	**19,700**	**(230,162)**	**(210,462)**	**(5,277)**	**(215,739)**
Balance at 31 March 2022 Carried Forward	**(32,432)**	**(28,084)**	**(22,178)**	**(3,718)**	**(86,412)**	**(660,028)**	**(746,440)**	**(11,203)**	**(757,643)**

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates , Subsidiari es and	Total Group Reserves
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2020	**(13,428)**	**(44,395)**	**(25,364)**	**(3,670)**	**(86,857)**	**(401,715)**	**(488,572)**	**(1,864)**	**(490,436)**
Movement between Lothian Valuation Joint Board 2019/20 Unaudited and Audited Accounts	0	0	0	0	**0**	0	**0**	(31)	**(31)**
Revised Balance 31 March 2020	(13,428)	(44,395)	(25,364)	(3,670)	**(86,857)**	(401,715)	**(488,572)**	(1,895)	**(490,467)**
Movement in Reserves during 2020/21									
Total Comprehensive Expenditure and Income	(7,739)	16,165	1,206	0	**9,632**	(57,039)	**(47,407)**	(4,014)	**(51,421)**
Adjustments between accounting basis and funding basis under regulations ***(Note 7)***	(6,874)	(22,013)	0	0	**(28,887)**	28,888	**1**	0	**1**
Transfers to/(from) other statutory reserves	(1,631)	1,858	0	(227)	**0**	0	**0**	0	**0**
(Increase)/Decrease in year	**(16,244)**	**(3,990)**	**1,206**	**(227)**	**(19,255)**	**(28,151)**	**(47,406)**	**(4,014)**	**(51,420)**
Balance at 31 March 2021 Carried Forward	**(29,672)**	**(48,385)**	**(24,158)**	**(3,897)**	**(106,112)**	**(429,866)**	**(535,978)**	**(5,909)**	**(541,887)**

Group and Council Balance Sheet

31 Mar 21 Midlothian Council	31 Mar 21 Group		31 Mar 22 Midlothian Council	31 Mar 22 Group	
£000	£000		£000	£000	*Notes*
933,900	933,900	Property, Plant and Equipment	1,080,738	1,080,738	*14*
29,562	29,562	Infrastructure Assets	31,375	31,375	*15*
324	324	Heritage Assets	329	329	*16*
548	548	Intangible Assets	348	348	*17*
3,943	3,897	Long-term Debtors	3,767	3,718	*18/19*
5,824	5,824	Long-term Investments	8,508	8,508	*19*
0	5,871	Share of net assets of associates and joint ventures	0	11,167	*40*
974,101	**979,928**	**Long-term Assets**	**1,125,065**	**1,136,182**	
75,442	75,442	Short-term Deposits	93,450	93,450	*19*
1,254	1,253	Assets held for Sale	1,480	1,480	*21*
938	938	Inventories	983	983	*22*
29,260	29,311	Short-term Debtors	36,681	36,732	*19/23*
53,182	53,182	Cash and Cash Equivalents	59,761	59,761	*24*
160,076	**160,126**	**Current Assets**	**192,355**	**192,406**	
(3,700)	(3,700)	Short -term Borrowing	(3,865)	(3,865)	*19*
(44,275)	(44,243)	Short-term Creditors	(53,496)	(53,462)	*19/25*
(723)	(723)	Provisions	(1,231)	(1,231)	*26*
(38,663)	(38,663)	Grants Received in Advance	(43,432)	(43,432)	*27*
(87,361)	**(87,329)**	**Current Liabilities**	**(102,024)**	**(101,990)**	
(273,893)	(273,893)	Long-term Borrowing	(322,365)	(322,365)	*19*
(95,915)	(95,915)	Other Long -term Liabilities (PPP Contracts)	(92,431)	(92,431)	*19/33*
(141,030)	(141,030)	Other Long-term Liabilities (Pensions)	(54,160)	(54,160)	*34/35*
(510,838)	**(510,838)**	**Long-term Liabilities**	**(468,956)**	**(468,956)**	
535,978	**541,887**	**Net Assets**	**746,440**	**757,643**	
106,112	112,743	Usable Reserves	86,412	97,443	*28*
429,866	429,144	Unusable Reserves	660,028	660,200	*29*
535,978	**541,887**	**Total Reserves**	**746,440**	**757,643**	

The unaudited accounts were authorised for issue on 29 June 2022.

I certify that the Balance Sheet presents a true and fair view of the financial position of the Council and its Group at 31 March 2022, and its income and expenditure for the year ended 31 March 2022.

Gary Fairley
Chief Officer Corporate Solutions
Date: 29.06.2022

Group and Council Cash Flow Statement

2020/21 Midlothian Council £000	2020/21 Group £000		2021/22 Midlothian Council £000	2021/22 Group £000
(8,425)	**(4,282)**	**Net Surplus or (Deficit) on the Provision of Services**	**36,116**	**40,416**
		Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements		
33,321	33,321	Depreciation	37,793	37,793
16,767	16,767	Impairment and downward revaluations	(62,407)	(62,407)
317	317	Amortisation	327	327
(7,291)	(7,292)	(Increase)/decrease in debtors	(5,850)	(5,802)
7,071	7,068	Increase/(decrease) in creditors	7,967	7,933
(196)	(196)	(Increase)/decrease in inventories	(45)	(45)
11,565	11,565	Movement in pension liability	24,301	24,301
317	317	Carrying amount of non-current assets sold or derecognised	5,993	5,993
(365)	(4,504)	Other non-cash items charged to the net surplus or deficit on the provision of services	499	(3,815)
61,506	**57,363**		**8,578**	**4,278**
		Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities		
84,986	84,986	Proceeds from short-term and long-term Deposits	74,985	74,985
(287)	(287)	Sale of property, plant and equipment and intangible assets	(626)	(626)
(22,993)	(22,993)	Any other items for which the cash effects are investing or financing cash flows	(24,827)	(24,827)
61,706	**61,706**		**49,532**	**49,532**
123,212	**119,069**	**Net Cash Flows from Operating Activities**	**58,110**	**53,810**
		Investing Activities		
(34,791)	(34,791)	Purchase of property, plant and equipment and intangible assets	(62,914)	(62,914)
(74,985)	(74,985)	Purchase of short-term and long-term Deposits	(96,495)	(96,495)
(864)	(864)	Other payments for investing activities	(495)	(495)
287	287	Proceeds from the sale of property, plant and equipment and intangible assets	626	626
28,661	28,661	Other receipts from investing activities	26,346	26,346
(81,692)	**(81,692)**	**Net Cash Flows from Investing Activities**	**(132,932)**	**(132,932)**
		Financing Activities		
15,000	15,000	Cash receipts of short- and long-term borrowing	50,000	50,000
(10,471)	(10,471)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PPP contracts	144	144
159	159	Other Receipts from Financing Activities	(3,335)	(3,335)
(9,283)	(9,283)	Repayments of short- and long-term borrowing	(1,524)	(1,524)
(4,595)	**(4,595)**	**Net Cash Flows from Financing Activities**	**45,285**	**45,285**
28,500	**28,500**	**Net Increase or Decrease in Cash and Cash Equivalents**	**6,579**	**6,579**
24,682	24,682	Cash and Cash Equivalents at 1 April	53,182	53,182
53,182	**53,182**	**Cash and Cash Equivalents at 31 March (*Note 24*)**	**59,761**	**59,761**

The cash flows for operating activities include the following items:

£000	£000	Cash Flow Statement: Interest Paid and Received	£000	£000
1,987	1,987	Interest Received	1,925	1,925
(17,470)	(17,470)	Interest Paid	(16,780)	(16,780)
0	0	Dividends Received	0	0

Expenditure and Funding Analysis

This Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the Comprehensive Income and Expenditure Statement.

2020/21				2021/22		
Net expenditure chargeable to the General Fund and HRA balances	**Adjustments (*note 6*)**	**Net expenditure in the CIES (*note 13*)**		**Net expenditure chargeable to the General Fund and HRA balances**	**Adjustments (*note 6*)**	**Net expenditure in the CIES (*note 13*)**
£000	**£000**	**£000**	**Service**	**£000**	**£000**	**£000**
1,962	105	2,067	Management & Members	1,851	110	1,961
19,774	817	20,591	Children's Services, Partnerships & Communities	21,870	1,214	23,084
88,424	17,719	106,143	Education	94,475	29,144	123,619
4,353	(162)	4,191	Adult Health & Social Care	1,748	(211)	1,537
44,985	2,654	47,639	Midlothian Integrated Joint Board	50,598	3,732	54,330
30,074	13,576	43,650	Place	34,701	14,336	49,037
13,737	(949)	12,788	Corporate Solutions	13,973	(197)	13,776
(17,747)	27,339	9,592	Housing Revenue Account	(16,593)	(51,545)	(68,138)
567	0	567	Joint Boards	571	0	571
65	0	65	Central Costs	660	46	706
1,352	11	1,363	Non-Distributable Costs	906	(26)	880
187,546	**61,110**	**248,656**	**Net Cost of Services**	**204,760**	**(3,397)**	**201,363**
(207,781)	(32,450)	(240,231)	Other Income and Expenditure	(212,261)	(25,218)	(237,479)
(20,235)	**28,660**	**8,425**	**(Surplus) or Deficit**	**(7,501)**	**(28,615)**	**(36,116)**
(57,822)			Opening General Fund and HRA Balance	(78,058)		
(20,235)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year	17,541		
(78,057)			**Closing General Fund and HRA Balance at 31 March***	**(60,517)**		

**For a split of this balance between the General Fund and the HRA – See the Movement in Reserves Statement.*

Notes to the Accounts

The notes to the accounts provide further information about the basis of preparation of the Annual Accounts, the specific accounting policies used and where the materiality is such that further disclosure is merited.

The Council's Annual Accounts for 2021/22 have been prepared on a going concern basis. The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. The provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their annual accounts on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2021/22), the Council is required to prepare its annual accounts on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Midlothian Council approved an update to the Medium-Term Financial Strategy for the period 2022/23 at the Council meeting of 15 February 2022, where a balanced budget was presented for the period 2022/23.

The Council's minimum uncommitted general fund balance is £3.6 million. The uncommitted general fund balance at 31 March 2022 is £5.597 million. Should additional cost pressures in 2022/23 exceed the remaining general reserve balance, the Council will consider a range of options to balance the budget, as outlined below.

The Council continues to regularly monitor its financial position and provide full financial updates to Council as appropriate, including options on addressing any new budget gaps and spending pressures. This may include approved financial flexibilities, including the option to exercise a loans fund repayment holiday, reprioritisation of earmarked reserves and balances, restrictions on expenditure, revisions to service delivery or service standards and identification of additional saving measures. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward.

Midlothian Council has a high level of balances of short-term deposits, totalling £95.482 million at 31 March 2022. Normally when deposits mature they are reinvested for periods up to a year. During the pandemic maturing deposits have been retained in highly liquid instruments, such as the overnight bank account or money market funds, to ensure that the funds are available as required. The Council's cash flow is monitored daily by management and the Council does not forecast any cash flow shortage in the coming financial year.

On this basis, the Council is satisfied that it has sufficient reserves and liquidity to continue as a going concern for a period of at least 12 months from authorisation of the annual accounts.

1. Accounting Policies

i. General Principles

The statement of accounts summarises the Council's transactions for the 2021/22 financial year and its position for the year-end of 31 March 2022. The Council is required to prepare an annual statement of accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority

Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and the statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made and received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed – where these is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on deposits and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid deposits that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimations and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior year adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with the Statutory Repayment of Loans Fund Advances. This is known as the Loans Fund Principal Repayment. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the Loans Fund Principal Repayments in the General Fund balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexible working for current employees. They are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary severance.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' pension scheme, administered by the Scottish Government;
- The Local Government Pensions Scheme, administered by the City of Edinburgh Council on behalf of Lothian Pension Fund.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The education services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate as advised by the actuary, Hymans Roberson LLP.

The assets of Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- **Quoted securities** – current bid price;
- **Unquoted securities** – professional estimate;
- **Unitised securities** – current bid price;
- **Property** – market value.

The change in the net pension's liability is analysed into the following components:

Service cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- **Net interest on the net defined liability (asset), i.e. net interest expense for the Council** – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- **The return on plan assets** – excluding amounts included in net interest on the net defined liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure;
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to pensions reserve as other comprehensive income and expenditure;
- **Contributions paid to the Lothian Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Events after the Reporting Period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where such a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or Housing Revenue Account balances to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charge to the CIES to the net charge required against the General Fund balance is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The Council holds financial assets measured at:

- Amortised cost; and
- Fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Fair Value Measurement of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- **Instruments with quoted market prices** – the market price;
- **Other instruments with fixed determinable payments** – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- **Level 2 inputs** – inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly;
- **Level 3 inputs** – unobservable inputs for the asset.

Any gains and losses that arise on de-recognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

The Council designates that investments held for strategic purposes be classified as being measured as FVOCI. Any gains and losses on these investments will be held in the Financial Instruments Revaluation Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset it written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants received in advance. Where it has been applied, it is posted to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Additional Scottish Government funding provided in relation to Covid-19 has been accounted for as grant income in line with all other government grant income on an accruals basis, and any related expenditure recognised separately in the financial statements.

Grants have been designated as either principal or agency based on the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with further guidance provided by the LASAAC Guidance on Accounting for Coronavirus (Covid-19) Grants / Funding Streams. Definitions and treatment of grants are as follows:

- **Agency** - Grant income where the council is acting as an agent, as an intermediary in distributing funds from the Scottish Government, has not been recorded in the CIES as the council does not retain the risks and rewards of the income and related expenditure.
- **Principal** - Grant income where the council is acting as a principal, on its own behalf, has been recorded in the CIES and the notes to the financial statements. Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement and Capital Adjustment Account until conditions attached to each grant have been satisfied. Monies advanced as revenue grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the revenue grants are credited to the service line in the Comprehensive Income and Expenditure Statement and, for capital grants, to the Capital Adjustment Account.

Note 38 provides a detailed analysis of grants where the council has acted as an agent or Principal for Covid-19 grant funding from Scottish Government.

x. Heritage Assets

A heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the accounts.

xi. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as result of past events (i.e. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service(s) line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

xii. Interests in Companies and Other Entities

The Council has an interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. In the Council's own single entity accounts these interests are recorded as the share of net assets.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First in First out (FIFO) costing formula.

xiv. Allocation of Central Support Services

Support services will not be recharged although the costs of services provided by the Council will be charged to separate accounts such as the Housing Revenue Account. The costs of support and other services will be allocated in government returns as required.

xv. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes, and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are carried in the balance sheet using the following measurement bases:

- **Community assets** – depreciated historical cost;
- **Assets under construction** – historical cost;
- **Dwellings** - current value, determined using the basis of existing use value for social housing (EUV-SH). Gross valuations are reduced by applying the discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- **Vehicles, Plant and Equipment** – depreciated historical cost;
- **Surplus Assets** – fair value based on open market value;
- **Other land and buildings** – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued as a minimum every five years to ensure their carrying amount is not materially different from their current value at year-end. As part of the Council's plan for revaluation, a move has been made to revalue all items in a specific category in the same year, if one of the assets in the category has been revalued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise any unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to the service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement (CIES).

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end to establish whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is subsequently reversed, the reversal is credited to the Revaluation Reserve or the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- **Dwellings and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuers;
- **Vehicles, plant and equipment** – straight-line allocation over the useful life of the assets in Balance Sheet, as advised by a suitably qualified officer).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Council policy is to only consider any asset with a gross book value of £1.5 million or above. The assessment of which components of these assets require to be recognised and depreciated separately is based on the cost of each of component. Significance is determined by comparing the cost of components against the overall cost of the asset. This threshold is set at 15% or more of the overall cost of the asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of the asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure Line in the CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure Line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is credited to the Capital Fund and can then only be used for new capital investment or to defray debt. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvi. Infrastructure Assets

More information on the accounting for and disclosure around infrastructure assets held by the Council can be found at ***note 15***.

xvii. Public Private Partnership (PPP)/NPD and Similar Contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under its schemes, and where ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to operators each year are analysed into five elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement (CIES);
- **Finance Cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
  - Dalkeith Schools - 9.69%;
  - Midlothian Primary Schools - 7.29%;
  - Newbattle Community Campus - 5.06%;
  - Residual Waste Treatment Plant, Millerhill – 18.84%;
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease);

- **Service charge and lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (i.e. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not definite that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xix. Reserves

Reserves are created by transferring amounts out of the General Fund Balance. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xx. Revenue Expenditure funded from Capital under Statute (Refcus)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service line in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

xxi. VAT

All income and Expenditure excludes amounts relating to Value Added Tax (VAT), as all VAT collected is payable to HM Revenue and Customs and net VAT paid is fully recoverable by the Council.

xxii. Fair Value Measurement of Non-financial Assets

The Council measures some of its non-financial assets, such as Surplus Assets and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes the transaction to sell the asset takes place either:

- In the principal market for the asset; or
- In the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming the market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which Fair Value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- **Level 3 inputs** – unobservable inputs for the asset.

2. Accounting Standards Issued, Not Yet Adopted

The code requires disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2022/23 code.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

The changes will be effective from the 1st April 2022 and none are expected to have a material impact on the Council's 2021/22 or 2022/23 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in ***Note 1***, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events (see ***Note 4***). The accounting policies considered and critical judgements made in the annual accounts are:

- **Uncertainty over future funding** - There is a high degree of uncertainty around future levels of funding for local government, which may significantly impact the Council's ability to maintain its property, plant and equipment. The council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a reduction in funding and subsequent required changes to investment and capital strategies. In relation to the impact of the Covid-19 pandemic on the council's income streams and the impact of increased operating costs, there remains uncertainty over the medium term. In particular in relation to the funding from Scottish Government to meet the additional costs arising from Covid-19 recovery and, as a consequence, the potential impact on the council's future budget strategy. The Council continues to monitor and update is Medium Term Strategy which is reported to Council to ensure continued financial sustainability;

- **Public-Private Partnerships (PPP) and similar type contracts** - The Council has entered into PPP and similar type contracts for the provision of educational buildings and waste facilities as detailed in ***Note 33***. For each of these contracts the Council has considered the tests under IFRIC 12 and concluded the following:

  The Council is deemed to control the services provided under the scheme and ownership of schools will pass to the Council at the end of the contract. The educational buildings are therefore all recognised as Property, Plant and Equipment on the Council's Balance Sheet.

  The Council is deemed to control 20% of the services provided under the Design, Build, Finance and Maintain (DBFM) for the Residual Waste Treatment Plant (80% controlled by Edinburgh Council) and is therefore recognised as Property, Plant and Equipment on the Council's Balance Sheet. The Council is not deemed to control the Millerhill Food Waste Treatment Plant and has therefore concluded this is a service concession.

  The Council has therefore recognised assets in relation to PPP and similar type contracts on the council's balance sheet at a net book value of £181.369 million, with a corresponding liability in relation to future payments to be made under the scheme of £95.916 million.

- **Acting as a principal or agent in income and expenditure transactions** – The Council has applied its judgement in determining the recognition of income and expenditure related to government grants where it may be considered either an agent or the principal in receiving and distributing funds. In particular in 2021/22 the Council has applied its judgement in line with its understanding of LASAAC guidance on accounting for funds related to Covid-19 received and distributed in the year. The impact of this interpretation, detailed in ***Note 38*** has resulted in £0.157 million being recognised by the Council as income and subsequent expenditure where the Council is considered to be a principal, with £10.196 million disclosed in but not recognised in the financial statements where the Council is considered to be an agent.

- **Associates** - The Valuation Joint Board is included within the group accounts under the wider definition of an "associate" although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place whereby the Council provides £0.571 million annually, and as such is considered to hold significant influence. Details of the impact on the Group accounts is provided in ***Note 40***.

4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2022 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties	Effect if Actual Results Differ from Assumptions
The valuation of the Council's property, plant and equipment which are subject to revaluation are subject to significant estimation due to a number of factors, including ongoing changes to estimates around the costs of replacing existing assets, the market value fluctuation of comparable assets used for valuation, the current condition and future maintenance costs of assets, changes to regulatory standards and the remaining useful economic lives of the assets. Given the material nature of the Council's assets, there is a high likelihood that changes in these estimates will result in material changes in the valuation of assets on the balance sheet. The total value of the Council's assets at 31 March 2022 is outlined and broken down by asset category at ***note 14***. In particular, additional consideration continues to be given to the effects of the Covid-19 Pandemic on the council's property assets and their associated values. In order to take an informed view and to gauge the position of the wider valuation profession on this matter, consultation has taken place with colleagues from a wide range of Scottish local authorities, private practice surveyors, the Association of Chief Estate Surveyors (ACES) and the Royal Institute of Chartered Surveyors (RICS). **2021/22 revaluations** In 2021/22, revaluations were undertaken for the following assets: 31 March - housing stock, the Council's leisure facilities, library facilities and schools. The housing assets were revalued on a EUV-SH basis and totalled £492.773 million and the schools, leisure and library assets were revalued on a DRC basis and totalled schools £380.760 million, leisure facilities £31.305 million, libraries £6.139 million with a valuation movement of £52.971 million for housing, £19.221 million for schools, £10.696 million for leisure facilities and £1.749 million for library facilities (from previous valuation 13.04% for housing, 5.24% for schools, 53.21 % for leisure facilities, 83.84% for library facilities). The changes in valuation in assets in 2021/22, compared to 2020/21, represent updated information around the assets since the most recent full valuation, in particular the cost of replacing assets based on indices for schools, the changes in adjustments for social rent discounts for housing stock, updating housing market information, and updated information on the indices used to value Leisure Centres and Libraries.	The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £892.631 million. Assets revalued in 2021/22 totalled £779.666 million before revaluation. The impact of a 5% change in valuation of these would be £46.803 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. There would be no impact on the Council's general fund. Given the wide ranging nature of the assets under revaluation, as well as the differing and overlapping estimates involved in the valuations, it is not possible for management to provide an expected range of estimate outcomes going forward. However, given the experience in past years and materiality of the asset values, it is expected that these balances will continue to be subject to change as estimates are updated annually.

Uncertainties	Effect if Actual Results Differ from Assumptions
Ongoing assessment of asset valuation In addition to full valuations of property, plant and equipment on a rolling basis over a five year period, the council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The council's Corporate Estates Manager has determined in his professional opinion that, at 31 March 2022, due to the inflationary impact on the High School indices Primary Schools were subject to early revaluation. The council has also continued to assess the valuation of its asset base subsequent to the financial year end to ensure new information does not indicate a change in valuation at the balance sheet date. Assets are depreciated over useful lives that are dependent on a number of assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.	If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £5.210m for every year that useful lives had to be reduced.

Pensions Liability

Uncertainties	Effect if Actual Results Differ from Assumptions
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied. The actuarial inputs into the pension liability valuation are subject to annual review, and have a significant impact on the potential valuation. Historically it is common for small changes in the discount rate, salary assumption rate and pension rate to have material impacts on the year-end valuations on a year to year basis. We have outlined the potential impact of future changes below. The pension liability at 31 March 2022 following the updated actuarial valuation was £54.160 million, a decrease of £86.870 million from 31 March 2021. This was driven by a 0.70% change in the discount rate and inflation rate. Given the history of significant changes to liability valuations in the past, the ongoing sensitivity to future changes, and the requirement to update assumptions annually, the Council expects future liabilities to continue to change significantly going forward. For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 4%, approximately £26.260 million In practice the actual	The effects of the net pension liability of changes in individual assumptions can be measured. For instance, it is estimated that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. However the assumptions interact in complex ways. During 2021/22 the Council's actuary advised that the net pension's liability had decreased by £54.160 million as a result of estimates being corrected as a result of experience of £57.011 million and £(111.171) million

Uncertainties	Effect if Actual Results Differ from Assumptions
cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). More information on the key assumptions used in the actuarial valuation of the estimates is available in ***note 35*** to the accounts, including information on the key assumptions, risks and sensitivities. An update is also included in this note on the latest development around a number of equalisation adjustments to pension liabilities which have occurred in LGPS and may continue to materially impact the valuation of the Council's liability going forward.	attributable to updating of the assumptions.

Arrears

Uncertainties	Effect if Actual Results Differ from Assumptions
As at 31 March the Council has Council Tax and Non-Domestic Rates debt due of £50.065 million. Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in ***Note 23***, of £40.159 million was appropriate based upon historical assessment of recoverability/review of individual balances and correspondence with third parties at year-end. However, it is recognised that in the current economic climate and taking into account the impact of Covid-19 there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the year-end subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.	If collection rates were to deteriorate then this will result in an increase in the provision required i.e. 1% would require an increase of £0.402 million, 3% an increase of £1.205 million and 5% an increase of £2.008 million.

5. Events after the Reporting Period

The Unaudited Accounts were authorised for issue by the Chief Officer, Corporate Solutions on 29th June 2022. Events taking place after this date are not reflected in the annual financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2021/22

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for pension adjustments	Other Adjustments	Total Adjustments
	£000	*£000*	*£000*	*£000*
Management and Members	0	123	(13)	110
Children's Services, Partnerships & Communities	338	830	46	1,214
Education	16,207	12,371	566	29,144
Adult Health and Social Care	(248)	0	37	(211)
Midlothian Integrated Joint Board	1,165	2,463	104	3,732
Place	8,458	4,287	1,591	14,336
Corporate Solutions	1,930	604	(2,731)	(197)
Housing Revenue Account	(52,138)	593	0	(51,545)
Joint Boards	0	0	0	0
Central Costs	46	0	0	46
Non-Distributable Costs	0	0	(26)	(26)
Net Cost of Services	**(24,242)**	**21,271**	**(426)**	**(3,397)**
Other income and expenditure from the Expenditure and Funding Analysis	(28,238)	3,030	(10)	(25,218)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**(52,480)**	**24,301**	**(436)**	**(28,615)**

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for pension adjustments	Other Adjustments	Total Adjustments
	£000	*£000*	*£000*	*£000*
Management and Members	0	86	19	105
Children's Services, Partnerships & Communities	328	463	26	817
Education	11,365	4,842	1,512	17,719
Adult Health and Social Care	(208)	0	46	(162)
Midlothian Integrated Joint Board	1,066	1,173	415	2,654
Place	8,894	2,434	2,248	13,576
Corporate Solutions	1,669	(183)	(2,435)	(949)
Housing Revenue Account	26,943	397	(1)	27,339
Joint Boards	0	0	0	0
Central Costs	0	0	0	0
Non-Distributable Costs	0	0	11	11
Net Cost of Services	**50,057**	**9,212**	**1,841**	**61,110**
Other income and expenditure from the Expenditure and Funding Analysis	(34,793)	2,352	(9)	(32,450)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**15,264**	**11,564**	**1,832**	**28,660**

Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. minimum revenue provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- **Taxation and non-specific grant income expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs;
- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

Other adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and the amounts payable/receivable to be recognised under statute:

- **For services** – the amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements;
- **For financing and investment income and expenditure** – this is an effective interest adjustment on the Council's Lender Option/Borrower Option (LOBO) debt.

7. Adjustments between the Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Housing Revenue Account (HRA) Balance

The HRA balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Fund

Can be used to defray any expenditure of the Council to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest of loans), subject to the provisions of Schedule 3, Section 22 (1) of the Local Government (Scotland) Act 1975.

Adjustments between Accounting Basis and Funding Basis under Regulations	**General Fund Reserve**	**Housing Revenue Account**	**Capital Fund**	**Total Useable Reserves**	**Total Unusable Reserves**
2021/22	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
• Pensions Costs	(23,625)	(676)	0	(24,301)	24,301
• Financial Instruments	10	0	0	10	(10)
• Short-term Accumulated Absences	426	0	0	426	(426)
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(27,850)	52,138	0	24,288	(24,288)
Total Adjustments to Revenue Resources	**(51,039)**	**51,462**	**0**	**423**	**(423)**
Adjustments between Revenue and Capital Resources					
Net gain or loss on sale of non-current assets	(5,236)	(131)	0	(5,367)	5,367
Statutory provision for the repayment of debt	3,287	5,670	0	8,957	(8,957)
Net revenue expenditure financed from capital under statute (REFFCUS)	(46)	0	0	(46)	46
Capital Expenditure Financed from Revenue Balances	43	25,000	0	25,043	(25,043)
Total Adjustments between Revenue and Capital Resources	**(1,952)**	**30,539**	**0**	**28,587**	**(28,587)**
Adjustments to Capital Resources					
Application of capital grants to finance capital expenditure	24,827	0	0	24,827	(24,827)
Total Adjustments to Capital Resources	**24,827**	**0**	**0**	**24,827**	**(24,827)**
Total Adjustments	**(28,164)**	**82,001**	**0**	**53,837**	**(53,837)**

Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund Reserve	Housing Revenue Account	Capital Fund	Total Useable Reserves	Total Unusable Reserves
2020/21	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
• Pensions Costs	(11,077)	(488)	0	**(11,565)**	11,565
• Financial Instruments	9	0	0	**9**	(9)
• Short-term Accumulated Absences	(1,841)	0	0	**(1,841)**	1,841
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(23,103)	(26,954)	0	**(50,057)**	50,057
Total Adjustments to Revenue Resources	**(36,012)**	**(27,442)**	**0**	**(63,454)**	**63,454**
Adjustments between Revenue and Capital Resources					
Net gain or loss on sale of non-current assets	(11)	(19)	0	**(30)**	30
Statutory provision for the repayment of debt	6,164	5,447	0	**11,611**	(11,610)
Total Adjustments between Revenue and Capital Resources	**6,153**	**5,428**	**0**	**11,581**	**(11,580)**
Adjustments to Capital Resources					
Application of capital grants to finance capital expenditure	22,986	0	0	**22,986**	(22,986)
Total Adjustments to Capital Resources	**22,986**	**0**	**0**	**22,986**	**(22,986)**
Total Adjustments	**(6,873)**	**(22,014)**	**0**	**(28,887)**	**28,888**

8. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2021/22.

	Balance at 1 April 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021	Transfers Out 2021/22	Transfers in 2021/22	Balance at 31 March 2022
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Scheme of Devolved Budget Management carry forwards	(8,580)	8,580	(23,607)	(23,607)	23,607	(18,800)	(18,800)
Business Transformation Programme	(459)	141	(1,250)	(1,568)	460	(228)	(1,336)
Management Policy	(142)	142	(486)	(486)	486	(1,123)	(1,123)
Training Budget	(199)	0	0	(199)	199	0	0
Set aside to balance 2022/23 Budget	0	0	0	0	0	(5,576)	(5,576)
Total Earmarked Reserves	**(9,380)**	**8,863**	**(25,343)**	**(25,860)**	**24,752**	**(25,727)**	**(26,835)**
Non-Earmarked Reserves	(4,048)	236	0	(3,812)	0	(1,785)	(5,597)
Total General Fund Balance	**(13,428)**	**9,099**	**(25,343)**	**(29,672)**	**24,752**	**(27,512)**	**(32,432)**

9. Other Operating Income and Expenditure

2020/21 £000	Other Operating Income and Expenditure	2021/22 £000
30	(Gains)/Losses on disposal of non-current assets	5,367
30	**Total**	**5,367**

10. Financing and Investment Income and Expenditure

2020/21 £000	Financing and Investment Income and Expenditure	2021/22 £000
17,470	Interest payable and similar charges	16,780
2,352	Net interest on the net defined benefit liability (asset)	3,030
(2,021)	Interest receivable and similar income	(1,942)
17,801	**Total**	**17,868**

11. Taxation and Non-Specific Grant Income

2020/21 £000	Taxation and Non-Specific Grant Income	2021/22 £000
49,301	Council Tax Income	50,355
19,517	Non-domestic Rates Income	18,838
166,258	Non-ring-fenced Government Grants	166,694
22,986	Capital Grants and Contributions (***note 12)***	24,827
258,062	**Total**	**260,714**

12. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2021/22.

2020/21 £000	Grant Income	2021/22 £000
	Credited to Taxation and Non-Specific Grant Income and Expenditure:	
6,957	General Capital Grant	6,986
9,044	Affordable Housing Supply Programme	7,708
3,421	Developer Contributions	4,967
2,849	General Capital Grant – Early Years Childcare	689
0	Capital Fund	2,000
0	Scottish Government Grant - Other	2,179
715	Other Capital Grants and Contributions	298
22,986	**Total**	**24,827**
	Credited to Services:	
20,868	Housing Benefit Subsidy	20,047
11,725	Early Years Expansion Grant	13,125
2,428	Unitary Charge Funding	2,691
2,210	Pupil Equity Funding	2,650
1,420	Community Justice Grant	1,562
0	South East Improvement Collaborative Grant	1,079
1,175	Education COVID Support Grant	0
575	LEADER Programme	0
520	Young Persons Guarantee	0
509	Energy Efficient Scotland	626
0	Penicuik Town Hall Improvement	631
3,977	Other Entities and Individuals	3,190
45,407	**Total**	**45,601**

13. Expenditure and Income Analysed By Nature

The Group and Council's expenditure and income, which includes adjustments between the funding and accounting basis, is analysed as follows:

2020/21 £000	Expenditure and Income Analysis	2021/22 £000
	Expenditure	
171,071	Employee Expenses	193,892
201,190	Other Service Expenses	215,472
50,058	Depreciation, amortisation and impairment	(24,288)
16,200	Interest payments	15,639
30	Gain/(Loss) on the disposal of non-current assets	5,366
(4,144)	Share of operating results of associates and joint ventures	(4,300)
434,405	**Total Expenditure**	**401,781**
	Income	
(70,697)	Fees, Charges and Other Service Income	(79,212)
(751)	Interest and Investment Income	(801)
(49,301)	Income from council tax	(50,354)
(309,374)	Government Grants and Contributions	(311,830)
(430,123)	**Total Income**	**(442,197)**
(4,282)	**Total**	**(40,416)**

14. Property, Plant and Equipment

Movements on Balances

Movements in 2021/22	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total	PPP & Similar Contract Assets *
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2021	**414,883**	**481,643**	**17,089**	**37,657**	**8,204**	**32,846**	**1,077**	**993,399**	**173,467**
Additions	14,015	5,586	17	9,204	91	30,028	0	58,941	95
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,249	31,374	(12)	0	301	0	0	41,912	9,405
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	42,722	519	(20)	0	8	0	0	43,229	0
De-recognition – Disposals	(246)	(6,083)	(256)	(1,089)	0	0	0	(7,674)	0
Reclassification of Assets	19,922	13,996	471	0	0	(35,006)	0	(617)	0
Balance at 31 March 2022	**501,545**	**527,035**	**17,289**	**45,772**	**8,604**	**27,868**	**1,077**	**1,129,190**	**182,967**
Accumulated Depreciation and Impairment									
Balance at 1 April 2021	**(17,910)**	**(14,299)**	**0**	**(27,120)**	**(170)**	**0**	**0**	**(59,499)**	**(799)**
Depreciation Charge	(9,339)	(21,901)	0	(2,993)	(68)	0	0	(34,301)	(2,712)
Depreciation written out to the Revaluation Reserve	7,278	16,759	0	0	200	0	0	24,237	1,913
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,756	422	0	0	0	0	0	19,178	0
De-recognition - Disposals	115	864	0	954	0	0	0	1,933	0
Balance at 31 March 2022	**(1,100)**	**(18,155)**	**0**	**(29,159)**	**(38)**	**0**	**0**	**(48,452)**	**(1,598)**
Net Book Value									
At 31 March 2022	**500,445**	**508,880**	**17,289**	**16,613**	**8,566**	**27,868**	**1,077**	**1,080,738**	**181,369**
At 31 March 2021	**396,973**	**467,344**	**17,089**	**10,537**	**8,034**	**32,846**	**1,077**	**963,462**	**172,668**

* PPP and Similar Contract Assets included in 'Land' and 'Buildings' Total

** Movement in infrastructure assets now recoded in note 15

Movements in 2020/21	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total	PPP & Similar Contract Assets *
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2020	**415,856**	**403,917**	**16,431**	**35,789**	**7,753**	**37,779**	**3,012**	**920,537**	**145,787**
Additions	5,887	3,249	76	3,501	114	17,238	0	30,065	356
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(72)	62,915	1,609	0	183	0	(1,849)	62,786	27,324
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,814)	(1,112)	(55)	0	(180)	0	(83)	(18,244)	
De-recognition – Disposals	(370)	(30)	(34)	(1,277)	0	0	0	(1,711)	0
Reclassification of Assets	10,396	12,704	(904)	(356)	334	(22,171)	(3)	0	0
Other Movements in Cost or Valuation	0	0	(34)	0	0	0	0	(34)	0
Balance at 31 March 2021	**414,883**	**481,643**	**17,089**	**37,657**	**8,204**	**32,846**	**1,077**	**993,399**	**173,467**
Accumulated Depreciation and Impairment									
Balance at 1 April 2020	**(8,109)**	**(26,287)**	**0**	**(25,571)**	**(134)**	**0**	**0**	**(60,101)**	**(2,479)**
Depreciation Charge	(10,153)	(16,399)	0	(2,874)	(69)	0	0	(29,495)	(2,560)
Depreciation written out to the Revaluation Reserve	0	26,962	0	0	71	0	0	27,033	4,240
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	1,414	0	0	105	0	0	1,519	
De-recognition - Disposals	352	11	0	1,182	0	0	0	1,545	0
Reclassification of Assets	0	0	0	143	(143)	0	0	0	0
Balance at 31 March 2021	**(17,910)**	**(14,299)**	**0**	**(27,120)**	**(170)**	**0**	**0**	**(59,499)**	**(799)**
Net Book Value									
At 31 March 2021	**396,973**	**467,344**	**17,089**	**10,537**	**8,034**	**32,846**	**1,077**	**933,900**	**172,668**
At 31 March 2020	**407,747**	**377,630**	**16,431**	**10,218**	**7,619**	**37,779**	**3,012**	**891,621**	**143,308**

* PPP and Similar Contract Assets included in ‘Land’ and ‘Buildings’ Total

** Movement in infrastructure assets now recoded in note 15

Depreciation

The following useful lives are used in the calculation of depreciation for the categories of assets, except where the useful like is known to be different from these as a consequence of a Council decision:

- **Council Dwellings** – 40 to 60 years;
- **Buildings** – 10 to 60 years;
- **Vehicles, Plant and Equipment** – 5 to 10 years.

Capital Commitments

As at 31 March 2022, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2022/23 and future years budgeted to cost £41.193 million (31 March 2021 £30.422 million). The main contractual commitments are:

Capital Commitments	**Original Contractual Commitment £000**	**Outstanding at 31 March 22 £000**
Housing Revenue Account Programme		
• Phase 3 New Social Housing: Site 53 Morris Road, Dalkeith	11,442	1,846
• Phase 3 New Social Housing: Site 117 Hopefield Yard	3,898	3,792
• Phase 3 New Social Housing: Site 116 Newmills Road	17,311	11,969
• Phase 3 New Social Housing: Dalhousie Mains (Springfield)	9,715	3,182
• Phase 3 New Social Housing: Shawfair (Dandara)	2,335	2,196
• Phase 3 New Social Housing: Roslin Expansion (Barrat)	8,237	8,237
• Phase 3 New Social Housing: Newbyres Crescent	8,110	8,043
Other Capital Commitments	14,189	1,928
Total Contractual Commitment	**75,237**	**41,193**

Revaluations

Valuations of the above categories of assets are undertaken by independent expert valuers engaged by the Council over a five-year rolling programme by Chartered Surveyors of the council's Estates department, in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

In 2021/22 valuations were undertaken for Primary Schools, Secondary Schools, Leisure facilities, Library facilities and Housing stock. The majority of the asset valuations were based on a depreciated replacement cost (DRC) basis and resulted in a net upwards revaluation of assets of £128.427 million.

In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The Council's valuers have determined in their professional opinion that, at 31 March 2022, due to the inflationary impact on the High School indices Primary Schools were subject to early revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year-end as summarised in ***note 4*** to these financial statements.

15. Infrastructure Assets

The Council's infrastructure assets have been recorded on the Balance Sheet at depreciated historic cost. A useful life of 15 years is applied to these assets and used in the calculation of the annual depreciation charge, based on the Council's assessment of the average useful economic life of these assets, with the exception of where the useful life is known to be different from this amount as a consequence of a Council decision.

On 29 August 2022 the Scottish Government confirmed in Local Government Finance Circular 09/2022 that it has provided a temporary statutory override to the accounting and disclosure requirements related to infrastructure assets in local government financial statements, whilst more permanent updates are developed within the CIPFA/LASAAC Code of Practice for Local Authority Accounting ("the Code"). The allowed changes are applicable for the 2021/22 financial year through to the 31 March 2024 financial year.

The Council has applied both statutory overrides for infrastructure assets:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.

- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

2020/21 £000	**Infrastructure Assets**	**2021/22 £000**
31,185	**Net carrying amount at 1 April**	**29,562**
(3,823)	Depreciation	(3,488)
2,200	Additions	5,301
29,562	**Balance outstanding at 31 March**	**31,375**

16. Heritage Assets

The Council's chains and badges of office are the main heritage assets and have been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer.

2020/21 £000	Heritage Assets Cost or Valuation Movement	2021/22 £000
82	**Net Carrying amount at 1 April**	**324**
(2)	Depreciation	(3)
0	Additions	8
244	Revaluations and Restatements	0
324	**Net Carrying amount at 31 March**	**329**

17. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item Property, Plant and Equipment. The intangible assets include software licences, warranties and internally generated assets.

The movement on Intangible Asset balances during the year is as follows:

2020/21 £000	Intangible Assets Movement in Balances	2021/22 £000
	Balance at start of year:	
2,547	Gross carrying amounts	2,794
(1,928)	Accumulated amortisation	(2,246)
619	**Net carrying amount at 1 April**	**548**
246	Additions - Purchases	127
(317)	Amortisation for the period	(327)
548	**Net carrying amount at 31 March**	**348**
	Comprising:	
2,794	Gross carrying amounts	2,921
(2,246)	Accumulated amortisation	(2,573)
548	**Net carrying amount 31 March**	**348**

18. Long-Term Debtors

2020/21 £000	Long-Term Debtors	2021/22 £000
3,896	Prepayment to PPP Contractor	3,717
47	Pacific Shelf	50
3,943	**Total Long-Term Debtors**	**3,767**

19. Financial Instruments

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

Financial Assets

31 Mar 2021					31 Mar 2022			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	**Financial Assets**	**Category**	£000	£000	£000	*Note*
60,449	14,993	75,442	Short/Long-term Deposits	Amortised Cost	2,032	93,450	95,482	*See Below*
0	21,089	21,089	Debtors	Amortised Cost	0	13,136	13,136	*23*
5,823	1	5,824	Long-term investments	Fair Value through Other Comprehensive income	6,476	0	6,476	*See Below*
66,272	**36,083**	**102,355**	**Total Financial Assets**		**8,508**	**106,586**	**115,094**	
3,943	8,171	12,114	Debtors not defined as financial instruments		0	23,545	23,545	*18 & 23*
70,215	**44,254**	**114,469**	**Total**		**8,508**	**130,131**	**138,639**	

The Short-term and Long-term deposits on the balance sheet comprises:

31 Mar 2021				31 Mar 2022		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	**Deposits**	£000	£000	£000
60,449	0	60,449	Other Local Authorities	2,032	43,414	45,446
0	14,993	14,993	Commercial Banks/Building Societies	0	50,036	50,036
60,449	**14,993**	**75,442**	**Total Deposits**	**2,032**	**93,450**	**95,482**

Financial Liabilities

31 Mar 21					31 Mar 22			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	**Financial Liabilities**	**Category**	£000	£000	£000	*Note*
273,893	3,700	277,593	Borrowings	Amortised Cost	322,365	3,865	326,230	*See below*
82,729	2,714	85,443	PPP Liability	Amortised Cost	79,817	2,912	82,729	*33*
13,186	574	13,760	PPP Donated Asset Account Liability	Amortised Cost	12,614	573	13,187	*33*
0	14,144	14,144	Creditors	Amortised Cost	0	8,603	8,603	*25*
369,808	**21,132**	**390,940**	**Total Financial Liabilities**		**414,796**	**15,953**	**430,749**	
0	30,131	30,131	Creditors not defined as financial instruments		0	44,893	44,893	*25*
369,808	**51,263**	**421,071**	**Total**		**414,796**	**60,846**	**475,642**	

The Council's borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long-term liability, repayable after twelve months or longer, or a current liability if it is repayable within twelve months. The external borrowing as shown in the Balance Sheet comprises:

31 Mar 2021				31 Mar 2022		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	**External Borrowings**	£000	£000	£000
235,329	2,478	237,807	PWLB Loans	284,633	2,662	287,295
20,570	286	20,856	Lender Option/Borrower Option (LOBO) Loans	20,559	284	20,843
17,994	936	18,930	Loans from commercial lenders and other local authorities	17,173	919	18,092
273,893	**3,700**	**277,593**	**Total Borrowings**	**322,365**	**3,865**	**326,230**

Investments Designated at Fair Value through Other Comprehensive Income

Fair value of equity instruments designated at Fair Value through Other Comprehensive Income include the following:

31 Mar 2021 £000	Non-Current Assets (Long-term)	Input Level in Fair Value Hierarchy *(see note 1 viii)*	31 Mar 2022 £000
5,499	Equity Shareholding in Lothian Buses	Level 2	4,642
325	Subordinated Debt Subscription in Newbattle DBFMCo	Level 3	324
0	Midlothian Energy Limited Shareholding	Level 3	1,510
5,824	**Total**		**6,476**

Lothian Buses Plc

Midlothian Council holds a 5.5% shareholding in Lothian Buses plc, a company incorporated in January 1986 under the terms of the Transport Act 1985 to operate buses in the City of Edinburgh and its surrounding area.

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of equity attributable to equity holders, this in line with the published results for the year ended 31 December 2021. The IAS 19 Pension Asset/Liability has now been removed from calculations due to its volatility, as demonstrated in the on-year movement in the transfer to/from reserves figure in the table below. ***Note 35*** provides more detail on the potential guarantee liability associated with investment.

Year to 31 Dec 20 £000		Year to 31 Dec 21 £000
	Profit/(Loss):	
(11,844)	Profit/(Loss) before taxation	(7,158)
(219)	Taxation	(3,398)
(12,063)	**Profit/(Loss) after Tax**	**(10,556)**
	Other Relevant Financial Information:	
131,431	Revenue	140,631
0	Ordinary Dividend	0
(58,620)	Transfer to/(from) reserves	59,574
100,535	Equity attributable to equity holders (excluding IAS 19 Pension Asset/Liability)	84,862

Newbattle DBFMco Ltd

In 2017/18, the Council subscribed £0.333 million of subordinated debt in Newbattle DBFMco Limited, a company set up specifically to deliver the Council's Schools Newbattle Community Campus project.

Whilst the investment is sellable in the secondary market, the valuation basis for the Council's shareholding (nominal value of loan stock £0.333 million) is calculated based on the subscription value as there is no equivalent market data to estimate resale value.

The principal on this investment will be repaid fully over the 25-year project life. Interest will be paid biannually at 10.5% coupon based on the average principal outstanding over the relevant 6-month period.

Other entities and individuals includes an estimated provision for impairment. Individual balances are considered before a collective impairment for all remaining debtors based on their age profile. Impairment will apply to all outstanding debt at the balance sheet date for council tax, rents and all debts that are over six months past their payment date for sundry debtors.

Midlothian Energy Ltd

In 2021/22, the Council entered into a 50:50 joint venture with Vattenfall Heat UK to create Midlothian Energy Limited, a company set up specifically to generate, distribute and supply energy within Midlothian.

The carrying value of the Council investment in Midlothian Energy Limited represents the funds invested in 2022. The published results for Midlothian energy Limited for the year ended 31 December 2021 are summarised below.

Year to 31 Dec 20 £000		Year to 31 Dec 21 £000
	Profit/(Loss):	
-	Profit/(Loss) before taxation	(1,787)
-	Taxation	(0)
-	**Profit/(Loss) after Tax**	**(1,787)**
	Other Relevant Financial Information:	
-	Equity attributable to equity holders	(1,787)

Income, Expenses, Gains and Losses

2020/21	2020/21		2021/22	2021/22
Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure		Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
£000	£000		£000	£000
		Net gains/losses on:		
(1,537)	0	Investments in equity instruments designated at fair value through other comprehensive income	(857)	0
(1,537)	**0**	**Total net gains/losses**	**(857)**	**0**
		Interest Revenue:		
0	1,270	Financial assets measured at amortised cost	0	1,141
0	35	Other financial assets measured at fair value through other comprehensive income	0	0
0	**1,305**	**Total Interest Revenue**		**1,141**
0	**9,512**	**Interest Expense**		**9,452**
		Fee Expense:		
0	**98**	Financial assets or financial liabilities that are not at fair value through profit and loss		**108**
0	**98**	**Total Fee Expense**		**108**

Fair Values of Assets and Liabilities

Except for the financial assets carried at fair value through other comprehensive income, all other financial liabilities and financial assets held by the Council are carried in the Balance Sheet at amortised cost. The fair values calculated for these instruments are as follows:

31 Mar 21			31 Mar 22	
Carrying Amount	Fair Value (New Loan Rate)		Carrying Amount	Fair Value (New Loan Rate)
£000	£000	**Financial Liabilities**	£000	£000
237,807	289,998	PWLB Loans (Level 2)	287,295	299,145
20,856	32,553	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,843	29,781
18,930	20,619	Loans from commercial lenders and other local authorities (Level 2)	18,092	18,253
14,144	14,144	Creditors	8,603	8,603
85,443	85,443	PPP Finance Lease Liability	82,729	82,729
13,760	13,760	PPP Donated Asset Account Liability	13,187	13,187
390,940	**456,517**	**Total Financial Liabilities**	**430,749**	**451,698**

The fair value for borrowings have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value of borrowing is greater than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the prevailing rates at balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above market rates.

31 Mar 21			31 Mar 22	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	Financial Assets	£000	£000
75,442	76,710	Short/Long-term Deposits	95,482	95,483
21,089	21,089	Debtors	13,136	13,136
96,531	**97,799**	**Total Financial Assets**	**108,618**	**108,619**

The fair value of deposits is higher than the carrying amount because the Council's portfolio of deposits includes a number of fixed rate deposits where the interest rate receivable is higher than the prevailing rates at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2022) arising from a commitment to receive interest from deposits above current market rates.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	Financial Liabilities
- The valuation of fixed term deposits (maturity deposits) is made by comparison of the fixed term deposit with a comparable deposit with the same/similar lender for the remaining period of the deposit.	- No early repayment is recognised.
- The fair value of receivables is taken to be the invoiced or billed amount.	- Estimated ranges of interest rates at 31 March 2022 for loans payable based on new lending rates for equivalent loans at that date.
	- The fair value of payables is taken to be the invoiced or billed amount.

20. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks including:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Market risk** – the possibility that financial loss might arise for the Council as a result of the changes in such measures as interest rates and stock market movements.

The Council has fully adopted CIPFA's Code of Treasury Management in the Public Services Code of Practice and set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Council's Treasury Management Strategy, which is set annually and is monitored throughout the year. The strategy sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These Counterparties are chosen, by officers, using credit data supplied by the Council's treasury advisers (based on data from the three main credit rating agencies, overlaid by:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

It is the policy of the Council to place deposits only with a limited number of banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits to £15 million per institution, other than for UK Nationalised and Part-Nationalised institutions where the maximum is extended to £30 million. No credit limits were exceeded during the financial year.

The expected credit loss for the Council's financial assets held at amortised cost has been calculated to be £0.007 million (2020/21 £0.003 million). The Council deems this immaterial and therefore has not included any impact of this with the Comprehensive Income and Expenditure Statement (CIES).

The expected credit loss for the Council's financial assets held at FVOCI is expected to be zero, calculated on the following basis:

- **Lothian Buses Shareholding** – Excluding 2020 and 2021, there has been no default on the dividend payable to the Council over the period the Council has held this investment;
- **Subordinated Debt Investment in Newbattle DBFM Co SPV** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis;
- **Midlothian Energy Ltd** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance. The Council will continue to review the performance of the company on an annual basis.

An age analysis of cash and cash equivalents and short-term deposits is shown in the table below:

2020/21 £000	Financial Assets	2021/22 £000
53,182	Less than 3 months	109,976
14,993	3 to 6 months	14,994
0	6 months to 1 year	28,242
60,449	More than 1 year	2,032
128,624	**Total Financial Assets**	**155,244**

Liquidity Risk

The Council manages its liquidity position through the approval of treasury investment strategy reports and through a comprehensive cash flow management system as required by CIPFA Code of Practice. This seeks to ensure that cash is available as needed.

If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to that loan maturities are spread across financial years to mitigate refinancing risk, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

2020/21 £000	Financial Liabilities	2021/22 £000
3,700	Less than 1 year	3,865
1,497	1 to 2 years	840
3,687	2 to 5 years	3,587
24,098	5 to 10 years	33,926
53,572	10 to 20 years	43,612
13,456	20 to 30 years	12,794
95,534	30 to 40 years	96,558
77,049	40 to 50 years	127,049
5,000	Greater than 50 years	5,000
277,593	**Total Financial Liabilities**	**327,231**

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to interest rate risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

The current interest rate risk for the Council is summarised below:

- **Borrowings at variable rates** - the interest charged to the surplus or deficit on the provision of services will rise;

- **Borrowings at fixed rates** – the fair value of the liabilities will fall;
- **Deposits at variable rates** - the interest income credited to the surplus or deficit on the provision of services will rise;
- **Deposits at fixed rates** - the fair value of the assets will fall.

Borrowings are not carried at fair value, so normal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services of other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and deposits will be posted to the surplus or deficit on the provision of services and affect the General Fund balance.

The Council has a number of strategies for managing interest rate risk. The Council's policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

2020/21 £000		2021/22 £000
	Impact on Taxpayer and Rent Payers:	
14	Increase on interest payable on variable rate borrowings	0
(1,331)	Increase on interest receivable on variable rate instruments	(1,223)
(1,317)	**Impact on Surplus or Deficit on the Provision of Services**	**(1,223)**
	Other presentational Changes:	
(58,853)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(60,293)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

There is no price risk associated with the Council's available for sale investments specified in ***Note 18*** of the Financial Statements.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

21. Assets Held for Sale

2020/21 £000	Assets Held For Sale	2021/22 £000
1,371	**Balance outstanding at 1 April**	**1,254**
0	Assets newly classified as held for sale	617
33	Revaluations and Restatements	(138)
0	Additions	0
(150)	Assets Sold	(253)
1,254	**Balance outstanding at 31 March**	**1,480**

22. Inventories

2020/21 £000	Inventories	2021/22 £000
744	**Balance outstanding at 1 April**	**938**
612	Purchases	807
(418)	Recognised as an expense in the year	(762)
938	**Balance outstanding at 31 March**	**983**

23. Debtors

2020/21 £000	Short-Term Debtors	2021/22 £000
5,321	Central Government Bodies	7,276
26	Other Public Sector Bodies	6,186
	Other Entities and Individuals (net of Impairment for bad debts)*:	
5,577	Council Tax and Non-Domestic Rates	9,906
2,357	Rents	2,334
15,979	Other trade debtors	10,979
29,260	**Total Short-Term Debtors**	**36,681**

* For impairment, significant individual balances are considered before a collective impairment of all remaining debtors based on their age profile. Impairment is applied to all outstanding debt at the balance sheet date for Council Tax and Non-Domestic Rates of £40.159 million (2020/21 £37.145 million) and Rents of £2.440 million (2020/21 £1.780 million). For sundry debtors all debts that are over six months past their payment date impairment will be applied of £2.635 million (2020/21 £1.628 million).

24. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

2020/21 £000	Cash and Cash Equivalents	2021/22 £000
200	Cash held by the Council	329
56,287	Short-term Deposits	61,397
(3,305)	Bank Current Accounts	(1,965)
53,182	**Total Cash and Cash Equivalents**	**59,761**

25. Creditors

2020/21 £000	Creditors	2021/22 £000
868	Central Government Bodies	974
8,421	Other Public Sector Bodies	13,113
34,986	Other Entities and Individuals	39,409
44,275	**Creditors**	**53,496**

26. Provisions

	Uninsured Losses (1)	Total
	£000	**£000**
Balance at 1 April 2021	**723**	**723**
New provisions made during the year	782	782
Increase/(decrease) to existing insurance provisions during the year	46	46
Amounts used during the year	-320	-320
Balance at 31 March 2022	**1,231**	**1,231**

Notes:

(1) This relates to potential uninsured losses arising from insurance claims made against the Council.

27. Grants Received in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor. The balances at year-end are as follows:

2020/21 £000	Grants Received in Advance (Capital Grants)		2021/22 £000
33,927	Balance at 1 April		38,663
	New capital grants received in advance, conditions of use not met:		
4,300	• Scottish Government Early Years Grant	0	
311	• Scottish Government Town Centre Capital Fund	653	
5,617	• Section 75 contributions from private developers	10,135	
36	• Other Grants Received in Advance	765	
10,264			**11,553**
(5,528)	Amounts realised to CIES, conditions of use met		(6,784)
38,663	**Balance at 31 March**		**43,432**

28. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

29. Unusable Reserves

2020/21 £000	Unusable Reserves	2021/22 £000
(224,283)	Revaluation Reserve	(272,696)
(5,149)	Financial Instruments Revaluation Reserve	(4,292)
(352,279)	Capital Adjustment Account	(447,420)
1,829	Financial Instruments Adjustment Account	1,660
141,030	Pensions Reserve	54,160
8,986	Accumulated Absences Account	8,560
(429,866)	**Total Unusable Reserves**	**(660,028)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1st April 2007, the date the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2020/21 £000	Revaluation Reserve		2021/22 £000
(142,443)	Balance at 1 April		**(224,283)**
(90,138)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		(67,038)
0	Difference between fair value depreciation and historical cost depreciation		13,237
	Amounts written off to the Capital Adjustment Account		
8,123	Difference between fair value depreciation and historical cost depreciation	0	
175	Accumulated (gains)/losses on assets sold or scrapped	5,388	
8,298	**Amount written off to the Capital Adjustment Account**		**5,388**
(224,283)	**Balance at 31 March**		**(272,696)**

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that at measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards and the gains are lost;
- Disposed of and the gains are realised.

2020/21 £000	Financial Instruments Revaluation Reserve	2021/22 £000
(6,686)	Balance at 1 April	(5,149)
1,537	(Upward)/Downward Revaluation of Investments	857
(5,149)	**Balance at 31 March**	**(4,292)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs such as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent expenditure.

The account contains revaluation gains accumulated on property, plant and equipment before the 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides further details of transactions posted to the account, apart from those involving the revaluation reserve.

2020/21 £000	Capital Adjustment Account		2021/22 £000
(359,447)	Balance at 1 April		(352,279)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
33,321	• Charges for depreciation and impairment on non-current assets	24,556	
16,767	• Revaluation movements on property, plant and equipment	(61,390)	
317	• Amortisation of intangible assets	327	
0	• Revenue expenditure funded from capital under statute	46	
317	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	5,993	
50,722			(30,468)
(8,297)	Adjusting amounts written out of the Revaluation Reserve		(5,388)
42,425	**Net written out amount of the cost of non-current assets consumed in the year**		**(35,856)**
	Capital financing applied in the year:		
(287)	• Use of capital receipts to finance new capital expenditure	(626)	
(21,780)	• Capital grants and contributions credited to the CIES that have been applied to capital financing	(22,221)	
(11,611)	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(8,957)	
	• Capital Expenditure Charged against the General Fund and HRA Balances	(25,043)	
(1,206)	• Use of Capital Fund Reserve to Finance Capital Expenditure	(1,979)	
(34,884)			**(58,826)**
(373)	Other movements		(459)
(352,279)	**Balance at 31 March**		**(447,420)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2020/21 £000	Financial Instruments Adjustment Account	2021/22 £000
1,997	Balance at 1 April	1,829
(159)	Premiums incurred in the year	(159)
(9)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(10)
1,829	**Balance at 31 March**	**1,660**

Pensions Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2020/21 £000	Pensions Reserve	2021/22 £000
97,719	Balance at 1 April	141,030
31,746	Re-measurements of the net defined benefit liability/(asset)	(111,171)
27,807	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	41,458
(16,242)	Employers' pension contributions	(17,157)
141,030	**Balance at 31 March**	**54,160**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2020/21 £000	Accumulated Absences Account		2021/22 £000
7,145	**Balance at 1 April**		**8,986**
(7,145)	Settlement or cancellation of accrual made at the end of the preceding year	(8,986)	
8,986	Amounts accrued at the end of the current year	8,560	
1,841	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(426)
8,986	**Balance at 31 March**		**8,560**

30. External Audit Costs

The estimated fee payable to Audit Scotland in respect of the work carried out for audit services is £0.243 million (2020/21 £0.266 million). This includes external audit services carried out by the appointed auditor, Ernst and Young LLP. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

31. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits).

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in the Remuneration Report.

Members' Register of Interests can be viewed on the Council's website. A review of these interests has been conducted. Related party interests for which transactions exist in 2021/22 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.693 million;
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.555 million.

In addition to the above many members have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship but with which the Council has a financial or influential relationship.

Officers

There are no related party transactions with officers of the Council.

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.571 million (2020/21 £0.567 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2022.

The Council has a number of joint working arrangements with other local authorities. In 2021/22 payments of £1.620 million were made to other local authorities and income of £0.585 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in

2021/22 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund, £1.524 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £50.598 million to the Midlothian Integration Joint Board in 2021/22. These resources were allocated to the Council for the provision of Adult Social Care services. NHS Lothian also delegated financial resources to the Board. The Board provides the strategic direction in relation to the delivery of Health and Adult Social Care Services in Midlothian. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care. As at 31 March 2022 the Council held £11.613 million on behalf of the Board.

32. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance them.

2020/21 £000	Capital Expenditure and Capital Financing	2021/22 £000
392,153	Opening Capital Financing Requirement	389,375
	Capital Investment:	
32,231	Property, Plant and Equipment	64,241
0	Assets Held for Sale	8
246	Intangible Assets	127
0	Revenue Expenditure funded by Capital Under Statute	46
356	Public, Private Partnership (PPP)	0
350	Long-term Investments	0
33,183	**Total Capital Investment**	**64,422**
	Sources of Finance:	
0	Capital Receipts	(31)
(1,206)	Capital Fund Applied	(2,000)
(22,986)	Government Grants and Other Contributions	(22,798)
0	CFCR	(25,048)
(11,769)	Loans fund and PPP Finance lease repayments	(9,416)
(35,961)	**Total Sources of Finance**	**(59,293)**
(2,778)	**Increase/(decrease) in Capital Financing Requirement**	**5,129**
389,375	**Closing Capital Financing Requirement**	**394,504**

33. Public Private Partnership (PPP) and Similar Contracts

The Council has entered into five such contracts:

Dalkeith Schools Campus

This is a 30-year PPP contract with Dalkeith SPV Ltd for the provision and facilities management of the Campus. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance - free life of five years. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with one contract months' notice.

Midlothian Schools Ltd

This is a PPP contract for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a usable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with six months' notice.

Newbattle Community Campus

This is a 25-year Not for Profit Distributing Model (NPDM) contract with hubCo for the provision and lifecycle maintenance of the Campus. The facility opened in the financial year 2018/19 on 25th May 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with variable notice periods as defined in the contract.

Food Waste Treatment Plant, Millerhill

This is a 20- year Design, Build, Finance and Maintain (DBFM) contract which was jointly procured between Midlothian and the City of Edinburgh Council. At the end of the concession period in 2036 the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying the market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

Residual Waste Treatment Plant, Millerhill

This is a 25- year DBFM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At 1 April 2020 the contract was in the commissioning phase, with full service commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

Property, Plant & Equipment

The assets used to provide the services at the Dalkeith Schools Community Campus, the Primary Schools, the Newbattle Community Campus and the Millerhill Residual Waste Plant are recognised in the Council's Balance Sheet under the Property, Plant and Equipment category in ***Note 14***.

Payments

The council makes an agreed payment each year that is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed.

There is also a donated asset account associated with the financing of the Millerhill Residual Waste asset. The recognition of donated asset income is on a flat line basis over the 25 years of the contract.

Payments remaining to be made under these contracts at 31 March 2022 are as follows:

	Liability	Interest	Service Charge	Total
Dalkeith Schools Campus	**£000**	**£000**	**£000**	**£000**
Within 1 Year	1,009	1,918	2,155	5,082
Within 2 to 5 Years	5,110	6,597	9,174	20,881
Within 6 to 10 Years	9,716	4,918	12,818	27,452
Within 11 to 15 Years	3,964	522	4,266	8,752
Total Remaining Contract	**19,799**	**13,955**	**28,413**	**62,167**

	Liability	Interest	Service Charge	Total
Midlothian Primary Schools	**£000**	**£000**	**£000**	**£000**
Within 1 Year	997	1,972	2,143	5,112
Within 2 to 5 Years	4,768	7,106	9,122	20,996
Within 6 to 10 Years	8,197	6,645	12,746	27,588
Within 11 to 15 Years	11,655	3,187	14,421	29,263
Within 16 to 20 Years	1,419	103	1,595	3,117
Total Remaining Contract	**27,036**	**19,013**	**40,027**	**86,076**

	Liability	Interest	Service Charge	Total
Newbattle Community Campus	**£000**	**£000**	**£000**	**£000**
Within 1 Year	849	1,561	129	2,539
Within 2 to 5 Years	3,846	5,793	550	10,189
Within 6 to 10 Years	6,010	6,040	768	12,818
Within 11 to 15 Years	7,691	4,359	868	12,918
Within 16 to 20 Years	9,842	2,207	984	13,033
Within 21 to 25 Years	2,630	136	243	3,009
Total Remaining Contract	**30,868**	**20,096**	**3,542**	**54,506**

	Donated Asset	Liability	Interest	Service Charge	Total
Millerhill Residual Waste	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 Year	573	57	944	1,060	2,634
Within 2 to 5 Years	2,293	214	3,676	4,597	10,780
Within 6 to 10 Years	2,867	343	4,367	6,490	14,067
Within 11 to 15 Years	2,867	910	3,835	7,194	14,806
Within 16 to 20 Years	2,867	1,988	2,585	8,200	15,640
Within 21 to 25 Years	1,720	1,512	384	3,738	7,354
Total Remaining Contract	**13,187**	**5,024**	**15,791**	**31,279**	**65,281**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractors for capital expenditure incurred is as follows:

2020/21				2021/22		
Liability £000	Donated Asset £000	Total £000	Liabilities	Liability £000	Donated Asset £000	Total £000
94,550	15,230	109,780	Balance Outstanding at 1 April	85,443	13,760	99,203
(10,247)	0	(10,247)	Payments during the year	(2,714)	0	(2,714)
1,140	(1,470)	(330)	Other Movements	0	(573)	(573)
85,444	**13,760**	**99,203**	**Balance at 31 March**	**82,729**	**13,187**	**95,916**

2020/21 £000	Included in the Balance Sheet	2021/22 £000
3,288	Current (Short-term Creditors)	3,485
95,915	Non-Current (Other Long-term Liability)	92,431
99,203	**Balance at 31 March**	**95,916**

34. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of this Scottish Teachers Superannuation scheme, administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021/22 the Council paid £10.439 million (2020/21 £9.936 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 23% for 2021/22 (2020/21 23%).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on defined benefit basis (detailed in ***note 35***).

The Council is not liable to the scheme for any other entities' obligations under the plan.

35. Defined Benefit Pension Schemes

As part of the terms and conditions of employment and its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension (Scotland) Scheme. Employees other than teachers are eligible to join this scheme. The scheme is administered by City of Edinburgh Council through Lothian Pension Fund. This is a funded defined benefit final salary scheme, meaning the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with the investment assets.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, and structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions Relating to Post-Employment Benefits

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year.

2020/21 £000	**Comprehensive Income and Expenditure Statement (CIES)**	**2021/22 £000**
	Cost of services:	
	Service Cost Comprising:	
25,383	Current service cost	38,251
72	Past service cost (including curtailments)	177
	Financing and Investment Income and Expenditure:	
2,352	Net interest expense	3,030
27,807	**Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**41,458**
	Other Post Employment Benefit charged to the Other Comprehensive Income & Expenditure Statement:	
	Re-measurement of the Net Defined Benefit Liability Comprising:	
(74,517)	Return on plan assets	(53,864)
113,149	Actuarial (gains)/losses arising on changes in financial and demographic assumptions	(58,077)
(6,886)	Other	770
31,746	**Total post-employment benefits charged to the Other Comprehensive Income & Expenditure Statement**	**(111,171)**
59,553	**Total post-employment benefits charged to the CIES**	**(69,713)**

2020/21 £000	**Movement in Reserves Statement**	**2021/22 £000**
(59,553)	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(41,458)
16,242	Employers Contributions payable to the scheme	17,157
(43,311)	**Total Charged to the Movement in Reserves**	**(24,301)**

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2020/21 £000	**Pensions Assets and Liabilities Recognised in the Balance Sheet**	**2021/22 £000**
(747,208)	Present value of the defined benefit obligation	(731,499)
606,178	Fair value of Plan Assets	677,339
(141,030)	**Net liability arising from defined benefit obligation**	**(54,160)**

2020/21 £000	Reconciliation of the present value of the scheme liabilities (defined benefit obligation	2021/22 £000
625,441	**Opening Balance at 1 April**	**747,208**
25,383	Current service cost	38,251
14,524	Interest Cost	15,196
4,112	Contributions by Scheme Participants	4,358
	Re-measurement (gains)/losses	
113,149	- Changes in financial and demographic assumptions	(58,077)
(18,905)	- Other	770
72	Past service cost (including curtailments)	177
(770)	Estimated Unfunded Benefits Paid	(716)
(15,798)	Estimated Benefits Paid	(15,668)
747,208	**Closing Balance at 31 March**	**731,499**

2020/21 £000	Reconciliation of the movements in the fair value of scheme assets	2021/22 £000
527,722	**Opening fair value of scheme assets**	**606,178**
12,172	Interest Income	12,166
	Re-measurement gains/(losses):	
74,517	- Return on assets excluding amounts included in net interest	53,864
(12,019)	- Other	0
15,472	Contributions from Employer	16,441
4,112	Contributions from employees into the scheme	4,358
(15,798)	Benefits Paid	(15,668)
770	Contributions in respect of Unfunded Benefits	716
(770)	Unfunded Benefits Paid	(716)
606,178	**Closing Balance at 31 March**	**677,339**

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure of the Joint Boards of which they are constituent members. At 31 March 2022 the liability for Pensions sits at £1.682 million (2020/21 £8.125 million). As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries and estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2022.

The significant assumptions used by the actuary have been:

2020/21	Mortality Assumptions	2021/22
	Longevity at 65 for Current Pensioners:	
20.5	- Men (Years)	20.3
23.3	- Women (Years)	23.1
	Longevity at 65 for Future Pensioners:	
21.9	- Men (Years)	21.6
25.2	- Women (Years)	25.0
	Financial Assumptions	
2.85%	Rate of Inflation/increase in pensions	3.20%
3.35%	Rate of increase in salaries	3.70%
2.0%	Rate for discounting scheme liabilities	2.70%
16.4%	Actual Rate of Investment Returns	10.8%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from the previous period.

Pension Sensitivities at 31 March 22	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.1% decrease Real Discount Rate	2%	14,611
I year increase in member life expectancy	4%	29,260
0.1% increase in the Salary Increase Rate	0%	1,448
0.1 % increase in the Pension Increase Rate (CPI)	2%	13,050

Local Government Pension Schemes Comprised

2020/21 Fair Value of Scheme Assets	2020/21 Percentage of Total Assets		Quoted prices in active markets	2021/22 Quoted prices not in active markets	Total Fair Value of Scheme Assets	2021/22 Percentage of Total Assets
£000		**Pension Fund Assets**	**£000**	**£000**	**£000**	
62,016	10%	Cash and Cash Equivalents	76,112	0	76,112	11%
		Equity Instruments:				
78,822	13%	Consumer	83,328	0	83,328	12%
87,406	14%	Manufacturing	89,643	0	89,643	13%
30,882	5%	Energy and Utilities	37,393	0	37,393	6%
37,154	6%	Financial Institutions	39,038	0	39,038	6%
37,875	6%	Health and Care	46,919	0	46,919	7%
28,726	5%	Information Technology	30,778	0	30,778	5%
48,128	8%	Other	50,498	0	50,498	7%
348,993	**57%**	**Sub-total Equity**	**377,597**	**0**	**377,597**	**56%**
		Bonds:				
20,677	4%	Corporate	0	0	0	0
48,633	8%	Government	59,151	0	59,151	9%
0	0%	Other	12,704	0	12,704	2%
69,310	**12%**	**Sub-total bonds**	**71,855**	**0**	**71,855**	**11%**
		Property:				
31,613	5%	UK	6,306	29,501	35,807	5%
71	0%	Overseas	0	191	191	0%
31,684	**5%**	**Sub-total Property**	**6,306**	**29,692**	**35,998**	**5%**
		Investment Trusts and Unit Trusts:				
8,566	1%	Equities	11,644	523	12,167	2%
12,476	2%	Bonds	12,729	18,989	31,718	5%
69,389	12%	Infrastructure	0	68,675	68,675	10%
90,431	**15%**	**Sub-total Trusts**	**24,373**	**88,187**	**112,560**	**17%**
3,712	1%	Private Equity (all)	71	3,114	3,185	0%
32	0%	Derivatives: Forward Foreign Exchange Contracts	32	0	32	0%
606,178	**100%**	**Total Assets**	**556,346**	**120,993**	**677,339**	**100%**

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The next triennial valuation will be performed at 31 March 2023 with results being published by 31 March 2024 and will impact contribution rates from 1 April 2024. The Council anticipates to pay £16.330 million in contributions to the scheme to 31 March 2023.

The weighted average duration of the defined benefit obligation scheme members is 20 years, 2021/22 (20 years 2020/21).

36. Contingent Liabilities

The assimilation of the stand-alone Lothian Buses Pension Fund into the general Lothian Pension Fund required all four Council shareholders in Lothian Buses Limited to enter into a deed of guarantee and act as guarantors for Lothian Buses Limited contributions to the general fund. Previously, whilst there was no formal guarantee in place for the stand alone Lothian Buses Fund, in the event of a default then the City of Edinburgh Council (as administering authority) would have looked to the four Council shareholders to make good any liability.

37. Contingent Assets

The Council has sought reimbursement from HMRC of VAT accounted for on sport and leisure charges on the basis they should be treated as non-business. The claims, which date back to 1981 proceeded to a First Tier Tax Tribunal (FTT) on 23-26 September 2019 which considered three lead claims covering Northern Ireland (Mid Ulster), England and Wales (Chelmsford) and Scotland (Midlothian). The decision of the tribunal for Midlothian was released on 17 October 2020 and found in favour of Midlothian in respect of the question of the provision of leisure services being under a special legal regime. As such they could be treated as exempt or non-business which would mean VAT would not be accounted for on the charges. However the FTT did not consider the distortion of competition issue for Midlothian, with both parties content that this would then be determined after the principal issues were considered by the FTT.

The expectation was that the question of distortion of competition would need to return to FTT for consideration if additional evidence was required or proceed straight to an Upper Tier Tribunal for consideration. The current position with these claims is that HMRC have advised, on a without prejudice basis, that they do not wish to appeal the FTT decision unless there are any objections raised by commercial operators in Scotland about the preferential VAT treatment which is to be afforded to local authorities as a consequence of the decision.

In accordance with the accounting code of practice, which adopts International Accounting Standard (IAS) 37- Provisions, Contingent Liabilities and Contingent Assets, with no amendment, the claims are at this time considered to represent a contingent asset in that the flow of economic benefits is only probable. IAS 37 is clear that only where the realisation of income is virtually certain that the related asset is not a contingent asset and its recognition is appropriate.

38. Agency Covid-19 Grants

Business Support

During the financial year, the Council undertook the administration of several Covid-19 related business grants on behalf of the Scottish Government, on an agency basis, with those associated with non-domestic rates administered on the Council's behalf by The City of Edinburgh Council.

During the year grant payments administered by The City of Edinburgh Council totalled £4.843 million (2020/21 £19.3 million) with those paid directly by the Council totalling £0.588 million (2020/21 £0.853 million). These Grants were funded by agency income received from the Scottish Government.

Other Support

The Council also directly administered payments on behalf of the Scottish Government totalling £4.765 million including one-off payments to staff, members of the public and contracted organisations. This expenditure was funded by agency income received from the Scottish Government.

39. Trusts, Bequest, Common Good and Community Funds

There are some 15 active trusts, bequest and community funds of varying size managed by the Council, each of which has specific objectives and conditions. None of the funds are currently registered charities.

The main funds are:

2020/21 £000	Trusts, Bequests, Common Good and Community Funds	2021/22 £000
7	Dalkeith Common Good Fund	8
2	Penicuik Common Good Fund	2
51	Community Mining Funds	51
23	Other Funds	24
83	**Total**	**85**

A total £0.038 million (2020/21 £0.038 million) has been committed to be spent from these funds.

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds that are held in separate bank accounts.

40. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2021/22 (The Code) requires Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property, Plant and Equipment

The basis of valuation across the combining entities is in accordance with the Code and there are no material inconsistencies with the policies adopted by Midlothian Council. The Integration Joint Board has no Property, Plant or Equipment.

Depreciation

The basis of valuation across the combining entities is in accordance with the Code and there are no material inconsistences with the policies adopted by Midlothian Council.

Goodwill

The Council has not paid any consideration for its interest and thus no goodwill is involved in the acquisition.

Basis of Consolidation

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the entities results and its share of other gains and losses (recognised in the Group CIES). All entities have the same reporting date as the Council.

Restrictions on the Transfer of Funds

The Council's share of the reserves of its associate and joint ventures is unusable i.e. it cannot be used to fund the Council's services to reduce taxation. Further details for each entity are as follows:

	Percentage Share in Entity	Share of Assets	Share of Liabilities	Net Share of Assets	Share of Revenues	Share of (Profit)/Loss
Subsidiaries:		**£000**	**£000**	**£000**	**£000**	**£000**
Trusts, Bequests, Common Good and Community Funds	100%	85	85	0	1	1
Pacific Shelf 826 Ltd	100%	0	49	(49)	0	3
		85	**134**	**(49)**	**1**	**4**
Associates:						
Lothian Valuation Joint Board	9%	213	(92)	305	(1,677)	64
Joint Ventures:						
Midlothian Integration Joint Board	50%	11,756	0	11,756	(83,953)	(5,260)
Midlothian Energy Ltd	50%	193	1,087	(894)	(894)	894
		12,162	**995**	**11,167**	**(86,524)**	**(4,302)**
		12,247	**1,129**	**11,118**	**(86,523)**	**(4,298)**

The information above agrees to the group accounts after the elimination of inter-company transactions.

Combining Entities

The following table provided further details about the entities incorporated into the Council's Group Accounts:

Group Entities	Nature of Body	Accounts Available From
Subsidiaries:		
Trusts, Bequests, Common Good and Community Funds	To award grants across Midlothian.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Pacific Shelf 826 Ltd	Property Development.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Associates:		
Lothian Joint Valuation Board	Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils.	The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverly Court, Edinburgh
Joint Ventures:		
Midlothian Integration Joint Board	Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Midlothian Energy Limited	Energy generation, distribution and supply	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith

Non-Material Interests in Other Entities

In addition to the organisations outlined above, the Council also has an interest in Seemis Group LLP who provide Scottish Local Authorities with an Education Management System. Midlothian have a 1.90% interest in Seemis. Net assets at 31 March 2021 were £ (0.133) million, which would equate to a share of £ (0.003) million for Midlothian.

Housing Revenue Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis which rents are raised, is shown in the movement on the Housing Revenue Account Statement.

2020/21 £000	**HRA Income and Expenditure Statement**		**2021/22 £000**
	Expenditure		
5,005	Repairs and Maintenance	6,155	
5,297	Supervision and Management	5,575	
26,954	Depreciation, impairment and revaluation non-current assets	(52,138)	
180	Movement in the allowance for bad debtors	600	
1,936	Other Expenditure	1,943	
39,372	**Total Expenditure**		**(37,865)**
	Income:		
(29,123)	Dwelling Rents	(29,643)	
(345)	Non-dwelling Rents	(332)	
(314)	Service Charge Income	(292)	
2	Other Income	(6)	
(29,780)	**Total Income**		**(30,273)**
9,592	**Net Expenditure or (Income) of HRA services as included in the Comprehensive Income and Expenditure Statement**		**(68,138)**
250	HRA Share of Corporate and Democratic Core		250
9,842	**Net (Income)/expenditure for HRA Services**		**(67,888)**
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
19	(Gain) or Loss on sale of HRA non-current assets		131
6,633	Interest payable and similar charges		6,481
(420)	Interest and investment income		(506)
91	Net interest on the net defined liability benefit liability (asset)		82
6,323			**6,188**
16,165	**(Surplus)/Deficit for the year on HRA Services**		**(61,700)**

Movement in the Housing Revenue Account

2020/21 £000	Movement on the HRA Statement		2021/22 £000
(44,395)	***Balance on the HRA at the end of the previous reporting period***		**(48,385)**
16,165	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		(61,700)
	Adjustments between accounting basis and funding basis under statute:		
(26,954)	Depreciation, impairment and revaluation non-current assets	52,138	
(19)	Gain or (Loss) on sale of HRA non-current assets	(131)	
5,447	Loans Fund Principal	5,670	
0	Capital Expenditure Charged against the HRA Balance	25,000	
(487)	Net charges made for retirement benefits in accordance with IAS 19	(676)	
(22,013)	**Total Adjustments between accounting basis and funding basis under statute**		**82,001**
1,858	Transfer to General Fund Reserve		0
(3,990)	**(Increase) or Decrease in year on the HRA**		**20,301**
(48,385)	**Balance on the HRA at the end of the current reporting period**		**(28,084)**

Notes to the Housing Revenue Account

Housing Stock

The number of council dwellings for the year can be analysed as follows:

2020/21	Housing Stock	2021/22
944	1 Bedroom	1,001
3,936	2 Bedroom	4,009
1,878	3 Bedroom	1,920
316	4 Bedroom	322
10	5/6 Bedroom	10
7,084	**Total Housing Stock at 31 March**	**7,262**

This represents an increase in the year of 178 units (2020/21 165), which is represented in the table below:

2020/21	Increase/(decrease) in Housing Stock	2021/22
119	New Build Completions	176
14	Market Purchases of Existing Purchases	15
32	Re-purposed units for temporary accommodation	(12)
0	Demolition	(1)
165	**Total Housing Stock at 31 March**	**178**

Other Information

2020/21 £000	Other Information	2021/22 £000
4,045	Total Rent Arrears	4,597
1,780	Bad Debt Provision	2,440
881	Void Rent Loss (netted against rental income)	904

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

Local Authorities raise taxes from its residents through Council Tax, which is based on property values. Each dwelling in a local Council area is placed into one of eight valuation bands, A to H. The Council declares a tax for Band D properties and all other properties are charged a proportion of this, lower valued properties (Bands A to C) pay less; higher valued properties (Bands D to F) pay more.

2020/21 £000	Council Tax Income Account	2021/22 £000
62,373	**Gross Council Tax levied and Contributions in Lieu**	**64,045**
	Less:	
(5,257)	Council Tax Reduction Scheme	(5,053)
(6,321)	Other Discounts and Reductions	(6,402)
(1,674)	Write-off of Uncollectable Debts and Allowances for impairment	(2,008)
180	Prior year adjustments	(227)
49,301	**Net Council Tax Income transferred to General Fund**	**50,355**

Midlothian Council Tax Charge and Properties by Band

2020/21 Property Numbers	2020/21 £ per Property	Band	2021/22 Property Numbers	2021/22 £ per Property
2	783	A - Disabled	1	783
568	939	A	581	939
8,269	1,096	B	8,418	1,096
8,454	1,252	C	8,584	1,252
4,943	1,409	D	5,011	1,409
4,581	1,851	E	4,767	1,851
3,729	2,290	F	3,992	2,290
2,357	2,759	G	2,526	2,759
170	3,452	H	171	3,452
33,073			**34,051**	

Calculation of Council Tax Base (shown as numbers of properties)

2021/22	**A (Disabled)**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total No of Properties**
Number of Properties	0	976	12,641	11,164	5,760	5,351	4,226	2,659	178	42,955
Properties subject to Empty Homes Premium	0	10	41	45	18	14	19	10	2	159
Properties subject to Disabled Relief	1	38	40	(48)	3	(1)	(6)	(26)	(1)	0
Less:										
Exempt Properties	0	70	454	257	70	181	52	25	3	1,112
Properties Entitled to 25% Discounts	0	153	1,496	973	434	287	140	67	4	3,554
Properties Entitled to 50% Discounts	0	0	5	5	1	3	1	2	0	17
Properties Entitled to Other Discounts	0	6	38	21	15	6	5	4	1	96
Reduction in Tax Base due to Council Tax Reduction	0	214	2,311	1,321	250	120	49	19	0	4,284
Total Equivalent Properties 2021/22	**1**	**581**	**8,418**	**8,584**	**5,011**	**4,767**	**3,992**	**2,526**	**171**	**34,051**
Ratio to Band D	**0.56**	**0.67**	**0.78**	**0.89**	**1.00**	**1.31**	**1.63**	**1.96**	**2.45**	
Band D Equivalent Properties	**1**	**387**	**6,547**	**7,630**	**5,011**	**6,263**	**6,487**	**4,947**	**420**	**37,693**
Contributions in Lieu - Band D Equivalents										**196**
Sub-total										**37,889**
Less Bad Debt Provision at 3%										**(1,425)**
Total Council Tax Base										**36,464**

2020/21	**A (Disabled)**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total No of Properties**
Band D Equivalent Properties	**1**	**379**	**6,431**	**7,515**	**4,943**	**6,020**	**6,059**	**4,616**	**417**	**36,381**
Contributions in Lieu - Band D Equivalents										193
Sub-total										**36,574**
Less Bad Debt Provision at 3%										(1,188)
Total Council Tax Base										**35,386**

Non-Domestic Rate Account

The Non-domestic Rate Account (Scotland) is a statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2020/21 £000	Non-Domestic Rate Income Account	2021/22 £000
44,705	**Gross Council Tax levied and Contributions in Lieu**	**43,735**
	Less:	
(25,375)	Reliefs and other deductions	(16,382)
(353)	Write-off of Uncollectable Debts and Allowances for impairment	(617)
18,977	**Net Non-Domestic Rates Income**	**26,736**
(2,002)	Prior year adjustments	(2,582)
0	Non-domestic rates income retained by the council (BRIS)	(104)
16,975	**Contribution to Non-Domestic Rate Pool**	**24,050**
	Allocated:	
17,045	Contribution to non-domestic rate pool	24,127
(70)	Council Rate Income - non-pool	(77)
16,975		**24,050**
19,587	Amount distributed to Midlothian Council from non-domestic rate pool	18,811

The Business Rate Incentivisation Scheme (BRIS) permits the Council to retain 50 percent share of the Non-domestic rates income, which exceeds the income target set by Scottish Government.

Net Rateable Value Calculation

Occupiers of non-domestic property pay rate based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and was 49.0p (2020/21 49.8p) per £, where the rateable value was less than £51,000 (2020/21 £51,000), 50.3p where the rateable value is between £51,000 and £95,000 and 51.6p (2020/21 51.1p between £51,000 and £95,000, 52.49p greater than £95,000) per £ where the rateable value exceeded £95,000 (2020/21 £95,000).

Small Business Bonus Scheme – from 1 April 2017, a ratepayer who occupies or is entitled to occupy one of more non-domestic properties with a combined rateable value of £18,000 or less may be eligible for a discount between 25% and 100% on their bill. In addition, where the cumulative rateable value of a business falls between 18,000 and 35,000, the scheme will offer 25% relief to individual properties with rateable value of up to £18,000.

2020/21 Numbers	2020/21 £000	Analysis of Rateable Values and Number of Premises	2021/22 Numbers	2021/22 £000
1,838	49,245	Shops, Offices and Other Commercial Subjects	1,837	49,125
937	16,921	Industrial and Freight Transport	944	17,114
308	21,153	Miscellaneous (Schools etc.)	302	20,482
3,083	**87,319**	**Total**	**3,083**	**86,721**

Glossary of Terms

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

Actuarial Gains and Losses (Pension)

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

Amortisation

Amortisation is the cost of reducing the value of an intangible asset over its useful economic life. A charge is made against services for the value of the assets they have used during the year.

Assets

An asset is any item that has value including cash, investments, properties, vehicles, etc. Assets are classified as current, which will be consumed within the current year, or non-current, which will be used to provide services over more than one year.

Associate

An entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies, the reporting Council is able to exercise significant influence.

Capital Expenditure

This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.

Capital Financed from Current Revenue

This heading covers the costs of creating, acquiring or improving assets where the expenditure is charged directly to the Revenue Account.

Corporate and Democratic Core

Corporate and Democratic Core costs include the costs of policymaking and all other Councillor based activities together with costs that relate to the general running of the Council. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the “total cost” relating to service activity.

Community Assets

Long-term assets that have no determinable useful economic life and are held in perpetuity by the Council, including parks and open spaces.

Creditors

Creditors are a kind of liability. They represent payments owed by the Council to another person or organisation for past events.

Debtors

Debtors are a kind of asset. They represent payments owed to the Council by another person or organisation for past events.

Defined Benefit Pension Scheme

A Defined Benefit Pension Scheme is a scheme where the benefits due to participants are predetermined based on earnings, length of service and age and are not directly dependant on the contributions paid or investment returns realised.

Depreciation

Depreciation is the measure of the cost of wearing out, consuming or reducing the useful life of the Council's assets. A charge is made against services for the value of the assets they have used during the year.

Entity

A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single-entity accounts.

Fair Value

The fair value of an asset or liability is the price at which it could be exchanged or settled in an arm's length transaction between two willing, knowledgeable parties.

Financial Instrument

A financial instrument is any contract, which gives rise to a financial asset or liability or an equity instrument in another entity, this includes cash, debtors, creditors, loans, borrowings and shares in other companies.

Infrastructure Assets

Non-current assets that cannot be transferred or sold, including roads, bridges and footpaths.

Inventories

Inventories are raw materials or goods which have been purchased but which have not yet been consumed in the delivery of Council services.

Liabilities

A liability represents a payment owed to another person or organisation including loans, outstanding invoices, provisions, contributions owed to third parties, etc. Short-term liabilities are due to be paid within the current year. Long-term liabilities are amounts that will not be paid until a later year.

Non-Distributable Costs

Non Distributable Costs represent costs that cannot be allocated to specific services and again, under the Best Value Accounting Code of Practice, are excluded from the total cost relating to service activity. Examples of Non Distributable Costs are charges for added pension years and early retirement.

Other Costs

This heading covers items of expenditure that cannot be accommodated in any of the other categories.

Provisions

A provision is a kind of liability. Where a payment for a liability is certain or very likely to occur but the exact amount and timing is not known, an amount must be put aside to meet the estimated future costs.

Revaluation / Impairment

Revaluations and impairments are adjustments to the value of an asset, either positively or negatively, to align the carrying value of an asset to an independent assessment of the asset’s fair value.

Revenue Expenditure

Revenue expenditure includes the day-to-day costs of providing services including salaries and wages, property costs, transport costs and supplies and services. It also includes the costs of the repayment of loans used to finance capital expenditure.