Notice of Meeting and Agenda

Midlothian

Audit Committee

Venue: **Virtual Meeting,**

Date: **Tuesday, 27 September 2022**

Time: **11:00**

Executive Director : Place

Contact:

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

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

4.1	Minute of Audit Committee 29 June 2022 Submitted for approval	5 - 14
4.2	Action Log	15 - 16

5 Public Reports

5.1	Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022, Report by EY, External Auditors	17 - 76
5.2	Annual Accounts for the year ended 31 March 2022, Report by Chief Officer Corporate Solutions	77 - 186
5.3	Risk Management Update – Strategic Risk Profile Quarter 1 2022/23, Report by Chief Officer Place	187 - 224
5.4	Audit Committee – Independent Chair & Independent Non-Voting Member, Report by Executive Director Place	225 - 230

(A) TO CONSIDER RESOLVING TO DEAL WITH THE UNDERNOTED BUSINESS IN PRIVATE IN TERMS OF PARAGRAPHS 6, 9 AND 11 OF PART 1 OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973 - THE RELEVANT REPORTS ARE THEREFORE NOT FOR PUBLICATION; AND
(B) TO NOTE THAT NOTWITHSTANDING ANY SUCH RESOLUTION, INFORMATION MAY STILL REQUIRE TO BE RELEASED UNDER THE FREEDOM OF INFORMATION (SCOTLAND) ACT 2002 OR THE ENVIRONMENTAL INFORMATION REGULATIONS 2004.

6 Private Reports

6.1 Shared Chief Auditor post between Midlothian and East Lothian report by Director Place

- 6. Information relating to the financial or business affairs of any particular person (other than the authority).

- 11. Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office-holders under, the authority

7 Date of Next Meeting

The next meeting will be held on Tuesday 6th December 2022 at 11am.

Minute of Meeting

Audit Committee

Date	Time	Venue
Wednesday 29 June 2022	11.00am	Virtual Meeting by MS Teams

Present:

Councillor Milligan (Interim Chair)
Councillor McEwan
Councillor McKenzie
Councillor Scott
Councillor Smaill

In Attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal and Governance Manager / Monitoring Officer
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
David Gladwin	Financial Services Manager
Myra Forsyth	Continuous Improvement Officer
Saty Kaur	Executive Business Manager
Michelle Strong	Education Chief Operations Officer
Fiona Clandillon	Head of Development
Lesley Aitken	Senior Finance Business Partner
Lisa Young	Accountant Communities and Wellbeing
Stephen Reid	External Auditor, E.Y.
Marco Reece-Heal	Business Analyst
Janet Ritchie	Democratic Services Officer
Andrew Henderson	Democratic Services Officer

1. Welcome and Apologies for Absence

The Clerk took the opportunity to welcome new and returning members to the Midlothian Council Audit Committee and in the absence of an independent non-voting chair invited members to nominate an interim chair who was a non-cabinet member. A discussion ensued in relation to who was most appropriate member to be nominated as chair of the committee. Councillor McKenzie, Seconded by Councillor Smaill nominated Councillor Milligan as the interim Chair of the Audit Committee.

2. Order of Business

The order of business was as detailed in the agenda.

3. Declarations of interest

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

4. Minutes of Previous Meetings

4.1 The minutes of the meeting of 14 March 2022 were submitted for noting with the Amendment that audit committee are recommending that the Risk Management Strategy highlighted under item 5.5. Be approved by full Council.

4.2 The Action log was submitted, it was noted that a report on building maintenance would be presented to BTSG. The Chief Officer Place confirmed that this would be brought to the next meeting of BTSG.

Councillor McEwan enquired into further training for elected members. The Legal and Governance Manager/Monitoring Officer agreed to liaise with the Continuous Improvement Officer to ensure comprehensive training was given to existing and new members.

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Membership, terms of reference and appointment of interim chair	Democratic Services
Outline of report and summary of discussion		
In reference to the earlier discussion, members confirmed the appointment of Councillor Milligan as the interim chair of the audit committee, noted the terms of reference. Councillor Milligan indicated that at the next meeting a discussion should take place on the options that were open to the committee in reference independent chair and independent non-voting member acknowledging that candidates with a local government background would be preferable.		

The Chief Internal Auditor highlighted that the previous independent chair's report that the requirement for training of members of the audit committee was recognised particularly in reference to the more technical aspect. The Chief Internal Auditor further highlighted that training was centred on what members lacked knowledge and experience on and that this could be pursued via external providers. The Chief Internal Auditor also made reference to the update in best practice guidance from CIPFA that tool kits and training guidance were also available. Cllr Milligan suggested that external providers would be preferable for the sake of transparency and openness.
Decision
The Committee noted the contents of the report.
Action
Executive Director Place

Report No.	Report Title	Presented by:
5.2	Counter Fraud Annual Report 2021/22	Chief Internal Auditor
Outline of report and summary of discussion		
The Chief Internal Auditor provided an overview of the report, making reference to the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team in liaison with other Services over the past year as part of the arrangements to tackling fraud at the Council. In addition to the necessities of having robust fraud prevention and investigation methods and the impact of the Counter Fraud Strategy previously approved by Council on the 25th of August 2020. The Chief Internal Auditor then took the opportunity to respond to points of clarity. The Chief Internal Auditor confirmed that in as part of the Counter Fraud Initiative, internal transactions are audited including pay elements but acknowledge and that external elements are also covered. Regarding the misuse of blue badges, the Chief Internal Auditor confirmed that the guidance on calculating the savings was being followed from the Cabinet office and Audit Scotland and was captured as a notional saving. The Chief Internal Auditor also highlighted ongoing work to ensure linkage with the tell us once service to ensure that notification was given to ensure that blue badges were cancelled when the holder had deceased. In response to a question with regard to what the quoted figure of £53,000 for fraudulent COVID support grants and what work was being carried out to ensure that individuals who had fraudulently applied for COVID funding paid it back, the Chief Internal Auditor highlighted that due diligence checks had been carried out to ensure that the correct people where in receipt of the funds whilst acknowledging the speed at which the Scottish Government had required COVID grants to be processed. The Chief Officer Corporate Solutions highlighted that across the financial year, 20/21 and 21/22 that grants had been administered by the Scottish Government and that for the wider Edinburgh area around £25 million had been issued.		

Decision
a) Members noted the counter fraud work undertaken during the year to 31 March 2022 in support of the Council's counter fraud policy and strategy. b) Members noted the outcomes of the counter fraud activity 2021/22.
Action
Chief Internal Auditor

Report No.	Report Title	Presented by:
5.3	Internal Audit Work to May 2022	Chief Internal Auditor
Outline of presentation and summary of discussion		
In reference to the report the Chief Internal Auditor outlined the details of recent work completed by internal audit with recommendations and findings and actions agreed by management to improve the guidance and improve internal controls and governance arrangements. The Chief Internal Auditor then took the opportunity to respond to members questions. Making reference to the internal audit annual plan for 22/23, the Chief Internal Auditor highlighted that procurement is taken into account as part of the scope of wider audit activity r together with specific focused audit work. The Chief Internal Auditor highlighted in relation to previous audits of capital projects had taken place and that discussions with officers for a sample of projects would be held to ensure compliance. A discussion then ensued in relation to the impact of inflation, the Chief Officer Corporate Solutions highlighted that a paper had been brought to BTSG on this respect and that a paper had been submitted to Council in respect of EESSH. With reference to the capital plans, the Chief Officer Corporate Solutions confirmed that the inflation impact inflation was an acute feature and also with reference the Scottish Government Capital funding review that set out gash flat capital settlements for future years. Members noted the report with the request that inflationary issues be reflected within the Capital plan that will affect the deliverability of projects.		
Decision		
a) Members noted the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2021/22; b) Members noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; c) Members noted and Acknowledged the assurance provided on internal controls and Governance arrangements in place for the areas covered by this Internal Audit work.		
Action		
Chief Internal Auditor		

Report No.	Report Title	Presented by:
5.4	Internal Audit Annual Assurance Report 2021/22	Chief Internal Auditor
Outline of report and summary of discussion		
The Chief Internal Auditor provided an overview of the Internal Audit Annual Assurance Report for the year to 31 March 2022 and highlighted the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment with specific reference to sections 2.4, 2.5 and 2.6. A discussion ensued in relation to the governance, risk management and internal controls process of contracts and issues in relation to contracts running out that required re tendering and the input of audit into this procedure. The Chief Officer Corporate Solutions highlighted that the internal controls operated were a 'whole system' approach and that review of the procurement capacity was underway in accordance with the managing change policy which would when implemented ensure that the procurement team could support and assist managers in ascertaining what needed to be procured and why to ensure best value. After further discussion the Chief Executive suggested that a session with members be set up with the Chief Procurement Officer following the approval of the procurement business partner model at CMT. Members agreed to this and noted the contents of the report.		
Decision		
a) Members considered and noted the Internal Audit Annual Assurance Report 2021/22 (Appendix 1) and assurances contained therein; b) Session on procurement to be set up with the Chief Procurement Officer		
Action		
Chief Executive/Chief Procurement Officer		

Report No.	Report Title	Submitted by:
5.5	Draft Annual Governance Statement 2021/22	Chief Internal Auditor
Outline of report and summary of discussion		
In reference to the report, Grace Vickers invited members to consider and approve the draft annual governance statement for 2021/22. Grace Vickers outlined the responsibilities of Midlothian Council to ensure that business was conducted in accordance to the law and proper standards and made reference to the Councils Local Code of Corporate Governance, which had been approved by council on the 23rd of March 2021 which had been used to assist with the annual assurance process for 2021/22. Grace Vickers highlighted that as the draft governance statement approved prior to the approval of the National Care Service (Scotland) Bill that she be given additional time to insert further details into the final annual governance statement to reflect pressures going forward. Grace Vickers then took the opportunity to thank the Chief Internal Auditor for her work as Chief Internal		

Auditor for Midlothian Council in recognition of this being the Chief Internal Auditor's final audit committee meeting.

Members then took the opportunity to thank the Chief Internal Auditor for her work with Midlothian Council's Audit Committee and agreed to the recommendations, as amended by Grace Vickers.

Decision

a) Members Considered and noted the details of the draft Annual Governance Statement 2021/22 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements;

b) Members approved that that additional time be given for further details to be inserted into the final annual governance statement to reflect the future impact of the National Care Service (Scotland) Bill which would then be put into the Council's Statement of Accounts 2021/22, and noted the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process.

Action

Chief Internal Auditor/Chief Executive

Report No.	Report Title	Submitted by:
5.6	Unaudited Annual Accounts 2021/22	Chief Officer: Corporate Solutions

Outline of report and summary of discussion

The Chief Officer Corporate Solutions provided an overview of draft unaudited accounts and as part of that highlighted that Audit Committee were being asked to consider the unaudited annual accounts at this stage. With reference to the presentation further details were provided to support the Committees consideration of the accounts. The Chief Officer Corporate Solutions then took the opportunity to respond to members questions.

The Chief Officer Corporate Solutions agreed to provide feedback to Councillor Scott in relation to the fluctuations in the mortality rate in relation to pension. The Chief Officer Corporate Solutions also highlighted that in relation to under 22 bus travel that he wasn't close enough to see the impact of this policy but acknowledged that Lothian Busses had previously provided a dividend to Midlothian Council. The Chief Officer Corporate Solutions then provided a brief overview in relation to VAT contingent asset disclosure highlighting that work was being led by h KPMG and that a report would be brought to council in the future with further details.

With regard to over borrowing, The Chief Officer Corporate Solutions acknowledged that borrowing had occurred when interest rates were low and agreed to add a note highlighting that this was in line with the treasury management plan.

Decision

Members considered and noted the unaudited annual accounts.
Action
Chief Officer: Corporate Solutions

Report No.	Report Title	Submitted by:
5.7	Annual Treasury Management Report 2021/22 - Report by: Chief Officer Corporate Solutions	Chief Officer: Corporate Solutions
Outline of report and summary of discussion		
The Chief Officer Corporate Solutions provided an overview of the report inviting members of the Audit Committee to consider this report before the final report is presented to Council. The Chief Officer Corporate Solutions then took the opportunity to respond to members questions. Members then agreed to the report recommendations and issued their thanks to the Finance Team for their efforts and acknowledged the Councils performance in this areas compared to other Councils.		
Decision		
Members noted the Treasury Management activity undertaken in 2021/22 and the Year-end position.		
Action		
Chief Officer: Corporate Solutions		

Report No.	Report Title	Submitted by:
5.8	Risk Management Update, Quarter 4 2021/22	Chief Officer Place
Outline of report and summary of discussion		
In providing an overview of the report, the Chief Officer Place provided Audit Committee with an update on the risk responses Midlothian Council has implemented during Quarter 4 2021/22 and provided assurances that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks. Members agreed to note the report.		
Decision		
Members noted the current risk landscape and organisational response to the most significant risks in Quarter 4 2021/22 (January to March 2022).		
Action		
Chief Officer: Place		

Report No.	Report Title	Submitted by:
5.9	Financial Governance – Financial Directives	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
In speaking to the report the Chief Officer Corporate Solutions provided an update on the refresh of the financial directives and continued to outline the next stage of review work aimed at providing a fully comprehensive and up to date set of Financial Directives.		
Decision		
a) Members endorsed the interim updates to the Financial Directives as set out in appendix 2 b) Members noted the next stage of review to be undertaken to complete a full refresh of the Financial Directives as outline of progress made in appendix 1.		
Action		
Chief Officer: Corporate Solutions		

Report No.	Report Title	Submitted by:
5.10	Local Government in Scotland Overview 2022	Chief Officer: Corporate Solutions
Outline of report and summary of discussion		
The Chief Officer Corporate Solutions provided an overview of the report outlining the difficult year Councils had faced, making reference to the response to the COVID 19 pandemic and the ongoing response in a complex and uncertain environment. Members agreed note the contents of the report.		
Decision		
Members noted the publication of the Local Government in Scotland Overview 2022 report by Audit Scotland on 26 May 2022 and considered the report findings for Midlothian Council.		
Action		
Chief Officer: Corporate Solutions		

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

Councillor Milligan took the opportunity to thank members for their attendance and encouraged officers in their pursuit for suitable applicants for the position of independent chair and independent non-voting member and requested that elected members be sighted on applicants. Councillor Milligan continued to highlight that should the appropriate applicants not come forward, consideration should be given as to how the committee could move forward.

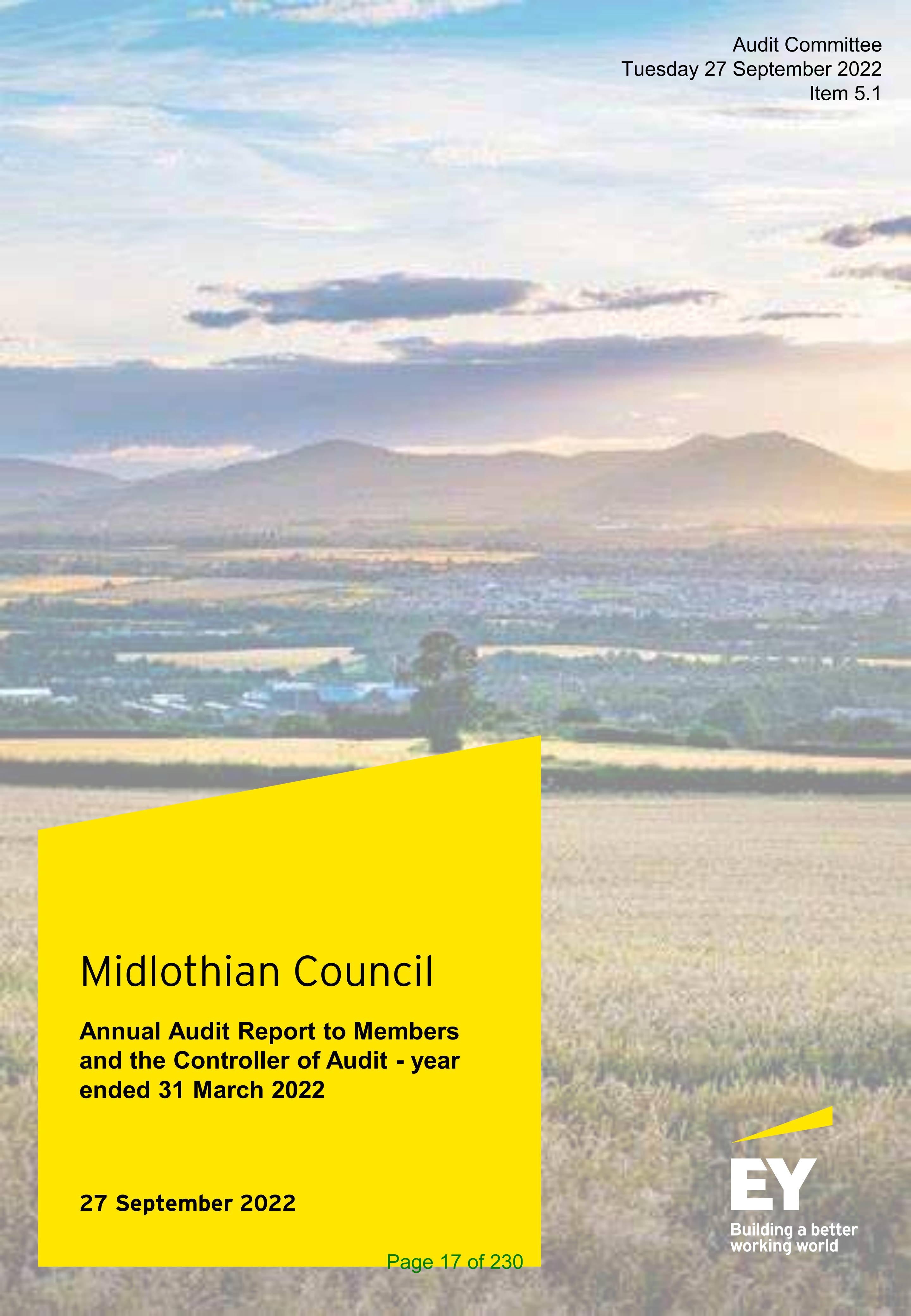
Date of Next Meeting: Tuesday 27 September 2022 at 11am.

The meeting terminated at 13.06 pm

Action Log

Midlothian

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	**Building Maintenance**	04/05/2021	A report is to be presented to BTSG arranged for 18/08/2022.	Executive Director Place	18 August 2022	Complete
2	**Training for Audit Committee members.**	25/06/2022	Comprehensive training to be provided for new and continuing members of the Audit Committee.	Legal and Governance Manager / Monitoring Officer and Continuous Improvement Manager	Ongoing	Initial Induction sessions completed. Continuing Professional Development ongoing.
3	**Internal Audit Annual Assurance Report 2021/22**	25/06/2022	Session to be set up with Chief Procurement Officer and audit committee members.	Legal and Governance Manager	Date to be confirmed post summer recess	All members Procurement Briefing session scheduled on 21 September, 2022.
4	**Future of Audit Committee and Independent Chair and independent Non – Voting member**	25/06/2022	Elected Members to take time to consider the future of the audit committee, be that a standalone committee or combined with another committee. The recruitment of an independent chair and independent non-voting member is part of these considerations.	Executive Director: Place	Ongoing	Report on agenda and also referred to Council



Midlothian Council

Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022

27 September 2022

EY
Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2021/22. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary: Key Conclusions from our 2021/22 audit

[We have issued an unqualified audit opinion on the Council and Group 2021/22 financial statements.]

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. Our materiality levels were reduced and valuation of property, plant and equipment elevated to a significant risk.

Financial Statements

[We have concluded our audit of the Council's financial statements for the year ended 31 March 2022.] Nine adjustments were made to the financial statements since the publication of the unaudited financial statements in June 2022. We did not identify any unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided on time and were of a good quality however we did identify an increased number of adjustments and control observations. We worked with management to make enhancements to the Management Commentary and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of related parties.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were generally satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

Going Concern

In accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the impact of Covid-19 and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

Initial forecasts for the updated Medium Term Financial Strategy set out an increasing projected budget gap reaching £27.1 million by 2027/28. In order to deliver a balanced budget, challenging decisions on service priorities and expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings are urgently required. However, we continue to report that as a matter of urgency, officers and elected members need to work together to agree the medium-term financial strategy and progress the Council's transformation plans with measures to address the 2023/24 budget requiring urgent agreement. Our assessment of red also recognises the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control, all of which has been exacerbated by the impact of the pandemic and the cost of living crisis.

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid and other financial pressures. The importance of good financial control is clearly understood across the Council but we have noted an increase in the volume and value of audit adjustments, alongside an increase in control observations. The finance team is moving into a transition phase with the departure of the Section 95 officer and it is important that transition arrangements are implemented to ensure appropriate skills and capacity remain within the finance team. It is a combination of these factors which have resulted in the amber rating in respect of financial management.

Governance & Transparency

The key features of good governance remain in place at the Council.

The Council's Audit Committee assessed itself as having a medium to high degree of performance and effectiveness during the year. A review should be undertaken to ensure that revised governance arrangements following the elections meet the changing scrutiny needs of the Council.

The Council opted out of the shared internal audit service in 2022 but there is not yet a permanent replacement in place. Monitoring of the internal audit team's capacity should be a priority.

Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. We note reports to both committees and available to the public, continue to be heavily narrative based resulting in performance being harder to readily interpret. Dashboard reporting is being used within some areas and should be expanded. We note that performance as reported through the annual balanced scorecard has improved this year. While there remains further scope for improvement, the Council has demonstrated continuous improvement after challenging years.

Best Value Conclusion

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. Good progress continues to be made against the Best Value improvement plan but key themes from the report will remain relevant, particularly as work progresses on setting the medium term financial strategy.

Introduction

> As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council to 2021/22.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council ("the Council"). Our appointment term was extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is intended to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2022.

Our review and reassessment of materiality

We updated our assessment of materiality based on the 2021/22 financial performance. Planning materiality was reduced from £7.7 million to £7 million.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £7.7 million. We considered whether any change to our materiality was required in light of Covid-19 and the Council's 2021/22 financial performance. As a result of reduced expenditure in year, our materiality was revised to £7 million. A further amendment was made during audit fieldwork to reduce our tolerable threshold due to the level of adjustments identified through our audit work.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Nominal amount
£7 million	£3.5 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- whether they give a true and fair view of the financial position of the Group and Council as at 31 March 2022 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

Our findings are summarised in Section 3 of this report.

Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2021/22 on page 40.

Financial Statements audit

Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

Compliance with Regulation

The draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the ongoing impact of the pandemic and recovery, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 29 June 2022.

The inspection notice was published by the Council in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Preparation of the Financial Statements

The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation. Our focus included consideration of the appropriateness of the disclosures related to the ongoing impact of Covid-19 and recovery activities, including in the management commentary, governance statement and financial statements notes.

The financial statements continue to be prepared with a robust internal process, including quality assurance checks prior to being submitted for audit.

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the related parties disclosed within the 2020/21 financial statements of 30 Scottish councils. The disclosures of related parties were chosen for a good practice review because of potential impact of the relationships in understanding the financial statements, along with indications that the quality of disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

Group financial statements

The Council has identified and accounted for the following interests in other entities within its group financial statements:

- Pacific Shelf 826 Ltd;
- Trusts, Bequests, Common Good and Community Funds;
- Lothian Valuation Joint Board;
- Midlothian Energy Limited; and
- Midlothian Integration Joint Board.

Midlothian Energy Limited is a joint venture with Vattenfall, a Swedish state-owned energy company. The venture will support the delivery of low carbon energy projects across the Midlothian area.

No matters were identified as a result of our review of the group consolidation arrangements within the financial statements. Midlothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

[*Audit Status*

Our audit work is substantially complete with the following areas of work ongoing:

- *Completion of procedures in respect of infrastructure assets;*
- *Finalisation of the Manager and Partner review; and*
- *Subsequent events procedures.]*

Audit Outcomes

We identified nine audit difference arising from the audit, which have been summarised in the relevant sections of this report. These adjustments have been adjusted by management in the finalised financial statements. No unadjusted differences were identified. Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements ▸ Truth and fairness of the state of affairs of the Group and Council at 31 March 2022 and its expenditure and income for the year then ended ▸ Financial statements in accordance with the relevant financial reporting framework	We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	*[We issued an unqualified audit opinion on the 2021/22 financial statements for the Council and its Group.]*
Going concern ▸ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	*[In accordance with the work reported on page 22, our audit opinion is unqualified in this respect.]*
Other information ▸ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements. We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.	We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.
Matters prescribed by the Accounts Commission ▸ Audited part of Remuneration Report has been properly prepared. ▸ Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.	Our procedures include: ▸ Reviewing the content of narrative disclosures to information known to us. ▸ Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.	*[We issued an unqualified opinion.]*
Matters on which we are required to report by exception	We are required to report on whether: ▸ there has been a failure to achieve a prescribed financial objective, ▸ adequate accounting records have been kept, ▸ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or ▸ we have not received the information we require.	We have no matters to report.

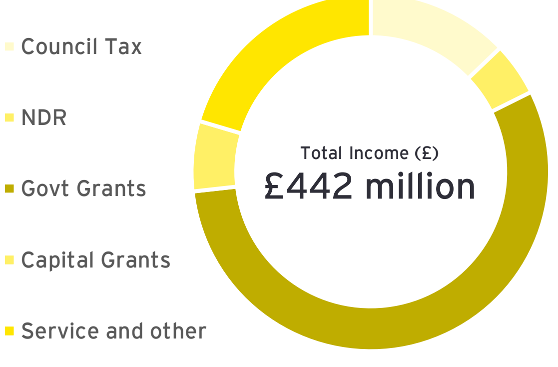
Significant and fraud audit risks

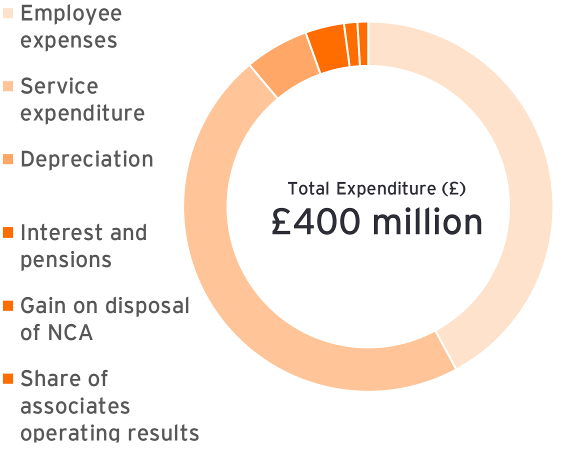
What is the Risk of Fraud in income and expenditure recognition

As outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. We also rebut the risk around payroll expenditure recognition. We have outlined below how our assessment impacts our testing strategy on the Council's financial statements.

Exhibit 1: Key components of the Council's income and expenditure as accounted for within the 2021/22 financial statements





Source: 2021/22 Financial Statements: Note 12 Expenditure and Income analysed by nature

Exhibit 1 sets out the financial position of Group and Council as per the Group Comprehensive Income and Expenditure Statement which reported a surplus on provision of services of £42 million. After taking account of adjustments between accounting basis and funding basis under regulations there is a net reduction in Useable Reserves for the Council of £19.7 million in the year.

For both income and expenditure we focus on the risk in relation to the occurrence, completeness and measurement of income and expenditure recognised around the financial yearend through the process of yearend accruals. For income we also focus on the recognition of grant income where there are conditions attached to the recognition, and on the treatment of capital grant income to ensure it is not accounted for as revenue.

Our work included:

- Review and challenge management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- Focusing our testing on income and expenditure recognised around the financial yearend through manual journals and accruals raised by management.
- Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period

Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

Other audit procedures: non-significant risk areas:

Council tax income: We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

Non Domestic Rates: We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

Non ring-fenced grant income: We substantively tested these balances to grant confirmation letters from third parties.

Interest income: We agreed balances to bank statements and other third party reports.

Employee expenses: We established expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

Depreciation, amortisation & impairment: We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 20. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

Audit of Covid-19 grant income and expenditure

2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19. This material impact continued albeit to a lesser extent, in 2021/22 with the Council receiving £9 million from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration in the prior year.

Covid grant income and expenditure continues to be an area of focus. Our audit work focused on:

- Reviewing the arrangements the Council had implemented to manage the processing, monitoring and reporting of the new income, including addressing the risk of misappropriation and fraudulent claims. Our work and conclusions here are outlined in more detail in the financial management section of our wider scope reporting.
- Assessing management's accounting treatment of the income and expenditure against the requirements of IFRS, the CIPFA Code and the specific LASAAC guidance issued in the year. We particularly focused on whether income and related expenditure had been correctly categorised as the Council being a "principal" or "agent" in the transaction.
- Selecting a risk based sample of grants to agree to supporting evidence, in the form of bank receipts, grant awards and other notifications, including the details of the grant award conditions, where relevant.
- Review of the disclosures made by the Council in the financial statements to ensure they met both accounting requirements and more generally were sufficient to allow readers to understand the nature of the activity in the year given the significance to the Council.

Our conclusions

- Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- We identified no matters to report in relation to the Council's accounting for Covid-19 grant income and related expenditure in the year.

Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals transferring funds between useable reserves and restricted or separated accounts such as HRA accounts; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the 2020/21 audit for the first time with a continuing focus in 2021/22. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 19 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 16 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Code.

Our conclusions

- We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the Code.

Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals over £1.12 billion of assets (2021: £0.96 billion). The valuation of these assets requires expertise and significant estimation. To meet the requirements of the CIPFA Code of Practice, the Council values its property, plant and equipment on at least a 5 yearly cycle. Due to the timing of the Council's valuation cycle a significant amount of the Council's estate was subject to revaluation in 2021/22 (£0.99 billion). This included the Council's social housing assets (£0.5 billion) and its schools (£0.43 billion).

The valuation of property, plant and equipment was originally assigned an inherent audit risk within our audit plan. Following our initial review of the valuations and materiality of values associated with adjustments identified, we increased valuation of property, plant and equipment to a significant audit risk.

To address the significant risk, our work focused on the following key areas:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- Engaging our internal valuation specialists to assess the reasonableness of asset valuations including the significant assumptions and inputs applied by the Council's internal valuers.

Our procedures noted the following:

- We identified one £8.2 million valuation audit difference through the course of our work around the valuation of the Council's social housing assets, outlined in Appendix E. A further £1.4 million adjustment was identified in respect of social housing asset additions.
- We identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year. Management brought forward the valuation of schools following their own review.
- We identified three audit differences in relation to the valuation of schools in 2021/22, outlined in Appendix E. Valuations adjustments included the omission of a school campus from the valuation and the omission of retentions in respect of a new school addition.

Valuation of Property, Plant and Equipment (continued)

Recommendation 1: The valuation methodology adopted by the Council's internal valuers should be subject to review to ensure it remains in line with best practice. This should include a review of the quality assurance review arrangements to reduce the level and nature errors in valuations.

We noted in previous years that the Council's overarching process for valuation of its property, plant and equipment was showing improvements. However, in 2021/22 we noted a number of areas for improvement:

- A formula error led to a material adjustment within the social housing valuations;
- A community hub was erroneously omitted from the valuation exercise;
- Retentions had not been accounted for correctly and there were some minor immaterial adjustments in the disposal of assets;
- Evidence to support valuations was not readily available (for example, evidence to support the housing valuations was not complete and did not demonstrate appropriate coverage of the Midlothian area);
- Some valuation reports had not been updated from the prior year to reflect assets age, useful life remaining and in some cases, the valuation method was incorrectly recorded.
- Conditions surveys have not been routinely performed resulting in up-to-date condition information not being readily available for all asset valuations; and
- There was a lack of documentation within the valuation reports to support the judgements made, particularly in respect of assets nearing the end of their useful lives.

We additionally noted that the methodology adopted by the internal valuers has not been subject to review in a number of years and we believe could benefit from this to ensure it remains up-to-date with best practice. We do, however, note that management has taken on board previous feedback and recommendations in respect of reviewing the frequency of the valuation cycle with social housing and schools both being revalued in a more timely manner.

Our conclusions

- We identified six audit adjustments related to the Council's valuation of assets in 2021/22.
- We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- We observed a decline in the quality of information provided in respect of valuations and therefore recommend that the valuation arrangements are reviewed with a focus on quality review arrangements and the methodology applied by the internal valuers.

Recommendation 2: The statutory override is intended to be a short-term solution to issues in respect of accounting for infrastructure assets. The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets.

Infrastructure Assets

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

Local government auditors raised concerns that Code requirements were not being adhered to particularly in respect of subsequent expenditure on infrastructure assets. The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

CIPFA LASAAC has been unable to find a solution that will both satisfy audit concerns and the requirement for high quality financial reporting. The Scottish Government however agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- 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 amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides.

Infrastructure Assets continued

The Council holds infrastructure assets of £31 million (2020/21: £29.5 million) and therefore this is a material balance within the financial balances. *[The Council elected to adopt both statutory overrides resulting in changes to disclosures in the financial statements in respect of infrastructure assets.]* The Council additionally undertook an extensive exercise to determine the records available dating back to 2010. From 2016/17, the Council has been maintaining more granular information within the fixed asset register and supporting workings.

In response to this emerging risk area, we performed the following procedures:

- Enhanced our understanding of the Council's processes for accounting for infrastructure assets, including how information is recorded on the fixed asset register and the process the Council has for identifying replacement assets.
- Performed additions testing over new infrastructure assets in year.
- Analysed the entries in the fixed asset register and reviewed supporting documentation including an analysis of spend back to 1 April 2010.
- Evaluated the continued existence of infrastructure assets at the balance sheet date through detailed testing.
- Assessed the accuracy and completeness of disclosures in respect of infrastructure assets including overrides applied.

Our conclusions

- Our work in respect of the existence of infrastructure assets and associated disclosures is ongoing. There is a risk that if we are unable to obtain sufficient, appropriate audit evidence to gain assurance over the valuation of these assets that the scope of our audit may be limited.
- We are [satisfied] that management's disclosures in respect of infrastructure assets are in line with the statutory guidance.
- We note that while management has undertaken significant work to support the existence of infrastructure assets, further information is likely to be required to support any permanent solutions and therefore management should look to build on work performed during the audit fieldwork.

Other inherent audit risks

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2022 the net liability totalled £54 million (2021: £141 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 104% (2017: 99%)

Accounting for this scheme involves significant estimation and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by its actuary. We have outlined on the previous page our requirement to consider this estimate in line with the requirements of ISA 540. In particular, for the valuation of pension assets and liabilities we are required to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

Our audit work focused on the following areas of judgement within these balances included:

- Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- Considering the findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2022.
- Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

Our conclusions

- The assumptions used by the actuary were reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund.

Financial fiscal flexibilities

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in statutory guidance:

- Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- Loans fund repayment holiday in either 2020/21 or 2021/22.
- Extension of PPP and other similar contract debt repayment periods to reflect asset lives.

The capital receipts and loans repayment holiday were originally only to be used for the purposes of addressing Covid-19 related costs, whereas the change to PPP accounting may provide a wider flexibility however greater flexibility was later provided. Local authority Directors of Finance and COSLA have been liaising with the Scottish Government to clarify the practicalities of the flexibilities. The revised legislation for capital receipts and loans repayments was considered by the Local Government and Communities Committee in February 2021 where there was committee support.

Council delegated authority to the Chief Officer Corporate Solutions, in consultation with the Group Leaders approval, to apply flexibilities as required, based on the outcome of the ongoing discussion with the Scottish Government, on the actual outturn position at the year end and an assessment of continued Covid-19 financial pressures for 2021/22. In accordance with the delegated authority approved in February 2022 by Council the use of the repayment flexibility in 2022/23 was approved. In May 2022, the Scottish Government agreed to extend the loans fund repayment deferral flexibility for a further year.

The options in respect of flexibilities have been reported to Council throughout the year, as guidance has developed. The latest position on flexibilities was reported to Council in August 2022 which noted that they would utilise the loans fund repayment holiday in 2021/22 and 2022/23. In respect of the service contract concessions, the Council is reviewing the latest statutory guidance in place to fully evaluate the accounting treatment and any associated financial provisions.

We worked with the Council to ensure appropriate financial statement disclosures were in place with respect of planned and actual use of financial flexibilities.

Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2023. We note that the going concern period extends beyond the period for which an agreed financial plan is in place and therefore, we have focused on the assumptions made by management in the period between April 2023 and October 2023.

Management's going concern assessment reported that the Council shall prepare its financial statements 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. It reported significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources, and access to other useable reserves in committed funds which could be reallocated as necessary. On this basis the Council concluded that there are no material uncertainties around its going concern status.

Our conclusions

- We *[reviewed and challenged]* the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- We *[worked with management]* to enhance the disclosures in the financial statements in relation to the Council's future financial performance and ongoing work in respect of the revised medium term financial plan.

Looking ahead

CIPFA/LAASAC Code for 2022/23

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The most significant change to the Code for 2022/23 relates to IFRS 16.

The implementation of IFRS 16 has been delayed until 1 April 2024 however early adoption is permitted.

The Council finance team has previously performed an initial assessment of the impact of the change on the Council's financial statements which will be revisited once an adoption date is agreed.

We have reported in previous years that IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently, CIPFA/LASAAC conducted an emergency consultation on the Code for both 2021/22 and 2022/23 in March 2022. This resulted in a further deferral to the implementation of IFRS 16 until 1 April 2024. However early adoption will be permitted from either 1 April 2022 or 1 April 2023.

While implementation has been further delayed, the Code strongly encourages early adoption and therefore all finance teams are encouraged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the next three years.

We have outlined previously that full compliance with the revised standard is likely to require a detailed review of existing leases and other contract documentation prior to the implementation date in order to identify:

- all leases which need to be accounted for;
- the costs and lease term which apply to the lease;
- the value of the asset and liability to be recognised as at 1 April; and
- where a lease has previously been accounted for as an operating lease.

Work is therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard.

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

Best Value and Wider Scope dimensions

> Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for the four wider scope audit dimensions. We also draw upon these assessments and other work to form conclusions on the Council's ability to demonstrate Best Value in its activities. In undertaking our work in respect of the wider scope audit dimensions, we also integrate our assessment of the Accounts Commission's five Strategic Audit Priorities.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland. As the appointed auditor, we are the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan was required for 2021/22.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

- **Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- **Financial Management:** Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and Transparency:** Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.
- **Value for Money:** Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

Financial Sustainability

Our overall assessment: Red

The Council's existing Medium Term Financial Strategy ('MTFS') runs until March 2023. Work on a revised strategy is underway but initial forecasts for the updated strategy set out an increasing projected budget gap of £27.1 million by 2027/28. Recurring expenditure exceeds recurring funding by £13 million with one off funding sources required to balance the budget in the current year with the gap increasing across the term of the MTFS. The parameters in respect of Scottish Government grant support, as set out in Government's Resource Spending Review published on 31 May 2022 indicates cash flat grant settlements at a time when costs continue to rise. The assumptions underpinning all forecasts will require regular review as inflationary forecasts are updated and pay award settlements finalised. These factors are likely to increase existing budget gaps identified and increase the requirement for robust saving plans.

In order members to fulfil their statutory duty to deliver a balanced budget, challenging decisions on service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings will be required. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the council's transformation plans. The immediate priority is to ensure that measures to balance the 2023/24 budget are agreed as part of the development of the MTFS. Our assessment of red also recognises the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the impact of the pandemic and the cost of living crisis.

Context for Local Government Financial sustainability

The Scottish Government's 'Resource Spending Review' was published on 31 May 2022 and sets out the high level parameters for resource spend within future Scottish budgets up to 2026-27. The plan is focused on how the Scottish Government will allocate funding to achieve their strategic outcomes and priorities:

- Tackling child poverty;
- Addressing the climate crisis;
- Securing a stronger, fairer, greener economy; and
- Delivering excellent public services.

The review sets out that there will be no increases to core local government funding for the next 3 years with the local government budget estimated to decline in real terms by 7% between 2022/23 and 2026/27. While the spending review is not a finalised budget, it provides the sector with an indication of likely funding allocations. In August 2022, the Council's Section 95 officer set out to Council, the extremely challenging parameters for local government which are exacerbated for Midlothian by the financial pressures associated with population growth.

The Scottish Parliament's Finance and Public Administration Committee, as part of its pre-budget setting scrutiny for 2023/24, launched a call for views on Scotland's public finances and the impact of both the cost of living crisis and public service reform in August 2022. This consultation has included seeking views on the priorities within the Resource Spending Review and how the Scottish Government should respond to inflationary pressures and the cost of living crisis within its 2023-23 budget.

While the Council has managed its finances well to respond to the pressure on services and communities caused by the pandemic, the underlying gap between recurring expenditure and recurring income reliance on one-off savings and solutions is not sustainable in the medium term to balance budgets.

This decline in funding for 2022-23 onwards in real terms occurs at a time when the UK is facing an unprecedented cost of living crisis and local authorities across Scotland are working to agree new medium-term financial plans.

2022/23 Performance to date

Like all councils in Scotland, the impact of the Covid-19 pandemic and inflationary pressures continue to create significant financial pressure in 2022/23. The Council's most recent financial update report, prepared in August 2022, forecasts a small overspend of £0.225 million for the financial year. The budget for 2022/23 does however have significant risks and uncertainties:

- Inflationary pressures – to date, £1.4 million of unbudgeted costs have been identified to date in respect of inflation, largely relating to energy prices and contractual inflation embedded in contracts such as the Public Private Partnership contracts.
- Pay pressures – 2022/23 pay claims for all of the local government bargaining groups have yet to be concluded at the time of writing. While the Scottish Government has committed to providing some additional funding, it is not anticipated that this would fully meet the cost of the current pay offers, creating a further uncommitted budget gap.
- Cost reductions – there remains £1.3 million of cost reductions to be finalised within the budget however the plans are all now at implementation stage.

While the current forecast general reserve of £4 million is above the minimum set by the Council's Reserves Strategy, the risks and uncertainties highlighted above could result in an adverse movement to this balance and therefore will require extensive close monitoring.

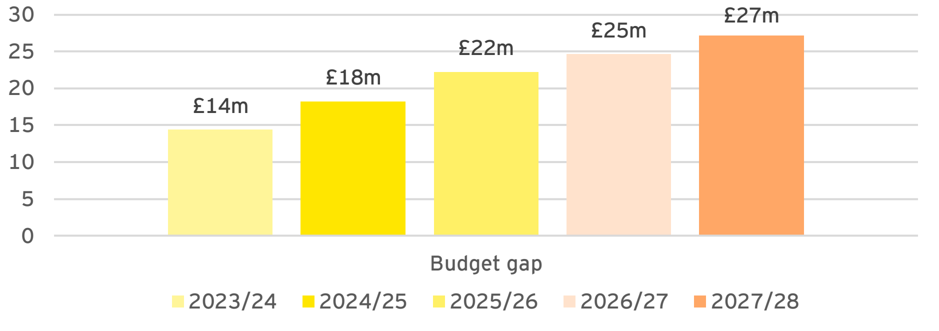
Development of the revised MTFS to 2027/28

Following the local government election in May 2022, work has accelerated in respect of the Medium Term Financial Strategy ('MTFS') covering the budgets to be determined during this term of Council for financial years 2023/24 to 2027/28. The aim of the MTFS is to provide a multi-year strategy aligned to the development and approval of the Midlothian Council Strategic Plan 2022-2027.

In line with the previous MTFS, the cross-party Business Transformational Steering Group is tasked with assessing and approving further proposals to deliver a sustainable financial plan, drawing upon consultation with communities. An update on the development of the MTFS was presented to Council in August 2022 setting out the current budget gap across the next 5 years alongside the proposed timetable for:

- Presentation, consultation and finalisation of the proposed strategic plan.
- Presentation, consultation and finalisation of the MTFS, savings plans and associated savings measures.

Exhibit 2: The Council has updated its forecast yearend position through the financial year



Source: Midlothian Council - Medium Term Financial Strategy - 2023/23 to 2027/28

Recommendation 3: As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. The key priority is to ensure measures to balance the 2023/24 budget are agreed as part of the development of the MTFS.

Exhibit 2 highlights the scale of the challenge facing the Council over the next five years with the funding gap, the extent to which recurring expenditure exceeds projected recurring income, likely to grow as the projections are updated to take into account the latest inflation projections and forecast demographic growth. In the current year, recurring expenditure exceeds recurring funding by £13 million with one off funding sources required to balance the budget. This gap grows across the term of the MTFS. To date, there has been no agreement on plans to address the budget gaps but work in this area is ongoing.

Over recent years, largely due to the impact of the Covid-19 pandemic, the Council has relied on one-off non-recurring measures in order to deliver a balanced budget. We continue to emphasis that this approach is not sustainable in the medium to long term and the Council does not currently have sufficient one-off measures to address the gaps identified for 2023/24. In order to deliver a balanced budget, challenging decisions on service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings will be required. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. Identifying recurring measures to address budget gaps will be crucial in ensuring the Council's longer term sustainability and enable the Council to respond proactively to the ever changing external environment.

The immediate priority will be to ensure that measures to balance the 2023/24 budget are agreed as part of the development of the MTFS.

We are also aware of the ongoing National Care Service review which is likely to result in significant changes to the service delivery model which is anticipated to impact local government services and funding thus impact the Council's current financial and future planning assumptions.

Financial Management

Our overall assessment: Amber

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid and other financial pressures.

The importance of good financial control is clearly understood across the Council but we have noted an increase in the volume and value of audit adjustments, alongside an increase in control observations.

The finance team is moving into a transition phase with the departure of the Section 95 officer and it is important that transition arrangements are implemented to ensure appropriate skills and capacity remain within the finance team. It is a combination of these factors which have resulted in the amber rating in respect of financial management.

Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit.

During the course of our audit fieldwork, we noted an increase in the number of adjustments and control issues encountered during the audit including:

- Adjustments within the bank reconciliations relating to reconciling items.
- Errors in formulas within working papers for provisions and housing valuations.
- Inability to reproduce original BACS files for requested dates.
- Cut-off adjustments in respect of assets under construction.
- Inability to produce a council tax listing from the Civica Open Revenues system which reconciled to the financial statements.
- PPE valuations improvements have been noted on page 17.

As illustrated in Appendix E, the adjustments identified relate to the balance sheet accounts. Based on work undertaken, we have not noted any material deficiencies in internal control however we have noted a number of areas for improvement. We understand management has already commenced investigations into the areas for improvement identified in order to improve processes.

Recommendation 4: Management should undertake a review of the errors and control observations identified during the audit and ensure that appropriate actions are taken to both improve processes and to reduce the number and value of audit adjustments.

Financial Regulations

The Council's financial regulations were subject to review during the year with approval by Council in June 2022. The financial directives have also been subject to review with a progress update made to the Audit Committee in June 2022. This initial exercise identified a number of directives requiring a more detailed review to ensure they are both up-to-date and user friendly. This exercise is currently ongoing.

Recommendation 5: Management should ensure appropriate handover arrangements are in place for the section 95 officer and ensure the finance team continues to have sufficient skills, capacity and capability.

The Council's section 95 officer is the Chief Officer - Corporate Solutions. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government. In our view there is evidence that the Council continues to have sufficient financial skills, capacity and capability.

The section 95 officer is due to leave his role in October 2022 and the Council is currently establishing handover arrangements with an interim arrangement being implemented while a permanent appointment is made. The loss of an experienced and knowledgeable officer, at a time of significant pressures on the finance team, means that it is crucial that appropriate arrangements are in place to allow for a smooth transition and ensure that there is sufficient financial skills, capacity, capability and knowledge within the finance team.

Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years. The Council's financial governance arrangements provide for budgets to be carried forward from one year to the next. These resources, together with funds allocated by Scottish Government late in 2021/22 (to deliver services in 2022/23) contributed to the General fund balance including budgets carried forward and earmarked for use in 2022/23 of £19.923 million (31 March 2021: £22.063 million), In addition the application of fiscal flexibilities to support balancing the 2022/23 budget resulted in reserves being set aside at 31 March 2022 of £5.576 million (31 March 2021: £2 million) . The outturn for the general reserve, that being the element which is not committed, was reported as £5.597 million as at 31 March 2022 compared with a quarter 3 projection of £5.303 million.

The Council's forecast general fund balance increased significantly from initially forecasts as part of the year end outturn. This increase is attributable to late funding, the Council should ensure that the forecast position is closely monitored to prevent future significant changes in forecasts.

Exhibit 3: The Council has updated its forecast yearend position through the financial year

Reporting period	Aug-21	Nov-21	Feb-22	Outturn
Forecast surplus / (deficit)	£0.32m	£2.75m	£2.6m	£3.091m
Forecast General Fund balance	£6.299m	£8.313m	£11.719m	£32.432m
Of which earmarked	£2.157m	£2.952m	£6.416m	£26.835m
Forecast General Reserve (Uncommitted)	£4.142m	£5.361m	£5.303m	£5.597m

Source: Midlothian Council 2021/22 Financial monitoring reporting

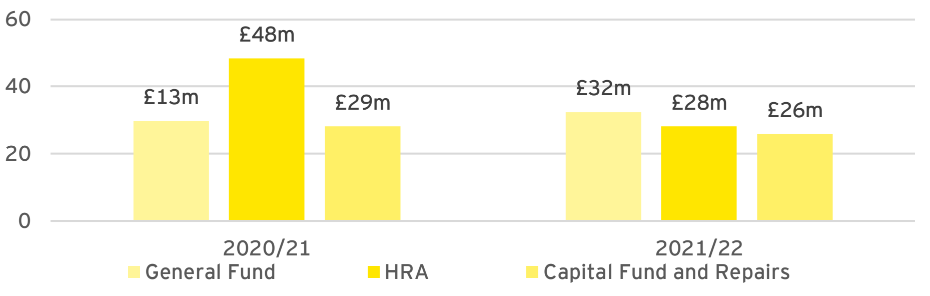
Council reserve levels and strategy

As illustrated in Exhibit 3, the Council's forecast general reserve element of the general fund balance increased over the year principally reflecting the increase in the forecast surplus. The increase in the earmarked element of the reserve reflects the Council's utilisation of fiscal flexibilities and reserves to support the 2022/23 budget was determined late in the year and accounted for £5.6 million with £20 million attributable to in year budgets carried forward for use in 2022/23. Amounts carried forward specifically include Covid funding, LACER funds and other Scottish Government funding for designated use and education recovery funding for specific use.

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2021/22 it concluded that the uncommitted balance should be maintained at a minimum of 2% of net expenditure (excluding the IJB allocation) which equates to £3.65 million. At 31 March 2022 the Council's uncommitted general fund balance was £5.6 million, representing an increase from the 2021 balance of £3.63 million.

The Council's cash backed reserves decreased during the year largely due to the use of £25 million from the HRA reserve to fund capital expenditure.

Exhibit 4: The Council's cash backed reserves decreased by approximately £19.7 million in 2021/22



Source: Midlothian Council 2021/22 Financial Statements

Capital programme

The Council spent £62.6 million on capital expenditure in 2021/22 (2020/21: £ 41.2 million), an overspend of £0.1 million against its original budget. In line with prior year, this demonstrates a reversal of the historic trend of slippage against the capital budget. We do, however, note that rephasing during the year was required for a number of capital projects primarily due to the impact of Covid-19, Brexit and the Ukraine conflict on availability of materials and equipment and social distancing onsite. Inflationary pressures on materials costs and equipment continue and this will have an impact on the capital programme in future years.

The capital programme plays a crucial role in the Council's route map to respond to the pandemic. However, it is clear that ongoing supply chain issues may impact the Council's ability to deliver this significant capital programme and will require careful monitoring to ensure that the programme remains affordable within the context of the Council's MTFS.

In order to ensure the Council has the appropriate skills and capacity to deliver the ambitious capital programme, the Council has continued to progress with making improvements to monitoring and reporting processes through the Capital Plan and Asset Management Planning Board. Work continues to ensure this framework is being applied consistently across all large capital projects.

CIPFA financial management code

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. A short-life working group was established in March 2021 to perform the self-assessment and review compliance against each of the 17 standards. The final assessment of compliance was presented to the Audit Committee in November 2021 with compliance being demonstrated against 11 standards and 6 standards being identified as having minor to moderate areas for improvement.

Progress has been made in addressing actions identified from the self-assessment against the CIPFA Financial Management Code.

Areas for improvement identified from the self assessment include:

- Ensuring governance actions as set out within the Annual Governance Statement are addressed including update of the Financial regulations and directives as well taking action to strengthen the procurement function.
- Developing an engagement plan for the next iteration of the Medium Term Financial Strategy.
- Performing a review of recent capital projects to identify learnings.
- Reviewing and refreshing the Risk Management Framework.

Progress has been made in respect of the areas for improvement with the Financial regulations being approved in June 2022 and an updated risk management strategy subject to Council approval in August 2022. The Council will continue to perform self-assessments against the Code moving forward and monitor any actions identified.

Treasury Management

During 2020/21 treasury management was an area of audit focus with a separate report provided to the Audit Committee in June 2021. No significant findings were identified with only minor areas for improvement noted. One finding remained outstanding at the time of conclusion of our 2020/21 audit which was dependent on the finalisation of the revised CIPFA Treasury Management Code and Prudential Code.

CIPFA published revised Treasury Management and Prudential Codes in December 2021 following consultation periods, with both Codes becoming applicable with immediate effect. An update on the main changes to both Codes was presented to Audit Committee in January 2022 and Council in February 2022. Management has performed an assessment of the impact of the Code changes to their own Treasury Management and Annual Investment Strategy as well as the Treasury Management outturn report with no material changes required. We are satisfied that appropriate consideration has been given to the revised Codes and reporting of the impact of the changes was appropriate.

Governance and Transparency

Our overall assessment: Green

The key features of good governance remain in place at the Council. The Council's Audit Committee assessed itself as having a medium to high degree of performance and effectiveness during the year. A review should be undertaken to ensure that governance arrangements following the local government elections meet the changing scrutiny needs of the Council.

The Council opted out of the shared internal audit service in 2022 with work underway to finalise a revised permanent arrangement. We note that internal audit has experienced capacity challenges in recent years with 82% of the original plan delivered in 2021/22. Finalisation of a permanent arrangement and ongoing monitoring of the internal audit team's capacity should be a priority.

Local Code of Corporate Governance

In 2020/21 the Council considered the effectiveness of its arrangements against the CIPFA framework for *Delivering Good Governance in Local Government*. The results of the review and updated Local Code of Governance were considered by the Council in March 2021.

The Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. The Code review informed the annual assurance process including completion of the Annual Governance Statement.

The governance statement for 2021/22 concluded 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."*

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. The statement continues to set out key areas for improvement in governance arrangements to enhance the Council's Local Code of Corporate Governance and to demonstrate best value. There continues to be an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.

Recommendation 6: The Council should ensure a permanent solution to internal audit provision is agreed to ensure appropriate capacity is in place to ensure the timely delivery of the 2022/23 and future internal audit plans.

Internal audit activity

The internal audit work planned for the year 2021/22 was mostly completed in line with planned deadlines by 31 March 2022. The internal audit team continued to face capacity restraints due to part-time deployment of two internal auditors to assist with the administration of Covid support grant payments alongside other staff absences. This has resulted in the level of actual audit days being 82% of the original plan. However, the chief internal auditor has concluded that the work performed during the year has been sufficient to inform the internal audit assurance opinion.

In addition to its ongoing programme of new reviews, internal audit continues to monitor the progress against existing recommendations and report to the Audit Committee on outstanding recommendations from internal and external parties, with a focus on those recommendations which are graded as higher priority.

In January 2022, a report was presented to Audit Committee proposing a mutual opt out of the Shared Internal audit services with Scottish Borders Council effective from 2022/23. The Council agreed that a transitional period would continue for the first quarter of 2022/23 to ensure the continued provision of internal audit services. Work has progressed to move towards a permanent solution, however at the time of writing, a permanent arrangement is not in place. While we note that internal audit activity is continuing, there is a risk that there is not sufficient capacity within the team to deliver the 2022/23 plan.

Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. The Council has continued to hold meetings remotely following the Covid-19 pandemic with minutes of meetings, including key decisions, publicly available via the Council website after the meetings. Key Council and committee meetings can be via livestream or video broadcasting.

We have continued to observe the Audit Committee throughout the year as part of our attendance at each meeting. We also monitor Council and other committee meetings through review of the agendas, supporting papers and minutes. We have observed that generally papers are sufficiently comprehensive to understand key matters, and there is evidence of scrutiny of management at these meetings.

The Audit Committee undertook its annual self-assessment of the effectiveness of its arrangements in January 2022. While the overall assessment was positive, the committee continued to note areas for improvement including the use of the CIPFA Skills and Knowledge Toolkit to support new and continuing members as well as continuing to obtain feedback on its performance from a range of officers and others who interact with the committee. The wider review against CIPFA guidance also noted that two of the current six elected members on the Audit Committee were in the Cabinet.

Prior year recommendation 6: The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.

Consistent with prior year's self-assessment, the Annual Report from the Audit Committee Chair recommends that consideration should be given to:

- Excluding the Audit Committee membership from the Scheme of Administration requirement; or
- Ensuring that the Membership of the Audit Committee should exclude members of the Cabinet.

In our view, the role of independent members on the committee, together with the benefit brought to the committee as a result of the wider roles and experience of the two Cabinet members, has outweighed any risk impacting independence. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. We would note that the role and membership of the Audit Committee is being actively considered by the new Council, following the local government elections in May 2022 and recruitment is underway for new independent members.

Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy on 25 August 2020.

Significant nominal savings have been identified from counter fraud activity in the year, including participation in the NFI exercise underlining the importance of such activity at the Council.

The Integrity Group continues to operate with the purpose of the Group being to improve the Council's resilience to fraud, corruption, theft and crime. The Group has met bi-monthly during 2021/22.

The Counter Fraud Annual report was presented to Audit Committee in June 2022 setting out the counter fraud work undertaken during the year in support of the Council's counter fraud policy and strategy. The report notes that as result of counter fraud activity, a total nominal savings value of £0.84 million has been identified during the year largely attributable to tenancy frauds with the nominal value assigned based on Audit Scotland guidance. In addition, the Council 's participation in the National Fraud Initiative 2020/21 identified £0.7 million of estimated savings mostly attributable to Council tax and housing tenants. The exercise has also considered Covid-19 support grants with 8 cases being identified as paid in error or fraudulent.

We are satisfied that the Council had appropriate arrangements in place to prevent fraud and corruption during 2021/22 with appropriate reporting of activity and associated outcomes. We note that counter fraud activity has historically been supervised in part by both the Principal Internal Auditor and the Chief Internal Auditor. Following the changes to the internal audit provision and capacity, the Council should ensure that appropriate capacity remains to undertake the appropriate level of counter fraud activity.

A comprehensive induction programme was developed to support members in undertaking their new roles.

Elected Member Induction Programme

Following the local government elections in May 2022, the Council established an elected member induction programme to ensure members had appropriate training and support to deliver their responsibilities. The programme was largely delivered virtually and covered key areas including standing orders and governance; local government finance and capital strategy and treasury management. The Council should continue to engage with members on ongoing training and development requirements.

Value for Money

Our overall assessment: Green

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. While we observed improvements being piloted to the presentation of performance reports to members in the prior year, we note reports to both committees and available to the public, continue to be heavily narrative based resulting in performance being harder to readily interpret. Dashboard reporting is continuing to be used within some areas and should be expanded.

We note that performance as reported through the annual balanced scorecard has improved this year with 61% of indicators being on track for delivery compared to 52% in 2020/21. While there remains further scope for improvement, the Council has demonstrated continuous improvement after challenging years associated with the Covid-19 pandemic.

Performance Management framework

Prior year recommendation 7: The Council's performance reporting should continue to be reviewed to ensure performance can be readily assessed and scrutinised including through greater use of graphics where appropriate.

The Council monitors its performance against its plans and performance indicators throughout the year. Quarterly scorecards are provided by management to both Council's Cabinet and Performance, Review and Scrutiny Committee, and are made available for public information as part of the committee papers on the Council's website in addition to the Council's dedicated performance reporting website area. These reports outline the full set of performance indicators included by the Council in its corporate plan, and the current performance of each indicator against targets summarised through a 'RAG' rating system.

Performance reports available publicly, including quarterly updates, continue to be heavily narrative based. We do, however, note that elected members have direct access to more detailed performance data within the Pentana Browser. We note that some directorates have been trialling performance dashboards, showing a graphical representation of data. Following the local government elections, management should continue to review the presentation of performance reports, including seeking member feedback to ensure data is presented in the most accessible manner which supports members in performing their scrutiny role effectively.

2021/22 Performance Outcomes

The 2021/22 Annual Performance Report outlines a number of key achievements during the year, including the changes made to service delivery as a result of the ongoing impact of the pandemic which improved partnership working. The report recognises the significant challenges that services experienced and how teams responded to the challenges that the pandemic brought. This year, the report notes a particular focus on how to secure permanent change to the way services are delivered to build back better. The key corporate performance indicators for 2021/22, as established and reported by the Council, are in line with prior year with 5 of the Corporate Performance Indicators remaining classified in the red category (*2020/21: 5*).

The Council has demonstrated improvement across a range of indicators as reported through the Annual Balanced Scorecard. Improvements are also noted in the number of indicators where data is available in a more timely manner.

Accountability and delivery of improved outcomes

Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan alongside other services indicators. The final balanced scorecard for 2021/22 was presented to the Performance, Review and Scrutiny Committee in June 2022. This reports that, for those indicators where data is available in relation to the Single Midlothian Plan, 67% of indicators are on track for delivery (2020/21 – 52%), demonstrating a significant improvement. This trend also continued across all balanced scorecard indicators with 61% being on track for delivery, an improvement from 53% in 2020/21. While the Council has reduced the number of indicators reported against, we also noted a significant reduction in the number of indicators where no data was available.

As part of its response to the Best Value Assurance Report, the Council has implemented a digital dashboard performance management system to allow elected members to have access to up to date performance data, along with mitigating actions for all indicators.

Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report:

- performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments; and
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

The Council has been required to meet the requirements of the revised Statutory Performance Information Direction from 2019/20.

The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. The Council has made a link available to LGBF results for 2020/21 on their website however a change in approach has been agreed for the Council's own analysis of the data where by a more targeted improvement plan for identified indicators is being developed. At the time of drafting this report, the Council's analysis of the LGBF data for 2020/21 is yet to be finalised.

In line with observations in 2020/21, we note that while the Council continues to publish performance reports regularly on the Council website, the Public Performance report for 2021/22 is yet to be published at the time of writing.

Best Value

Our overall assessment: Amber

Forming our judgement

As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon:

- The findings of Audit Scotland's Best Value Assurance Report (BVAR), which was published in July 2019;
- The results of the Best Value Follow Up review conducted by Audit Scotland in 2020/21; and
- The programme of work that we have conducted throughout our appointment to consider each area of Best Value. Our specific areas of focus in 2021/22 were in relation to the Council's approach to equalities and sustainability. We also take into account our wider scope responsibilities and reporting.

Our 2020/21 work included a focused review of the progress made against the Council's approved improvement plan in response to the Best Value Assurance Report. We noted good progress had been made with 7 out of 8 findings assessed as green. The outstanding recommendation related to Audit Scotland's finding that elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.

As we note on page 35, the Council has developed a programme of induction training for elected members, including specific learning on Council services. In addition, the Council has recently introduced personal development plans for elected members. Following the elections in May 2022, we understand that individual members will take ownership for completing the plans and identifying areas where they wish to see more development opportunities.

While a number of actions have been superseded or completed, we recommend that the new administration considers the key themes from the report, particularly as work progresses on setting the medium term financial strategy.

Equalities

The Council's corporate management team and elected members drive the Council's equalities activities and oversee progress through the planning framework. The Single Midlothian Plan (SMP) sets out the shared vision for the Council and the Community Planning Partnership (CPP). This has a clear focus on equalities and fairness.

The Council and partners develop the vision each year through an inclusive process. This involves community groups and third sector bodies, and planning days to identify priorities. The Midlothian CPP has undertaken a local profile exercise using SIMD analysis of relative deprivation. This has allowed it to target its activities on three areas of deprivation: Dalkeith Central/Woodburn, Mayfield/Easthouses and Gorebridge.

The Council's Equality Plan 2021-25 sets the Council's commitment to tackling inequality and promoting inclusion.

Recommendation 7: The Council should develop more specific and measurable targets to demonstrate its progress with its equality and fairness agenda.

The Midlothian Equality Plan 2021-2025 includes six equality outcome themes along with success measures and supporting actions to monitor progress. Partners used the Equality and Human Rights Commission's (EHRC), 'Is Scotland Fairer 2018', as the basis for developing the framework.

The Equality Plan recognises that the Covid-19 pandemic has magnified the disadvantages faced by certain groups of people. It notes that equalities groups at higher risk of disadvantage are facing increased technology, language and literacy barriers. These factors have been considered within the Covid-19 recovery plan.

The Equality Act 2010 requires all public bodies to publish equality outcomes at least every four years. The Council's Equality Mainstreaming & Outcomes Progress Report for 2019-21 sets out a broad range of activity and strategies that have contributed to its equalities outcomes, but there is scope to develop more specific and measurable targets to fully reflect the Council's equality and fairness agenda. We understand that the Council intends to develop and refine targets along with its wider performance framework.

Since 2016, the Council has made use of an Integrated Impact Assessment (IIA) tool to consider equality and the impact of its decisions on those with protected characteristics. It has updated its IIA practice to take a wider perspective on socio-economic inequality, health inequalities, environmental and sustainability. This is an example of good practice, reflecting the 2018 Fairer Scotland Duty which requires local authorities to actively consider how they can reduce inequalities of outcome caused by socio-economic disadvantage. IIAs are quality-assured by the Equality and Diversity Officer and accompany committee reports for Elected Members' decisions.

The Council has a programme of equality, diversity and human rights awareness training, supported by a range of policies. This was put in place as part of its Equality Plan 2017-2021 and Equally Safe at Work Accreditation Process. The corporate management team and elected members are updated on Equality, Diversity and Human Rights Awareness and the Integrated Impact Assessment. We also note that officers involved in service planning and delivery are given detailed training in undertaking equalities impact assessments to ensure services consider local needs.

The Council has committed to work with Trade Unions and regularly review its pay and progression systems to ensure that they are fair and non-discriminatory. As at 31 March 2022, the gender pay gap for all Council employees between average hourly rates of pay for male and female narrowed to 2.52%, compared to 2.7% in 2020/21. The Council has also redesigned its terms and conditions to integrate the Living Wage to ensure that as many employees benefit from the Living Wage as possible, as such the minimum salary point paid to local government workers is above that defined as the Scottish Local government Living wage.

The Scottish Government has set a target to be net-zero by 2045; 5 years ahead of the UK target.

Midlothian Council is one of 9 councils who have committed to an ambitious target to achieve net zero on its buildings, energy and transport emissions by 2030.

Climate Change and Sustainability

In September 2022, the Accounts Commission issued a briefing paper on Scottish council's response to climate change. This recognised the critical role of councils in achieving the Scottish Government's legally binding target to achieve net zero by 2045.

The briefing notes that there are significant variations in the measures and timelines that councils have set to reach net zero. Midlothian Council is one of 81% of Scottish Councils to have set a target to reduce the council's own emissions. Midlothian, along with eight other councils have committed to reducing their own emissions to net zero by 2030. A further 14 councils have set equivalent targets by 2045. Seventeen councils have set targets for council area-wide emissions.

The Council published its Climate Change Strategy in August 2020. The strategy is ambitious and recognises the key actions necessary to mitigate and adapt to climate change. An action plan is in place to reduce emissions and the Council's carbon footprint. More recently, the commitment to climate change has been recognised within the Single Midlothian Plan 2022/23, which sets out a vision that Midlothian will be a "*Great Green Place to Grow by achieving our net zero carbon ambitions*."

A Midlothian Climate Emergency Group has been established with other community partners to develop and monitor the progress made against the ambitious targets.

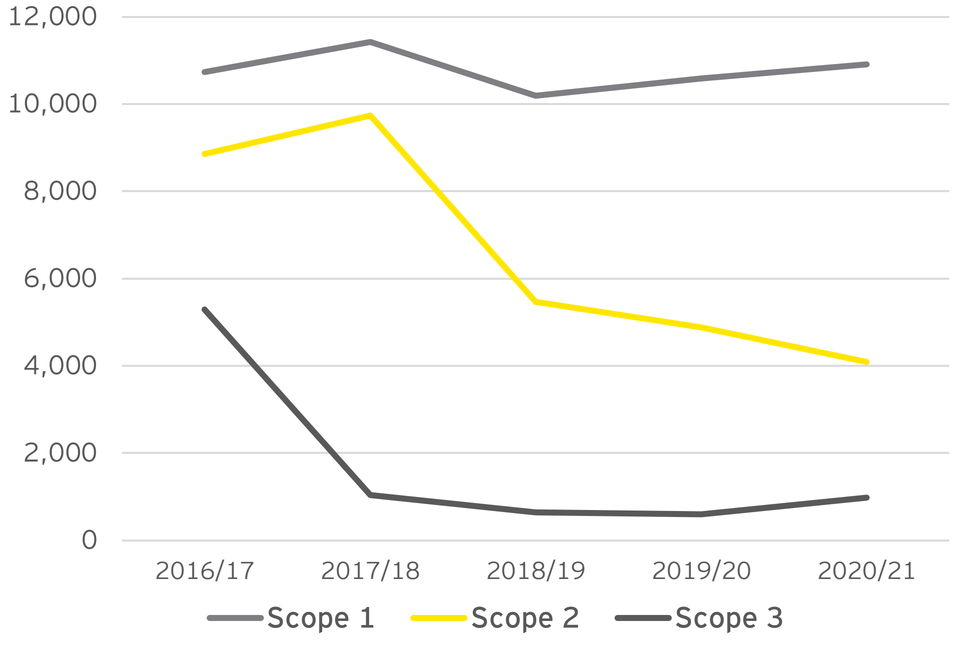
Alongside this, the Council has recognised the importance of climate change within other key strategies including:

- The role of Capital Investment Strategy 2020-30 in building in sustainability. This includes the largest Passivhaus programme in Scotland, to build 182 council dwellings that will be built in line with Midlothian Council's Net Zero Housing Design Guide. This ensures that each house will achieve very high levels of energy efficiency, with corresponding low utility bills for tenants;
- The Learning Estates Strategy, including the requirement to build the replacement for Beeslack Community High School to Passivhaus standards; and
- The Council also continues to work with Midlothian Energy to develop the business case options for addressing building fabric and energy decarbonisation of the existing estate. It's initial project is a low carbon district heating network for the Shawfair new town development.

- Scope 1 emissions are direct emissions that are released into the atmosphere from sources that are owned or controlled by the Council.
- Scope 2 emissions are indirect emissions from the generation of purchased energy, which for most organisations are primarily emissions released during the generation of the electricity it uses.
- Scope 3 emissions are all other indirect emissions that occur because of an organisation's activities but from sources not owned or controlled by the Council.

Recommendation 8: The Council must review whether current actions are sufficient to meet its 2030 target. This should include an assessment of the level of future investment required and the affordability of these investments in the context of the Council's MTFS.

Exhibit 7: The Council reports within its annual climate duties report that it has reduced emissions by 36% since 2016/17, but the impact on Scope 1 emissions have increased over the period



Source: Annual Report on Compliance with Climate Change Duties submitted to the Sustainable Scotland Network, 2020/21

While the Council has met its public duty to report to the Sustainable Scotland Network, we note that there are not yet any arrangements to validate or peer review the levels of emissions reported. The Council reports on a number of aspects of climate action within its quarterly reporting to the Cabinet, covering aspects such as:

- The impact of LED street lighting on reducing carbon emissions;
- The percentage of waste going to landfill; and
- The percentage of council fleet which is "green. "

However, it is difficult for elected members to assess the progress against the 2030 carbon neutral target, and therefore whether it is likely to be achievable based on current levels of investment. The Council's Strategic Risk Register notes that climate change is regarded as a "red" risk but the actions in place currently focus on recruiting a Climate Change Officer and development of a Carbon Management Plan, including the development of a standard methodology for measuring and accounting for carbon emissions.

Looking ahead: Sustainability Reporting

Significant advances have been made in sustainability reporting in the corporate sector and central government sectors over a number of years. There are not yet any mandatory emissions measurement and reporting requirements for local government, although it is an area many local authorities are exploring.

Mandatory requirements are likely to be required in the coming years. In March 2022, the International Sustainability Standards Board issued an Exposure Draft consultation, on requirements for the disclosure of climate-related matters. The proposals in the exposure draft set out requirements for identifying, measuring and disclosing climate-related risks and opportunities based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The consultation closed on 29 July 2022. In Appendix G we set out the key reporting areas of TCFD disclosures, along with annotations in green boxes with recommendations of good practice from other sectors.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Action plan, including follow up of prior year recommendations

E – Adjusted errors identified during the audit

F – Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.
Financial Statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. • Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

Matters that we are required to communicate	The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.
Confirmations	We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy. We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard. We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Audit Fees

	2021/22	2020/21
Component of fee:		
Total agreed auditor remuneration	£152,060	£148,890
Additional audit procedures (see below)	£22,500	£27,300
Audit Scotland fixed charges:		
Pooled costs	£15,850	£14,160
Performance audit and best value	£67,040	£66,860
Audit support costs	£8,120	£8,190
Total fee	£265,570	£265,400

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Through the 2021/22 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the additional procedures in respect of infrastructure assets (£9,500) as well as additional work following the reduction of our materiality (£9,000) and PPE valuations (£4,000). For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

Matters that we are required to communicate	International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The EY 2021 UK Transparency Report can be accessed on our website at EY UK 2021 Transparency Report | EY UK. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report. The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it. Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ). Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures. Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.
Audit Quality Framework / Annual Audit Quality Report	Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission. We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland. The most recent audit quality report which covers our work at the Council since appointment can be found at: Quality of public audit in Scotland annual report 2021/22 (audit-scotland.gov.uk)

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan
Significant findings from the audit ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Annual Audit Report
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Annual Audit Report
Fraud ▸ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Annual Audit Report

Required communication	Our reporting to you
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	No significant matters have been identified.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan This Annual Audit Report – Appendix B
Internal controls Significant deficiencies in internal controls identified during the audit	This Annual Audit Report – no significant deficiencies reported
Subsequent events Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Annual Audit Report
Consideration of laws and regulations ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Annual Audit Report or as occurring if material.
Group audits ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Annual Audit Plan This Annual Audit Report

Appendix D: Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

New recommendations Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
1	Audit procedures in respect of valuations continued to note a number of errors and areas for improvement: • Omission of a school campus from the valuation report; • Formula errors within the housing valuations; • Supporting evidence for valuation not being readily available; • Limitations in valuation methodology in respect of assets with lower useful lives	The valuation methodology adopted by the Council's internal valuers should be subject to review to ensure it remains in line with best practice. This should include a review of the quality review arrangements in place to reduce errors in valuations. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: Chief Officer Place **Implementation date**: 31 March 2023
2	The statutory override in respect of infrastructure assets is intended to be a short-term solution to issues in respect of accounting for infrastructure assets.	The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: S95 Officer/Chief Officer Place **Implementation date**: 31 March 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
3	The Council has identified significant budget gaps within initial drafts of the MTFS however to date no plans to address these gaps have been identified and agreed.	As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council's transformation plans. It is imperative for measures to be agreed to balance the 2023/24 budget urgently. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Executive **Implementation date**: 11 March 2023
4	Our audit work in 2021/22 identified an increased number of adjustments and control observations including in relation to bank reconciliations, cut-off and ability to generate accurate listings from the Council tax system.	Officers should review both the errors and control observations identified during the audit and ensure appropriate improvement actions are identified to prevent future occurrences. *Grade 2*	**Response**: Recommendation Accepted **Responsible officer**: S95 Officer **Implementation date**:31 March 2023
5	The Council's experienced and knowledgeable Section 95 officer leaves the Council in October 2022. Interim arrangements are in the process of being finalised however there is likely to be reduced capacity within impacted teams including finance while a permanent arrangement is implemented.	Management should ensure appropriate handover arrangements are in place for the section 95 officer and ensure the finance team continues to have sufficient skills, capacity and capability. Grade 2	**Response**: Recommendation Accepted **Responsible officer:** Executive Director Place **Implementation date**: 4 October 2022

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	**Findings and / or risk**	**Recommendation / grading**	**Management response / Implementation timeframe**
6	The Council's internal audit team has continued to experience capacity challenges with audit days available being 82% of planned capacity. The shared services arrangement with Scottish Borders Council has ended and work to finalise a revised arrangement is ongoing.	The Council should ensure a permanent solution to internal audit provision is agreed to ensure appropriate capacity is in place to ensure the delivery of the 2022/23 and future internal audit plans. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Executive **Implementation date**: 31 December 2022
7	The Council's Equality Mainstreaming & Outcomes Progress Report for 2019-21 sets out a broad range of activity and strategies that have contributed to its equalities outcomes. However, the Council could benefit from more specific and measurable targets to demonstrate progress.	The Council develop more specific and measurable targets to demonstrate its progress with its equality and fairness agenda. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Continuous Improvement Manager **Implementation date**: 31 March 2023
8	The Accounts Commission published a briefing in September 2022 noting that councils have a critical role in helping Scotland achieve its national climate change goals and that climate change must be central and integral to all council activity. In our view, the reporting against the Council's target to be carbon neutral by 2030 is insufficient to target interventions.	The Council must review whether current actions are sufficient to meet its 2030 target. This should include an assessment of the level of future investment required. *Grade 1*	**Response**: Recommendation Accepted **Responsible officer**: Chief Officer Place **Implementation date**: 31 March 2023

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term. *Grade 1*	Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS. Responsible officer: **BTSG** Implementation date: **11 February 2020**	While plans are in place for the 2021/22 and 2022/23 budgets, the Council is relying on one-off measures. Significant work is required to develop a revised MTFS for the next administration. **Our assessment:** Superseded by current year recommendation 3
2	The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting. *Grade 2*	Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end. Responsible officer: **Head of Finance & ISS** Implementation date: **31 March 2020**	Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control. **Our assessment:** Complete
3	The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny. *Grade 3*	Responsible officer: **Quality & Scrutiny Manager** Implementation date: **31 March 2020**	While significant improvements have been made to the Council's performance reporting capability, we note that the development of a new strategic plan and MTFS creates opportunities to review indicators. **Our assessment:** Ongoing

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
4	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty. The completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include: - Reducing the time between full valuations for all major individual asset classes; - Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and - Ensuring up-to-date condition surveys are in place for all assets. *Grade 2*	**Response**: Accepted. A review of the asset valuation arrangements will be undertaken in preparation for the 2021/22 year end. Changes arising will be reflected in the formal engagement with the internal valuation team and in the final accounts project plan. **Responsible officer**: Chief Officer, Corporate Solutions **Implementation date**: 31 March 2022	We note that the Council has reduced the time between full valuations for major asset classes such as council dwellings and schools. However, up-to-date condition surveys are not in place. We are aware a timetable for obtaining condition surveys is now in place. **Our assessment:** Superseded by current year recommendation 1
5	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge. *Grade 3*	**Response**: Accepted. In preparation for the 2021/22 Annual Governance Statement a review of the structure will be undertaken and changes reflected in the draft Annual Governance Statement for 2021/22 **Responsible officer**: Chief Internal Auditor/Legal Services Manager **Implementation date**: May 2022	While we have observed improvements in the Annual Governance Statement, we consider there remains scope to review the structure and content to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge. **Our assessment:** Ongoing

Follow up of prior year recommendations

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
6	We note that the role and membership of the Audit Committee should be considered by the new Council, following local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment. *Grade 2*	**Response:** Accepted. The review will form part of the review of Standing Orders and the Scheme of Delegation in preparation for the next term of Council. **Responsible officer:** Executive Director Place **Implementation date:** May 2022	The review of the committee structure remains ongoing following the recent elections. **Our assessment:** Ongoing
7	Quarterly and annual performance reports presented to Cabinet and Performance, Review and Scrutiny Committee are heavily narrative based. Council officers have been exploring alternative formats for presenting data including the introduction of graphics such as charts, trend analysis however Committee reports, which are also publicly available, continue to contain significant narrative analysis. Officers should work with members to ensure performance reports are presented in a manner which supports effective challenge and scrutiny, including through the use of more graphical presentations. *Grade 3*	**Response:** Accepted. Work is underway to progress dashboards which will supplement quarterly reporting data currently available to elected members via 'Pentana Browser'. In addition these will be publicly available ensuring more timely and accessible performance information is published on the Council's website. The intention is to introduce dashboards as part of improvements for the performance management cycle for 2022/23. **Responsible officer:** Continuous Improvement Manager **Implementation date:** September 2022	We note that dashboards have been reported for some directorates to recent Cabinet meetings. However this is not common practice across all areas and are submitted as an Appendix to the narrative based reports. **Our assessment:** Ongoing

Appendix E: Summary of adjusted differences identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were no unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	**Description**	**Income and Expenditure Impact / £000's**	**Balance Sheet Impact / £000's**
1	Council Dwellings Valuation – correction of formula used to calculate discount rate.		Dr Revaluation Reserve 8,221 Cr PPE – Council Dwellings 8,221
2	Assets Under Construction- non-recognition of construction costs.		Dr PPE – AUC 1,422 Cr Creditors 1,422
3	Loanhead Centre – asset missed from valuation cycle		Dr PPE – Buildings 1,682 Cr Revaluation Reserve 1,682
4	Retentions – Danderhall Primary School		Dr PPE – Buildings 1,830 Cr Creditors 384 Cr Revaluation Reserve 1,446
5	Debtors/Bank Reconciliation		Dr Cash & Bank 1,142 Cr Debtors 1,142
6	Beeslack High School Valuation		Dr Revaluation Reserve 2,495 Cr PPE – Buildings 2,495
7	NDR Bank Reconciliation		Dr Debtors 6,088 Cr Cash & Bank 6,088
8	Creditors/Bank Reconciliation		Dr Creditors 414 Cr Cash & Bank 414
9	Reclassification between Land & Buildings		Dr PPE – Land 483 Cr PPE – Buildings 483

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2021/22 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Audit Activity	Deliverable	Timing
▸ Onsite fieldwork, documentation and walkthrough of key accounting processes ▸ Scoping of wider scope work for year	Annual Audit Plan	Finalised and submitted to Audit Scotland March 2022
▸ Review of current issues impacting the Council ▸ Review of reported frauds	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
▸ Year-end substantive audit fieldwork on unaudited financial statements ▸ Conclude on results of audit procedures ▸ Issue opinion on the Council's financial statements	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	*[Financial statements audit and annual audit report on course for submission September 2022.]* WGA guidance and further minimum dataset return requests awaited.
▸ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	On course for completion October 2022
▸ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On course for completion October 2022

Appendix G: Likely developments in sustainability reporting

In the corporate sector, significant financial reporting developments has meant that there has been a step change in the level of climate related disclosures within company financial statements. There is not yet an equivalent requirement for local government accounting, but guidance from the Scottish Government recently issued Public Sector Leadership on the global climate emergency guidance which recommends that public bodies should consider reporting to external frameworks such as the Taskforce for Climate Related Financial Disclosure. We outline the key elements below:

Cross-reference to where the disclosure can be found. If cross-referencing to another document, explain why the information is not included in the annual report.

The governance processes, controls and procedures the entity uses to monitor and manage climate related risks and opportunities

How climate related risks and opportunities are identified, assessed, managed and mitigated

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for next reporting cycle

Consider commenting on progress in preparing a climate transition plan

Consider commenting on progress in being able to report scope 3 GHG emissions

TCFD elements	TCFD recommendations	Cross-reference or explanation of non-compliance	Next steps and other comments
Governance	a. Board oversight		
	b. Management's role		
Strategy	a. Climate-related risks and opportunities		
	b. Impact on the organisation's businesses, strategy and financial planning		
	c. Resilience of the organisation's strategy to climate-related risks		
Risk Management	a. Risk identification and assessment processes		
	b. Risk management process		
	c. Integration into overall risk management		
Metrics and Targets	Climate-related metrics in line with strategy and risk management process		
	Scope 1, 2 (and 3) Green House Gas (GHG) metrics and the related risks		
	Climate-related targets and performance against targets		

Source: Adapted from Continuing the journey towards TCFD compliance, EY Centre for Board Studies, May 2022

Audit Committee
Tuesday 27th September 2022
Item No 5.2

Annual Accounts for the year ended 31 March 2022

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendation

Audit Committee is recommended to approve the 2021/22 audited accounts for signature in light of the appointed auditor's report for 2021/22.

2 Purpose of Report/Executive Summary

The purpose of this report is to present the Council's audited Financial Statements for 2021/22 to Audit Committee and to provide a brief overview of findings during the audit process.

16th September 2022.

Report Contact:
David Gladwin Tel No 0131 271 3113
E mail david.gladwin@midlothian.gov.uk

3 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30th June 2022 and they were examined in detail at Audit Committee on Wednesday 29th July 2022.

3.1 Regulations

The Local Authority Accounts (Scotland) Regulations 2014 set out the requirements for completion, approval and signing of the accounts which are as follows.

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

(a) Meet to consider the audited Annual Accounts; and

(b) Aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.

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

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

(a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;

(b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;

(c) the annual governance statement by the Chief Executive and the Leader of the Council;

(d) the remuneration report by the Chief Executive and the Leader of the Council; and

(e) the balance sheets by the proper officer, to authorise publication of the financial statements.

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

10 (5) The person who signs the statement of responsibilities as Leader of the Council must certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.

10 (6) The proper officer must certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

10 (7) Following the signature of the Annual Accounts, the proper officer must provide the Annual Accounts, including the signed statements, to the auditor.

10 (8) Any further report provided by the auditor following the signature of the Annual Accounts which relates to those accounts must be considered by the local authority or a committee of that authority whose remit includes audit or governance functions.

Accordingly the accounts are presented to Audit Committee today as required by the regulations alongside the Annual Report to Members and the Controller of Audit – year ended 31 March 2022 prepared by the appointed external auditor, Ernst & Young LLP.

The external auditors report will also be presented to Council on Tuesday 15th November 2022 and a copy of the audited accounts will be provided to all members of Council.

3.2 Audit findings

EY have issued an unqualified audit opinion on the 2021/22 financial statements for the Council and its Group.

Property Plan and Equipment (PPE)

Five changes to the unaudited accounts have been made in respect of the valuation and accounting for assets as outlined below with a net reduction of £5.781 million in the value of PPE shown on the Balance Sheet. This equates to a 0.52% reduction on the figure shown in the unaudited accounts.

- Correction of one of the formulae used to calculate the discount rate applied to gross house values to calculate existing use value for social housing. The carrying value in the balance sheet was overstated by £8.221 million in the unaudited accounts;
- Correction of the treatment of £1.422 million of invoices relating to HRA capital expenditure in 2021/22 but accounted for in 2022/23;
- Omission of the Loanhead Centre from the valuation list. It's carrying value in 2021/22 is £1.682 million;
- Revaluation of the recently completed Danderhall Centre which was valued at cost in the unaudited accounts. Due to the significant difference between cost of build and replacement cost using the most recent Scottish Future Trust metrics the carrying value has been increased by £1.830 million;
- A reduction in the value of Beeslack Community High School of £2.495 million to reflect latest information on estimated useful life and remaining economic benefit of the asset.

Cash and Cash Equivalents, Short Term Debtors and Creditors

Three changes to the unaudited accounts have been made relating to the timing of transactions around the financial year end and their treatment in the Council's Balance Sheet. These only result in changes to the classification between Balance Sheet categories. The cumulative impact is a £5.359 million reduction in Cash and Cash Equivalents, a £0.414 million reduction in Short term Creditors and a £4.945 million increase in Short Term Debtors with no net impact on Net Assets.

- Income of £1.422 million that was received on 31st March but not matched to the outstanding debtor until 1st April thus it was accounted at 31st March 2022 as a Short Term Debtor rather than as Cash or Cash Equivalents;
- Income of £6.088 million relating to Non Domestic Rates collection by the City of Edinburgh Council on behalf of Midlothian Council that was paid over in early April rather than in March. This was accounted for as Cash and Cash Equivalents in the unaudited accounts rather than as a Short Term Debtor;

- Incorrect treatment of payments to contractors. Invoices to the value of £0.414 million were paid in 2021/22 but shown in the unaudited accounts as Short Term Creditors.

In addition there is a presentational change in the PPE disclosure note (note 14) reclassifying land held at Stobhill Depot from Buildings to Land. The carrying value is £0.414m.

The combined impact of changes described above is reduction of £7.588 million in the Council's Net Assets matched by movements in Unusable Reserves. There is no impact on the financial outturn for the year or the Useable reserves at 31st March 2022 as reported to Council on 28th June 2022.

3.3 Management Commentary, Annual Governance Statement and Disclosures

As indicated by EY the unaudited financial statements were prepared to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, the finance team worked with EY to make amendments and enhancements to the presentation of the financial statements.

In addition enhancements were made to both the Management Commentary and the Annual Governance Statement.

4 Report Implications (Resource, Digital and Risk)

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

4.2 Digital
There are no digital issues arising directly from this report.

4.3 Risk
Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs. The Council's Standing Orders and Financial Regulations detail the responsibilities of members and officers in relation to the conduct of the Council's financial affairs.

4.4 Ensuring Equalities
There are no equality implications arising directly from this report.

4.5 Additional Report Implications
See Appendix A

Appendix A – Additional Report Implications
Appendix B – Draft Audited Annual Accounts 2021/22

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The financial statements set out the utilisation of resources committed to support the delivery of the key priorities in the single Midlothian Plan.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

The proposals in this report do not directly impact on performance or outcomes.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

Appendix B

MIDLOTHIAN COUNCIL AUDITED ANNUAL ACCOUNTS

2021/22

Midlothian

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Table of Contents

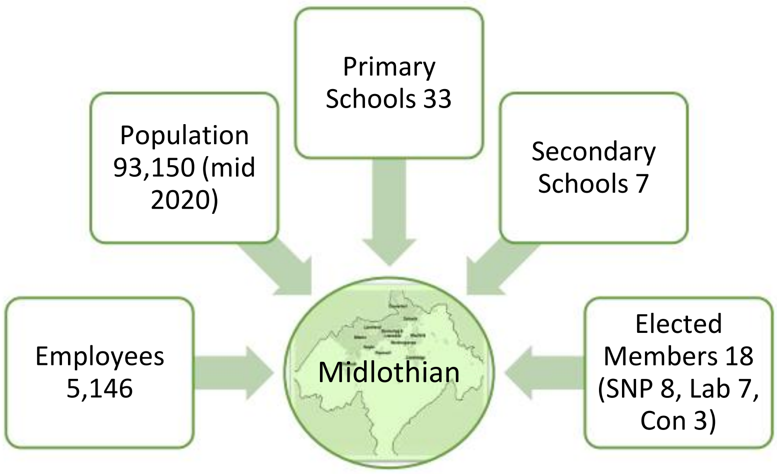
Management Commentary

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

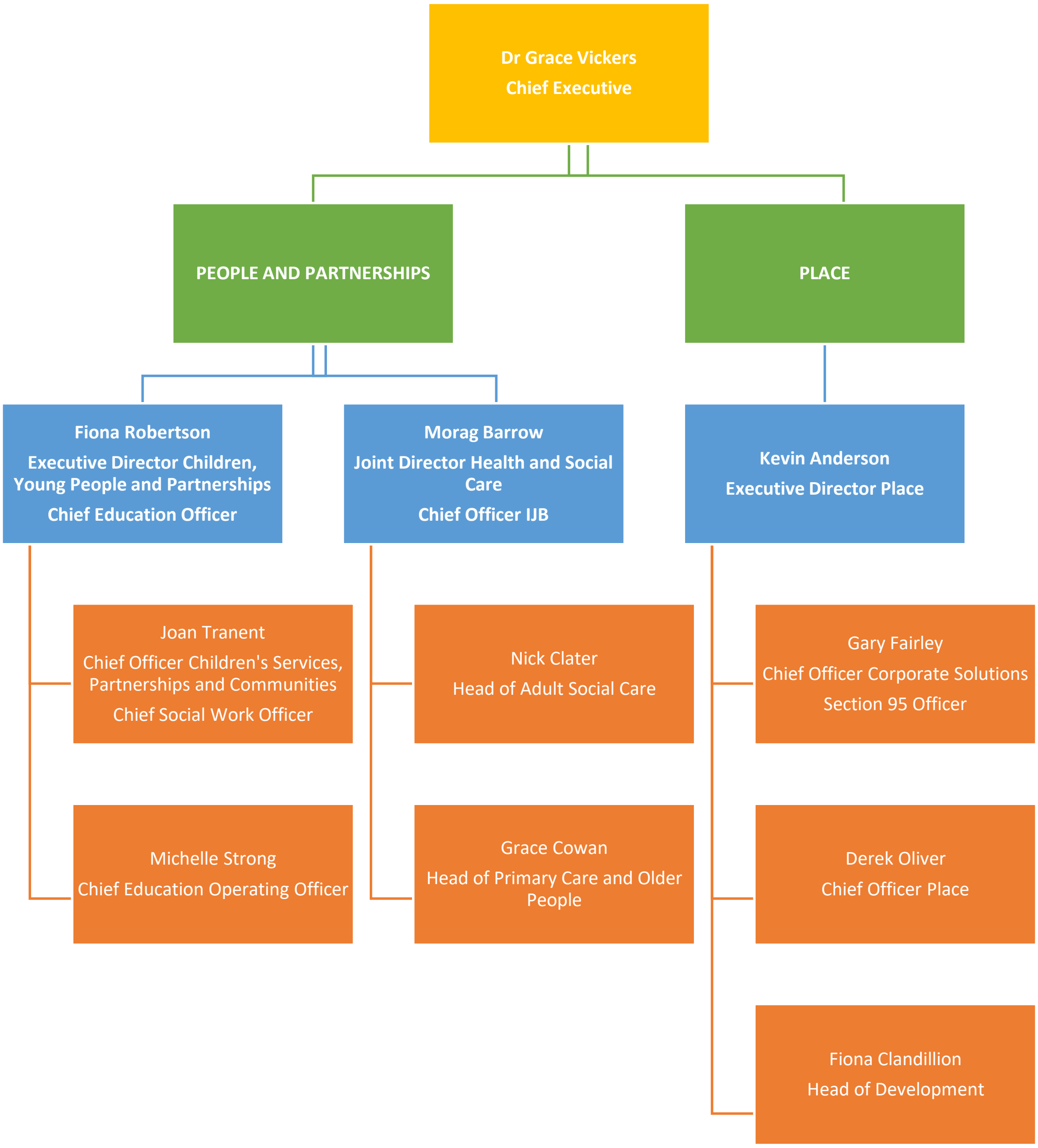
Midlothian Council is located south of Edinburgh centred on the main towns of Penicuik, Dalkeith, Bonnyrigg and Lasswade. One of the smaller local authority areas, but also the fastest growing, it has emerged as a world centre for the Bioscience industry. Some key facts about Midlothian are:



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"***.

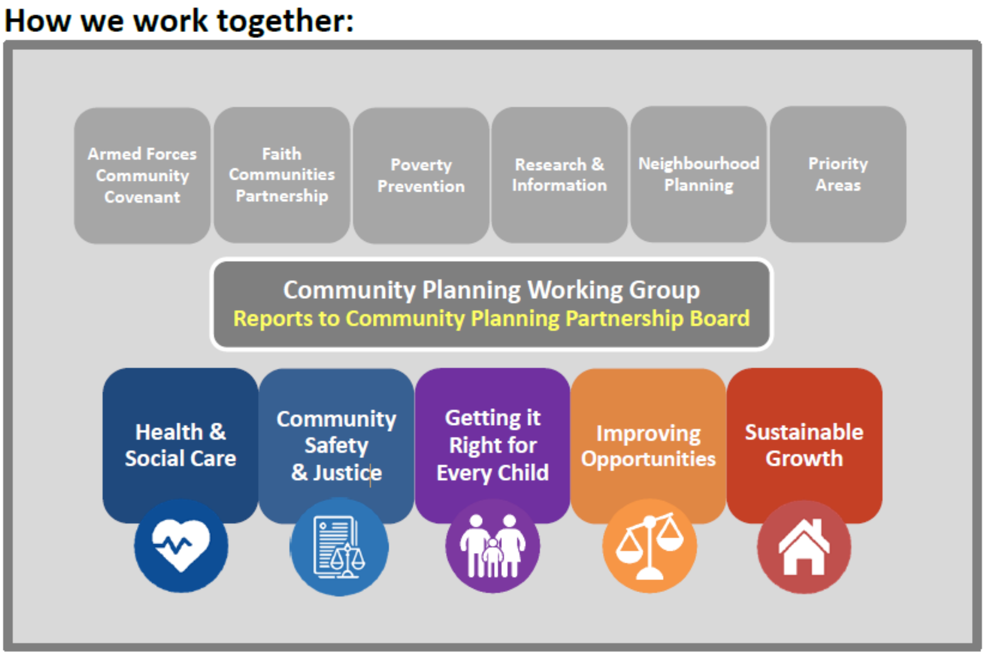
The Council outlines its key objectives and associated performance indicators in annual service plans formally approved each year. These plans primarily relate to the Council's core, and often, statutory duties, which are mainly the responsibility of the local authority rather than the wider CPP.

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.

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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:

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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 £000	31 Mar 21 Group £000		31 Mar 22 Midlothian Council £000	31 Mar 22 Group £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 Surplus or Deficit on the Provision of Services £000	2020/21 Other Comprehensive Income and Expenditure £000		2021/22 Surplus or Deficit on the Provision of Services £000	2021/22 Other Comprehensive Income and Expenditure £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 £000	**Fair Value (New Loan Rate) £000**	**Financial Liabilities**	**Carrying Amount £000**	**Fair Value (New Loan Rate) £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.

Risk Management Update – Strategic Risk Profile Quarter 1 2022/23

Report by Derek Oliver, Chief Officer Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Note the current risk landscape and organisational response to the most significant risks in Quarter 1 (Q1) 2022/23 (1 April to 30 June 2022)

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with:

- An update on the risk responses Midlothian Council has implemented during Q1 2022/23 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current risks
- Strategic opportunities for the Council

12 September 2022

Report Contact:
Derek Oliver, Chief Officer Place

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3 Q1 risk management overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 1 2022/23 (1 April to 30 June 2022) whilst operating within challenging circumstances as the county recovers from a global pandemic.

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

3.3 During Q1, the Strategic Risk Profile (SRP) has been subject to an annual review. This has resulted in the addition of one new risk (National Care Service Bill) and the deletion of two previous risks (Information Governance and Scottish Child Abuse Claims Project) to the Strategic Risk Profile.

National Care Service (NCS) Bill

3.4 In August 2022 the Scottish Government launched a 12 week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the NCS Bill which will provide the foundation for the NCS.

3.5 A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.

3.6 An officer working group has been established to maintain oversight of the Bill's progress as it moves through the various Parliamentary stages. The Working Group will also engage with the Design School and public bodies to influence the consultation and Bill development. A briefing was provided to members on the information that we have to date in August 2022.

3.7 The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be. At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care. It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill. On this basis the risk has been added to the SRP and evaluated as 'Medium' as there are a number of unknowns.

Information Security

3.8 It is proposed to remove SRP.RR.06 ‘Information Security’ as this risk is now assessed to be business as usual. The risk was added following the introduction of the General Data Protection Regulation in 2018. Since then a range of control measures have been implemented to manage this with some examples as per below:

- Establishment of the Information Management Group
- Achievement of Public Sector Network compliance
- Implementation of GDPR project plan and Scottish Government Cyber Security Action Plan
- Delivery of an information management awareness raising programme including the roll out of mandatory e-learning for all employees and elected members
- Review of data sharing arrangements contained within contracts

Cyber security still remains a threat and will remain on the SRP as a separate risk.

Scottish Child Abuse Claims Project

3.9 The Limitation (Childhood Abuse) (Scotland) Act 2017 came into force on 4th October 2017. The Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime has retrospective effect (up to including 1964).

3.10 The risk at the time was that Midlothian Council may have received claims, which could have negative reputational and financial impacts. In response to this risk, the Council established a Claims Working Group to prepare for the management of any claim that may have been received (including support for victims). The Claims Working Group established a process (‘Claims Procedure’) for dealing with the claims.

3.11 In December 2021, the Scottish Government’s Redress Scheme opened for applications. Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, was passed by the Scottish Parliament earlier in 2021. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme.

3.12 As this scheme is managed through Scottish Government it is now proposed to remove SRP.RR.14.2 ‘Scottish Child Abuse Claims Project’. It is noted that file reading still continues therefore the risk relating to the inquiry will remain on the SRP.

Strategic Risk Profile Summary

3.13 The SRP is split into three sections:

- Strategic issues
- Strategic risks
- Opportunities

STRATEGIC ISSUES - SUMMARY

Strategic issues	Likelihood	Impact	Score	Evaluation Q1		Q4 21/22
COVID 19	4	4	16	High		Critical
The Change Programme	5	5	25	Critical		Critical
Financial Stability	5	5	25	Critical		Critical

COVID-19

3.14 Quarter 1 2022/23 (1 April to 30 June 2022) has seen a decrease in infection levels, with the reduction of Government restrictions, testing and protective measures taking place in Q4 2021/22. Note that face coverings were still required in care settings during this time. All the asymptomatic testing sites in the county were decommissioned. Due to these changes, the risk evaluation has reduced from Critical to High for Q1.

3.15 The Council continues to monitor and risk assess as appropriate. Whilst the rate of infection and case numbers are decreasing overall across the country, services continue to see the impact of COVID related absences with positive cases and isolation, which impacts on service delivery. Whilst not within the period of Q1, it should be noted that the recording of COVID related absence also changed to be included as part of normal sickness absence in July 2022.

The Change Programme

3.16 The Change Programme remains at Critical having been increased to this evaluation in Q4 21/22. The financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. Council agreed to a solution to balance the 2022/23 budget, however the increased costs associated with delivering change and transformation require longer term financial solutions. Work is ongoing to develop the next Medium Term Financial Strategy and 5 year Strategic Plan which will inform the future direction of the programme.

Financial Sustainability

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

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

3.19 The scale of the financial challenge was reported to Council at its meeting of 23 August 2022. Discussions on proposals to inform the Medium Term Financial Strategy are ongoing. Balancing the budget for future years will require cross party support and agreement to identify sustainable solutions. Due to the current uncertainty and lack of a revised Medium Term Financial Strategy this issue remains Critical.

STRATEGIC RISKS – SUMMARY

Strategic Risks	Likelihood	Impact	Score	Evaluation Q1		Q4 21/22
Climate change	5	5	25	Critical		Critical
Financial Sustainability in future years	5	5	25	Critical		Critical
The Long Term Change Programme	5	5	25	Critical		Critical
Early Years Expansion (1140 Hours)	4	5	20	High		High
Scottish Child Abuse Inquiry	4	4	16	High		High
UK decision to leave the EU	4	5	20	High		High
**National Care Service*	3	5	15	Medium		N/A – new risk
Asset Management	3	5	15	Medium		Medium
Cyber Security	3	5	15	Medium		Medium
Health and Safety	3	5	15	Medium		Medium
Growing Council	3	4	12	Medium		Medium
Care at Home	3	4	12	Medium		Medium
Governance and standards	3	4	12	Medium		Medium
Employee performance	3	4	12	Medium		Medium
Emergency planning and business continuity	3	4	12	Medium		Medium
Legal and Regulatory compliance	3	3	9	Medium		Medium
Internal control environment	3	3	9	Medium		Medium
Corporate policies and strategies	2	3	6	Low		Low

**New risk for Q1*

STRATEGIC RISKS – RATED CRITICAL/HIGH

Climate Change

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

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

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

3.23 A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council in Q3/Q4 2022/23. The risk evaluation continues to remain Critical in Q1.

Early Years Expansion (1140 hours)

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

3.25 The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. In Q3 and Q4, the Council have continued with the current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council of £882k. This has required revision to ELC budget. Work is ongoing IN Q1, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. This risk evaluation continues to remain High.

Scottish Child Abuse Inquiry (SCAI)

3.26 The Scottish Child Abuse Project risk has been removed as explained in 3.9. The SCAI risk remains High. The inquiry is currently taking evidence in relation to Section 21 submissions re foster care. To date Midlothian Council have not been called to give evidence. File reading continues.

UK decision to leave the EU

3.27 Quarter 4 2021/22 it emerged that the rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams. This was reported to the Business Transformation Steering Group (BTSG) in Q1 and also though progress reports on programmes to Council i.e. the delivery of the A701 and increased school build costs.

3.28 A report was commissioned on the economic impacts of EU Exit and this was received at the end of Q1. This report and its findings will be presented to BTSG in Q2 and Council in Q3 for adoption. The findings will also inform the refresh of the Economic Strategy. This risk evaluation remains High.

STRATEGIC OPPORTUNITIES

Shawfair

3.29 The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste. Work continues to complete the Energy Services agreement.

Easter Bush

3.30 Fast growing opportunities in Science, Technology, Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. The rate of inflation is impacting on the costs of the A701 improvements which will was reported to Council at the end of June 2022. An funding application has been submitted to the UK Government’s Levelling Up fund to close the funding gap, with the results to be announced in Q3 2022/23.

City Deal

3.31 Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity. In 2021, the chairing of the City Deal programme was formally handed over from Fife Council to Midlothian Council for the 2022 calendar year.

Creating a world class education system

3.32 The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school. Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

Cost of Living Crisis

3.33 The Council agreed to establish a Cost of Living Crisis Task Force at its meeting on 28 June 2022. The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40 year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.

3.34 One key aspect of the 'cost of living crisis' is the rapid rise in energy costs. In the year to April 2022, domestic gas prices increased by 95% and electricity prices by 54%. Furthermore, on 1 April 2022 the new price cap came into force, leading to default tariffs increasing from £1,277 to up to £1,971 per year. Prepayment customers have seen an increase of £708 from £1,309 to up to £2,017.

3.35 Increases in food and drink prices are also exacerbating the 'cost of living crisis'. Food and non-alcoholic drink prices were 6.7% higher in the year to April 2022, which is up from 5.9% in March and the highest rate of increase since June 2011. Several factors have led to food and drink price rises including supply chain challenges, rising wholesale costs and labour shortages. The Russian invasion of Ukraine has also affected food prices on international markets.

3.36 The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics; Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.

3.37 This report is retrospective, covering Q1 risks (1 April to 30 June 2022). However, as part of regular risk monitoring, it should be noted that the Cost of Living Crisis has been identified as a new risk and will be contained within the Q2 update.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

None

4.3 Risk

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

The report provides an overview of the significant risks faced by the Council during Quarter 1 2022/23 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

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

There are no direct equalities issues arising from this report.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications
Appendix B – Strategic Risk Profile (Quarter 1 2022/23)

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Strategic Risk Profile

Strategic Issues

SRP.IR.10 COVID 19

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	**Risk cause:** COVID 19 Virus **Risk event:** Virus evident in all communities with rates of positive infection increasing. In a Sottish setting the focus on increase is within the central belt. **Risk effect:** Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission. Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services. Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery in line with new controls.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place, Chief Officer Place	1. CIMT established to take the strategic approach to managing the response to COVID 19 and stands ready to be re-initiated at any time. 2. From 31 January as per the SG guidance the Council is transitioning staff teams to hybrid working. 3. COVID-19 guidance monitored and continually revised then issued to Adult Services, Children's Services, Education and Communities and Lifelong Learning around how they would continue to maintain contact with children and young people who were deemed to be at risk. 4. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers. 5. Promotion of digital tools to support employees and prevent employees becoming isolated. 6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 7. A range of interventions, including digital equipment and tools such as MS Teams put in place to support remote and hybrid working 8. Following safe working guidance issued by Scottish Government relevant to sectors. 9. Economic Recovery Strategy 10. Support for Test and Protect 11. School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk (and personal risk assessments where required)	4	4	

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation. **Risk event** Delayed progress or non-achievement of outcomes and benefits. **Risk effect** Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	1. Strategic Boards established reporting to the Business Transformation Board covering the full range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub & Spoke Place Based Solutions; Remote Working. 2. Report to Council on 23 August 2022 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. 3. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a 5 year Strategic Plan to support decisions about what services, beyond those which are statutory can be provided 4. Financial monitoring reports and work of the Financial Management Corporate Management Team evidence continued financial sustainability, in so far as services are delivered within the overall budget in year.	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.08	Strategic Plan 2022 to 2027	**Q1 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023	Executive Directors, Chief Officer Corporate Solutions	February 2023	

SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	**Risk cause** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations. **Risk event** Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps **Risk effect** Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	1. There is an approved Capital Strategy and Reserve Strategy in place 2. There is an approved budget for 2022/23. Services are being delivered within the totality of that budget and the 2022/23 budget has been approved albeit with heavy reliance on one off funding. 3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus. 4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services. 5. Strategic Boards in place and BTB focus and attention on driving transformation to support future years financial sustainability 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasise the need for effective financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate. 8. Scottish Governments May 2022 Resource Spending Review provided planning parameters for term of parliament, albeit these are challenging and present a real terms reduction in grant funding of circa 7% over the period 9.Report to Council 23 August 2022 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. 10."Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic. 11. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a 5 year Strategic Plan to support decisions about what services, beyond those which are statutory can be provided	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.09	Strategic Plan 2022 to 2027	**Q1 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023	Executive Directors, Chief Officer Corporate Solutions	February 2023	

Emerging risks (new)

NEW RISK REFERENCE NUMBER TO BE ADDED – National Care Service

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
RISK CODE TO BE ALLOCATED	**Risk cause** In August 2022 the Scottish Government launched a 12 week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS. **Risk event** A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service. **Risk effect** The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place	1. The Bill is under consultation and it is anticipated that additional information will be released by April 2023. 2. Officer Working Group established to engage with the NCS Design School and to continue the existing work with COSLA, SOLACE, SOLAR and other relevant bodies 3. Ongoing briefings with elected members 4. Continued dialogue and engagement with Scottish Government and IJB/H&SCP	3	5	

	provision or delivery of services will or will not be. At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care. It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
Action code to be allocated	Officer Working Group to be established	**Q1 22/23:** Officer Working Group agreed to be established by CMT	Chief Executive	June 2022	
Action code to be allocated	Elected member briefing sessions to be organised	**Q1 22/23:** Scheduled for Q2 in diaries	Legal & Governance	August 2022	

Current risks (existing)

SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	**Risk cause:** Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	1. Development of Strategic plan and MTFS for term of new Council. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Route Map through and out of the Pandemic budget approved for 22/23 albeit with reliance on one off funding sources 8. Dedicating capacity to understand impact of NCS Bill, but limited	5	5	

	Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery. **Risk effect:** Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit		details mean this is challenging and many unanswered questions (refer to new risk on NCS for further detail)			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023	Executive Directors, Chief Officer Corporate Solutions	February 2023	
SRP.RA.02.04	Strategic Plan 2022 to 2027	**Q1 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
NEW action	Understanding impact of NCS Bill	**Q1 22/23:** Officer Working Group agreed to be established by CMT. Note details on the NCS Bill are currently limited – see new risk within Strategic Risk profile for further information and actions.	Chief Executive	June 2022	

SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**Risk cause** A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision **Risk event** Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation **Risk effect** Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in short term savings instead of transformation	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Corporate Solutions	1. Development of Strategic plan and MTFS for term of new Council and service options which identify what can /cannot be delivered within the resources available. 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change. 6. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to new risk on NCS for further detail)	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.IA.02.06	Strategic Plan 2022 - 2027	**Q1 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	
SRP.RA.02.0 3	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 22/23:** 2022/23 Budget approved on 15 February 2022 together with Council Tax increase. Balancing the 2022/23 budget was predicated on the use of circa £12m of non-recurring funding. MTFS for 2023/24 to 2027/28 will support decisions on 2023/24 budget in February 2023	Executive Directors, Chief Officer Corporate Solutions	February 2023	

SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	**Risk cause** Current or new legislation applying to Midlothian Council **Risk event** Council and/or services not identifying all applicable legislation impacting Council activities and service requirements. **Risk effect** Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer(s), Legal and Governance Manager	1. Executive Directors, Chief Officer(s) and Head(s) of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan 7. BTSG oversight of new legislation	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.02	Rights of the Child Bill	**Q1 21/22:** Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.	Chief Executive, Executive Director Education, Head of Children's Services	30-Sept-2022	
SRP.RA.03.03	National Care Service	**Q1 22/23** Officer Working Group agreed to be established by CMT. Note details on the NCS Bill are currently limited – see new risk within Strategic Risk profile for further information and actions.	Chief Executive	June 2022	
SRP.RA.03.05	Standing Orders	**Q1 22/23:** Structural reviews within the Midlothian Council resulting in the Standing Orders being outdated. Authorised Officers within Regulatory Services may be open to challenge in relation to statutory enforcement work on grounds of delegated authority. Statutory enforcement work including the service of Statutory Notices, Fixed Penalties and Court proceedings may require to be withdrawn resulting in reputational damage and or financial penalty (e.g. case costs awarded against the LA). There is a Standing Orders Working Group reviewing SOs post elections and work continues to ensure that these issues are included within this work programme.	Executive Director Place, Legal and Governance Manager	31 December 2022	

SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	**Risk cause** Employees not suitably trained/developed for the roles required of them. Limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance Salaries significantly lower in social work area in comparison to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff **Risk event** Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change **Risk effect** Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan. **Attendance / Wellbeing** 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers. **Performance** 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc. **Organisational Change** 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. **Conduct** 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme. **Communication** 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	Revision to Service Workforce Plans and Action Plans are required including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting. **Q1 22/23**: Workforce plan guidance issued to all Directorates. Refreshed workforce plans to be developed in line with the new service plans for the next financial year 23/24	Executive Directors, Chief Officers, Heads of Service	31 March 2023	
SRP.RA.02.06	Workforce wellbeing	**Q1 22/23:** Continuing to embed the new Employee Health and Wellbeing Strategy.		31 Dec 2022	

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	**Risk Cause:** Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices **Risk Event:** The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering. **Risk Effect:** Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.	Chief Executive, Executive Directors, Chief Officers, Heads of Service, Information Governance/ Security Services Lead	1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.02	Cyber Security	Q1 22/23: Appointment of a Cyber Security Analyst has been appointed.	Information Governance/ Security Services Lead	30-Jun-2022	✔

SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	**Risk cause** Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity. **Risk event** Capacity of Community Support outstripped by demand **Risk effect** There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at hone support in place	3	4	⚠

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	Q1 2022/23 – NCS Bill published June 2022. Consultation at Stage 1, concludes in Sept. See separate risk on NCS for further information.	Chief Executive, Head of Adult and Health & Social Care	30 June 2022	✔

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	**Risk cause** Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services. **Risk event** Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance. **Risk effect** In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs 5. Asset Strategy: . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Established Capital Plan and Asset Management Board and dedicated Asset Management Board 9. Establishment of 7 thematic Estate Safety and Management Groups chaired by Chief Officer Place	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.0 2	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	**Q1 22/23:** Programme of work agreed to progress for building condition surveys on a phased approach, over a three year period. Move to implementation into 22/23.	Executive Directors, Chief Officers and Heads of Service	31-Mar-2023	
SRP.RA.08.0 5	School Estate Strategy	**Q1 22/23:** Potential risk to delivery of Learning Estate projects due to inflated costs from a number of factors. Factoring the commitment to net zero into our project has added another cost pressure and may affect the affordability and viability of some projects. Oversight of Learning Estate programme through the Capital plan & Asset Management Board	Executive Director Education, Head of Development	31 March 2023	

SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	**Risk cause** The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents **Risk event** There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc. **Risk effect** Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Protective Services	Potential sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Risk and Resilience Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI. 05 – Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan, Ukrainian and UASC support programmes	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	**Q1 22/23:** New Contingency Planning Officer in post and work progressing on improvement plan	Senior Manager Protective Services	31 December 2022	
SRP.RA.09.03	Business Continuity System	**Q1 21/22:** System currently being populated ahead of roll out to all services. A small number of Council services engaged to test and validate operational functionality. Project governance now overseen through the Customer Service Platform Board	Chief Officer Place, Senior Manager Protective Services	31-Mar-2023	

SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	**Risk cause** Code of conduct for Members and employees actions	Chief Executive, Executive	Potential sub risks include:- 01 Macro governance at the top – failure in openness, accountability,	3	4	

	falling short of International Standards. **Risk event** Failure in openness, accountability, clarity. **Risk effect** Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Director Place, Chief Officer Corporate Solutions, Legal and Governance Manager	clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration 07 Scheme of Delegation			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.10.01	Corporate Governance	**Q1 22/23:** Annual Assurance Statement, People Policies and Standing Orders subject to review process (see separate risks contained within the strategic risk profile for further information)		31 March 2023	

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	**Risk cause** Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. **Risk event** Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities. **Risk effect** Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. ~~4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding.~~ ~~5. Community Safety Strategic assessment completed.~~ ~~6. Procurement Strategy 2018~~ ~~7. Capital Strategy~~ ~~8. Integrated Joint Board (IJB) Plan~~ ~~9. IJB Strategic needs assessment~~ ~~10. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.~~	2	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW	Strategic Plan 2022 - 2027	**Q1 22/23:** Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Executive Directors	February 2023	

SRP.RA.11.02	Accessibility Strategy	**Q1 22/23:** Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a work stream will be progressed to ensure Council compliance.	Chief Operating Officer Education, Chief Officer Place	31 March 2023	
SRP.RA.11.05	Antisocial Behaviour Policy	**Q1 21/22:** Work continues following appointment of new Senior Manager in Housing & Wellbeing.	Chief Officer Place	31-Dec-2022	
SRP.RR.11.01	Parental Engagement Strategy	**Q1 22/23:** Parental Learner Liaison Officer has produced a draft Parental Engagement Strategy looking at examples throughout Scotland and a consultation with all stakeholders is underway. Following a review with Parent Council Chairs, a Parental Engagement calendar has been created for next session to support PC Chairs with the information and structure they need. The National Parental Involvement & Engagement survey has been rolled out to all Primary, Secondary & Special School parents with data to be evaluated in July. Parent Working Groups have been created to support specific interests and priorities – Consultation, Equity, Digital Learning, ASN & DWY/Positive Destinations. A Parent Council 'Toolkit' has been created to inform Parents of the functions of a Parent Council, provide support, signposting and remits. This will provide a more consistent structure within Midlothian of all Parent Councils and potentially boost numbers. Social Media has been created for Parental Engagement and the design of a webpage to add to the Council Website is underway. Draft plans for our first Parent Conference in Q1 of next session is underway. The same is to be said for a Pupil Conference. The PLLO is now an active member in the SEIC Young Persons Involvement Group and regularly meets the Education Scotland's Attainment Advisor.	Children's Services Management Team; Children's Services, Partnership and Communities	31-July-2022	

SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	**Risk cause** Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information **Risk event** Persons exploiting opportunities to commit fraud Waste and errors Changing risk landscape associated with remote working solutions. **Risk effect** Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy (subject to review) 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement. 9. Continue remind staff of secondary employment/outside interests and gifts & hospitality 10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to	3	3	

	Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance		organisation. 11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations. 12. The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status

SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	**Risk cause** Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act. **Risk event** Council Services not responding to the Climate Change Act with sufficient pace. **Risk effect** Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.03	Recruitment of Climate Change Officer	**Q1 22/23:** Service Review continues.	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	30-Sep-2022	
SRP.RA.13.04	Delivery of the BTB Board Carbon Neutral by 2030	**Q1 22/23:** Carbon Management Plan requires to be reviewed and resourced adequately. There is a requirement for a cross Council approach to achieve carbon neutral by 2030. Work is underway in discrete areas to contribute to achievement of the ambition, but financial resource and staffing is required to develop an overarching engagement and action plan.	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	31-Mar-2030	
NEW	Development of the Strategic Plan 2022-27	**Q1 22/23:** Carbon Neutral by 2030 is a strategic priority within the draft 5 year strategic plan	Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	31 March 2023	

SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	**Risk Cause:** Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them. **Risk Event:** The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority. The Inquiry Team have established a Project Plan covering: 1. Residential establishments, List D Schools and Foster Carers: identifying Children’s homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council’s existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council’s historic recordkeeping policies, such as retention schedules.	4	4	

	Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed. **Risk Effect:** If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system.		3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. The Project Team have established a Project Plan covering: 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings from the file read.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 3	Foster Care and Residential Care File Review	**Q1 22/23:** Inquiry is taking evidence in relation to Sct 21 submissions around foster care findings. Many CSWO's have been called to give evidence around abuse within their local authority. To date Midlothian have not been called to give evidence. We have a QC offering advice on our submission, which do not suggest that there is evidence to suggest there has been systemic abuse, based on our file read to date.	Children's Services Management Team; Head of Children's Services	31-Mar-2022	

SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	**Risk cause** Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in	Chief Executive; Head of Adult and Social Care;	1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated	3	4	

	Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increase by 100% between 2014 and 2039. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. **Risk effect** Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.	Head of Children's Services; Executive Director of Education; Executive Director Place;	service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Strategy Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	**Q1 22/23:** Latest roll projections indicate that that we will breach capacity in some schools in Aug 2023. Review of Learning Estate Strategy underway	Executive Director Education, Executive Director Place, Head of Development	31-Oct-2022	

SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	**Risk cause** UK vote to leave the European Union **Risk event** UK leaving the European Union **Risk effect** The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	01 – Risk and Resilience Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.	4	5	

	geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW	Refresh of Economic Strategy	**Q1 22/23:** Report on economic impacts complete and will be presented to October Council. This will inform the refresh of the Economic Strategy.	Chief Officer Place	31 Oct 2022	

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	**Risk cause** Failing to identify and rectify non-compliance with Health and Safety regulations. **Risk event** Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements. **Risk effect** Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place; Chief Officer Place, Senior Manager Protective Services	1 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021) 3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.	3	5	

	users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.01	Delivery of Health, Safety and Wellbeing Strategy	**Q1 22/23:** Review of Strategy to commence upon appointment of Team Manager Health, Safety and Resilience	Chief Officer Place, Senior Manager Protective Services	31 December 2022	
SRP.RA.19.07	H&S audit across all Council estate	**Q1 22/23:** Protective Services and Property Service are progressing a Health and Safety building audit across the full Council estate, which will inform the development of associated action plans taking a risk based assessment of the findings. Asbestos inspection programme commenced with first round of inspections focussed on the learning estate over the summer holiday period. Review of arrangements for first aid and fire warden provision commenced.	Chief Officer Place	31 December 2022	

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	**Risk cause** Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. The sustainable rate review may lead to significant increase in funding to providers; maintaining current rate is not an option if not deemed sustainable. The result could lead to a funding gap in future years.	Head of Adult and Social Care; Director of Education; Chief Executive	1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections will be reviewed and updated 5. Business Support and Finance Business Partners reviewing external funding landscape closely for future funding options	4	5	

	Risk effect Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.20.01	1140 future years funding	**Q1 22/23:** Continuation of current distribution for 2022/23 though nationally the quantum was reduced by £23.9m of which £8.9m was earmarked for deferral pilots. This reduction and the shift to a distribution formula in 2022/23 resulted in a reduction for funding for the Council if £882k. This has required revision to ELC budget. Work is ongoing, though the ELC Finance working group to collect spend information to support the assessment of the quantum for 2023/24 onwards. Associated risk due to possible increase in the sustainable rate to be paid to partner providers.	Chief Officer Corporate Solutions	31 March 2023	

Strategic opportunities

SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The delivery of a new sustainable low carbon community at Shawfair.	Chief Executive, Executive Director Place, Chief Officer Place, Senior Manager Planning, Sustainable Growth and Investment	1. Shawfair Landowners Group meets quarterly. 2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure. 3. Approved masterplan and design guide for the entire community 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)	5	4	

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

SRP.OP.03 Easter Bush - Penicuik

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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A2	A701/A702 Trunk Road Improvements	**Q1 22/23:** Escalating costs of this project has resulted in a significant funding gap which requires to be addressed in order for the project to proceed. MLC currently coordinating a submission to the Levelling Up Fund to address this funding gap. Progress report to Council on 28 June – STAG Appraisal (stage 2) complete. Report will highlight that cost inflation and increased project costs as outstanding areas of concern.		31-Dec-2022	

SRP.OP.04 City Deal

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

		Director of Education; Executive Director Place;				

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.02	Realisation of outcomes of respective workstreams	**Q1 22/23:** For the 2022 calendar year Midlothian is the chair of the CRD programme (annual rotation across the six Local Authorities).		31-Mar-2023	

SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. Risk event: The Phase 2 *Equipped for Leaning* plan has a strong focus on transforming classroom practice and learner outcomes. This can only be achieved if effective technical support for EfL is in place to support this change. Risk Effect: Without the technical support and appropriate infrastructure we will not achieve the change resulting in a negative impact on learners experiences and outcomes	Chief Executive; Head of Adult and Social Care; Head of Children's Services; Executive Director of Education; Executive Director Place;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	**Q1 22/23** CIVTECH research project progressing well in partnership with University of Edinburgh and SFT. Ongoing dialogue with the University of Edinburgh and Edinburgh College in relation to the new centre of excellence.		31-Aug-2023	

Risks recommended for closure

SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	**Risk cause** General Data Protection Regulation formulated by the European Commission. **Risk event** The Regulation implemented on 25 May 2018. **Risk effect** The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.	Cyber Security Manager	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members. 9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts.	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW ACTION	This risk is recommended for closure as the GDPR has now been implemented (May 2018). All risk effects have been managed and information security is BAU.	Cyber security threats continue to pose a risk and this is captured within SRP.RR.21 'Cyber Security' and will continue to be monitored.			

SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	**Risk Cause:** Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964) **Risk Event:** Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The	Head of Adult and Social Care; Head of Children's Services; Director of Education; Chief Executive	1. Scottish Governments Redress Scheme is in place, applicants cannot claim from the council and the redress scheme.	3	5	

	Claims Working Group has established a process ('Claims Procedure') for dealing with the claims. **Risk Effect:** There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims					

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW ACTION	This risk is recommended for closure as the redress scheme is now in place				

Audit Committee
Tuesday 27 September 2022
Item 5.4

Audit Committee – Independent Chair & Independent Non-Voting Member

Report by Kevin Anderson Executive Director - Place

Report for Decision

1 Recommendations

Audit Committee is recommended to note that no applications or notes of interest were received for the recently advertised roles of the Independent Chair and Independent Non-Voting Member of the Audit Committee and to consider the alternative options available to recommend to Council to either;

i) re-advertise the roles across an additional range of recruitment sources; or
ii) continue with an elected member chair; or to
iii) address the matter in the Standing Orders review to potentially combine the committee remit into another relevant wider scope committee ie. a prospective Audit, Risk & Performance Review Committee.

2 Purpose of Report/Executive Summary

The council invited applications to the posts of Independent Chair and Independent Non-Voting Member of the Audit Committee. The roles are voluntary but expenses are paid. The appointments are at the council's discretion and are expected to run until the council elections in May 2027.

Date: 16 September 2022
Report Contact:
Kevin Anderson, Executive Director - Place
kevin.anderson@midlothian.gov.uk

3 Background

3.1 The Audit Committee is a key component of Midlothian Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin governance and financial standards. It comprises 5 Councillors and an Independent Chair. There is also an independent non-voting person who, at the invitation of the Chair, can comment on all aspects of the Committee's business in order to assist its deliberations.

3.2 The committee provides independent assurance to elected members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the council's governance, risk management and control frameworks and considers the council's statutory accounts and annual governance processes. It receives reports from both internal and external audit, helping to ensure efficient and effective assurance arrangements are in place. The role of the Audit Committee is to perform the following functions:

4. Governance, risk and control

- To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances relating to the council's service delivery to ensure that the highest standards of probity, public accountability and ethical standards are demonstrated.
- To review the draft Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the council's framework of assurance, relating to the council's service delivery and ensure that it adequately addresses the risk and priorities of the council.
- To monitor the effective development and operation of risk management in the council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the council from fraud corruption.
- To monitor the counter-fraud strategy, actions and resources.
- To monitor the Treasury Management arrangements, through the scrutiny of the treasury management strategy, mid-term and annual

performance reports prior to their presentation to Council for approval, and the council's approach to establishing ethical standards.

5 Internal audit

- To approve the internal audit charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resources requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the Chief Internal Auditor to determine if there are any inappropriate scope or resource limitation.
- To consider reports from the Chief Internal Auditor on Internal Audit's performance during the year, including the performance of external providers of internal audit services. These will include:
    - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
    - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
    - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- To consider the Chief Internal Auditor's annual report:
    - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
    - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the Annual Governance Statement.
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the Chief Internal Auditor has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the Annual Governance Statement.

- To support the development of effective communication with the Chief Internal Auditor.

6 External audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

7 Financial reporting

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

8 Accountability arrangements

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

9 Report Implications

9.1 Resource

There are no resource implications arising from this report.

9.2 Risk

Good governance requires that organisation structures are kept under review to ensure that they are fit for purpose and are congruent with both the priorities set out in the Community Plan and the actions contained within the Council's Strategies.

9.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

9.4 **Impact on Performance and Outcomes**

There are no implications arising from this report.

9.5 **Ensuring Equalities**

There are no implications arising from this report.