

# Midlothian Council

## 2022/23 Annual Audit Report



 **AUDIT SCOTLAND**

Prepared for the Members of Midlothian Council and the Controller of Audit  
December 2023

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# Key messages

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## 2022/23 Annual Accounts

- 1 Audit opinions on the annual accounts of the Council and its group are unmodified.
- 2 The unaudited annual accounts were provided within the agreed timetable and were of a good standard.
- 3 Management made adjustments of £16.1 million to the annual accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded pension obligations of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

## Financial Management

- 4 The Council has appropriate budget setting and monitoring arrangements in place.
- 5 During 2022/23 the Council managed its budget and ended the year with a net underspend position of £11 million which included a one off repayment of overpaid VAT of £6.8 million.
- 6 The level of usable reserves held by Midlothian Council increased from £86 million in 2021/22 to £91 million in 2022/23. The usable reserves balance of £91 million includes General Fund reserves of £35 million of which £18 million is earmarked for specific purposes, Housing Revenue Account reserves of £32 million, Capital Fund reserves of £20 million and £4 million reserves for repairs and renewals.
- 7 Midlothian Council has an ambitious capital housing programme and spent £42 million on New Social Housing and Market Purchases in 2022/23 (2021/22: £35 million).

## Financial Sustainability

- 8 The latest five-year revenue budget strategy agreed in 2023 is projecting a budget gap of £34.7 million to 2028/29.
- 9 It is clear that the Council faces heightened financial challenges in delivering balanced budgets and financially sustainable services. Radical solutions and robust financial plans will be needed to ensure service delivery remains financially sustainable.

- 10** The Council has developed a Transformation Blueprint which aligns with the five-year revenue budget strategy to 2027/28 and aims to create a wellbeing economy. However, detailed workforce and digital plans required to deliver transformation continue to be developed but have not yet been finalised. New strategic leads for Digital and Human Resources have been appointed to lead this work.

## **Best Value**

- 11** Midlothian Council has demonstrated ongoing commitment to best value since our Best Value Annual Report 2019. We have noted improvements in performance reporting and medium term financial planning as well as the strengthening of officer member relationships.
- 12** The Council and its partners are actively working to address inequalities. The new Council Leader initiated, and chairs, the cross party Cost of Living Task Force which has moved from taking a crisis intervention approach to a preventative approach and a child poverty strategy and plan has been produced.
- 13** The Council has adopted an ambitious target to be net zero by 2030. Its vision, outcomes and priorities clearly reflect the importance it places on this. But achieving this target brings resourcing and financial risks which the Council is actively managing.

## **Vision, Leadership and Governance**

- 14** Midlothian Council continues to have effective and appropriate governance arrangements in place that support scrutiny of decisions made.

## **Use of resources to improve outcomes**

- 15** The Council has appropriate arrangements in place for improving services and monitoring desired outcomes through a balanced scorecard approach.
- 16** Internal audit conducted a review and published a report on performance management and performance indicators in 2023. The report provided substantial assurance in the reporting of performance indicators.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of Midlothian Council (the Council). The scope of the audit was set out in an annual audit plan presented to the June 2023 meeting of the Audit Committee.

**2.** This Annual Audit Report comprises:

- significant matters arising from an audit of Midlothian Council's annual accounts.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice:
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.
- conclusions on Midlothian Council's performance in meeting its Best Value duties.

**3.** This report is addressed to Midlothian Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**4.** I, Claire Gardiner, have been appointed by the Accounts Commission as auditor of the Council for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

**5.** My team and I would like to thank councillors, audit committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**6.** The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible

for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

**7.** The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**8.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the Council from its responsibility to address the issues we raise and to maintain adequate systems of control.

**9.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor Independence

**10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £273,550 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**11.** We add value to Midlothian Council by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship of public funds.

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## Main judgements

Audit opinions on the annual accounts of the Council and its group are unmodified.

The unaudited annual accounts were provided within the agreed timetable and were of a good standard.

Management made adjustments of £16.1 million to the annual accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded pension obligations of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

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## Audit opinions on the annual accounts are unmodified

**12.** The Council approved the annual accounts for the Council and its group for the year ended 31 March 2023 on 30 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- 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).

## Overall materiality was assessed as £7.6 million

**13.** The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**14.** Our initial assessment of materiality for the Council and its group, was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

### Exhibit 1 Materiality values

Materiality level	Council and Group
Overall materiality	£7.6 million
Performance materiality	£4.6 million
Reporting threshold	£0.25 million

Source: Audit Scotland

**15.** The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**16.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment which was informed by the level of errors in prior years and the control environment in place at the Council.

**17.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.



## Significant findings and key audit matters

**18.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Council, including our view about the qualitative aspects of the body's accounting practices.

**19.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. Significant findings and key audit matters are summarised in [Exhibit 2](#).

### Exhibit 2

#### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. Restricting the value of pension asset</b></p> <p>For the first time, the unaudited accounts included a pension asset rather than a liability. This amounted to £188 million and was calculated by the Council's actuary.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p>	<p>We reviewed the actuary's assumptions and the Council's assessment of the actuary's assumptions and calculation in conjunction with IAS 19 and the application of IFRIC 14.</p> <p>The Council included additional disclosures in the audited annual accounts to clearly show the effect of the asset ceiling.</p> <p>The annual accounts were adjusted to reflect a pension asset of zero for the Council's funded obligations, and a pension liability of £7.8 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.</p> <p>We concluded that, for 2022/23, the Council's approach to recognising a pension asset and applying an asset ceiling in the accounts was appropriate.</p>

Issue	Resolution
<p>The Council applied an asset ceiling which restricted the pension asset to a nil balance in the balance sheet as at 31 March 2023.</p> <p>As part of our audit work we identified that the IFRIC 14 calculation did not cover the unfunded pension liability and therefore where the pension asset was restricted to zero the unfunded pension obligation should be netted off against the restricted balance and included as a liability in the financial statements.</p>	
<p><b>2. Reinforced Autoclaved Aerated Concrete in council buildings</b></p> <p>Reinforced Autoclaved Aerated Concrete (RAAC) is a lightweight construction material that was used in the construction of some public buildings like schools and hospitals between the 1950s and 1990s. It was used mostly in flat roofing, but also in some pitched roofs, floors and walls.</p> <p>On 31 August 2023 the UK Department for Education (DfE) announced that any space or area in schools, colleges or nurseries in England, with confirmed RAAC should no longer be open without "mitigations" being put in place.</p> <p>During 2022/23, the Council reviewed buildings across the school estate and did not identify any RAAC in the surveyed schools. Further surveys are planned on the remaining buildings within the Council's estate.</p>	<p>We are satisfied that the Council has taken appropriate action to address the risk of RAAC within their estate.</p> <p>As no RAAC has been identified we are satisfied that there is no requirement for a post balance sheet event relating to liabilities in relation to remedial works.</p>
<p><b>3. Remuneration Report disclosures</b></p> <p>The audit of the Remuneration Report identified a number of errors and other disclosure changes that were required to ensure the reports were fully compliant with applicable guidance. These included:</p> <ul style="list-style-type: none"> <li>the remuneration table did not include a senior councillor who commenced this role in March 2023</li> <li>there were minor errors in the pension movements for two employees</li> <li>the disclosures around pay bands had been calculated incorrectly in regard to starters and leavers. The bands should be based on actual salaries of all starters and leavers but the whole year equivalent had been used.</li> </ul>	<p>Management have reviewed the disclosures within the Remuneration Report and have updated the information.</p> <p>We are satisfied that the revised Remuneration Report fulfils the disclosure requirements of applicable guidance.</p>

Issue	Resolution
<p><b>4. Disclosures in the notes to the accounts</b></p> <p>The notes to the accounts help provide contextual information and detail which will help the reader understand the primary statements. Our audit work identified some areas where the classification of transactions or balances was incorrectly disclosed within the notes to the accounts.</p> <ul style="list-style-type: none"> <li>• Within short term deposits at 31 March 2022, £50 million was reclassified as cash and cash equivalents. The balance sheet was also revised to correct the misclassification.</li> <li>• Within Group investments £5.6 million was reclassified as the Group share of net assets of associates and joint ventures.</li> <li>• Within the short term debtors note there was £11.2 million of classification movements between other trade debtors, central government bodies and council tax debtors.</li> <li>• Within income £3.2 million was reclassified from fees and charges income to investment income.</li> <li>• Within non-current assets £0.7 million was incorrectly classified as assets under construction and land in operation.</li> </ul>	<p>We acknowledge that only one of the misclassifications identified impacted on the figures on the face of the primary financial statements. We are satisfied that management have addressed all significant misclassifications within the notes to the accounts in year.</p> <p>The Council should ensure going forward that control accounts such as trade debtors are reviewed to ensure balances with central government and other public sector bodies are classified appropriately at the year-end.</p> <p><b>Recommendation 1</b></p>

Source: Audit Scotland

## Our audit work responded to the risks of material misstatement we identified in the annual accounts

**20.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<b>1. Risk of material misstatement due to fraud</b>	Owing to the nature of this risk, assurances from	We assessed the design and implementation of controls over journal entry processing.

Audit risk	Assurance procedure	Results and conclusions
<p><b>caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>management are not applicable in this instance.</p>	<p><a href="#">Exhibit 5</a> identifies an opportunity to strengthen the controls over journals.</p> <p>Our testing of journals, year-end transactions, accruals and prepayments did not identify any incidents of management override of controls.</p> <p>We did not identify any unusual journal activity.</p> <p>Our assessment of the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements did not highlight any weaknesses.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be consistent with prior-years.</p> <p>As a result of the above work we are satisfied that there is no material misstatement arising from this risk.</p>
<p><b>2. Estimation in the valuation of other land and buildings</b></p> <p>Midlothian Council hold land and buildings (non-housing) with a NBV of £526 million as at 31 March 2022.</p> <p>There is a significant degree of subjectivity and complexity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. Material errors were also identified in the</p>	<p>Council procedures and controls around valuation and accounting.</p>	<p>We did not identify any issues with the information provided to the valuer.</p> <p>Our review of the Council valuation team's work, , confirmed the appropriateness of the methodology and assumptions used. We did not identify any non-compliance with RICS guidance.</p> <p>We found that management have an appropriate level of involvement and oversight of the valuation process. We concluded that management's assessment that land and buildings not</p>

Audit risk	Assurance procedure	Results and conclusions
<p>prior year valuation process by the prior year auditor.</p> <p>The 2022/23 revaluation exercise is planned to cover a significant proportion of the estate.</p> <p>Due to the inherent complexity and subjectivity risks regarding land and buildings' valuations and material errors found in the prior year, a significant risk of material misstatement in the 2022/23 valuations has been identified.</p>		<p>revalued in 2022/23 are not materially misstated, to be reasonable, and found assumptions made to be appropriate.</p> <p>We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings.</p>

Source: 2022/23 Midlothian Council Annual Audit Plan

**21.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The results of our audit procedures and conclusions are set out in [Exhibit 4](#).

## Exhibit 4

### Identified areas of audit focus

Audit risk	Results and conclusion
<p><b>Valuation of pension liability</b></p> <p>The Council is an admitted body of Lothian Pension Fund and recognised a net pension liability of £54 million as at 31 March 2022. The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. The subjectivity around these assumptions gives rise to a risk of material misstatements in the financial statements.</p> <p>We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officers'</p>	<p>We are satisfied that the pension liability is correctly recognised on the balance sheet at 31 March 2023 and has been accounted for and disclosed correctly in line with International Accounting Standard (IAS) 19 Retirement benefits.</p> <p>We use an auditor's expert to inform our review of the assumptions used in calculating this estimate and management's judgements. We concluded the assumptions are appropriate and within a range which we consider to be acceptable.</p> <p>We are also satisfied the controls in place over the provision of information to the actuary are appropriate.</p>

Audit risk	Results and conclusion
<p>arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Midlothian Council.</p>	
<p><b>Teachers' payroll</b></p> <p>Two pay awards have been granted in 2022/23. The Council is progressing implementing the awards but work in this area is incomplete and calculations for supply teachers can be complex. We will monitor progress in implementing teachers pay awards and test controls in the payroll system to ensure staff costs are complete, valid, and accurate.</p>	<p>We reviewed the design and implementation of controls over changes to pay which includes pay awards. We concluded that the controls over changes were designed appropriately.</p> <p>We conducted analytical procedures regarding the pay award in year comparing the actual amounts charged as expenditure to our expectation. We identified a variance which indicates that national insurance and pension costs relating to the 2021/22 pay increase were not accrued in the prior year. Accounting standards require the adjustment of material prior period errors only. We are satisfied that this would not be material and therefore no prior period adjustment has been made.</p>
<p><b>Financial controls cash and bank</b></p> <p>Material errors in the unaudited cash and bank figures were identified by the previous external auditors.</p> <p>These were identified as relating to the failure of bank reconciliation controls. We will follow up agreed actions and perform a full system review in this area in 2023.</p>	<p>Bank reconciliations were conducted for each month in 2022/23. In addition to this a year end reconciliation was conducted with no issues arising.</p> <p>We are satisfied that the balance reported at the year end is not materially misstated.</p>

Source: 2022/23 Midlothian Council Annual Audit Plan

## Identified misstatements of £16.1 million were adjusted in the annual audited accounts

**22.** Total adjustments of £16.1 million were made to the annual audited accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded element of pension contributions of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

**23.** Adjustments made in the audited accounts reduced the total comprehensive income and expenditure deficit by £1.4 million and reduced net assets in the balance sheet by £6.3 million.

**24.** We identified two misstatements which were not corrected by management in the audited accounts. Management considered the size, nature and

circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material.

**25.** The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. The working papers provided with the unaudited accounts were of a good standard and finance and other Council staff provided good support to the audit team during the audit.

**26.** Covid-19 has had a considerable impact on the delivery of audits and we are working to deliver timely audits while maintaining quality. In order to preserve the quality of our work in year the audit was delayed against our planned timetable with the accounts being signed on 30 October 2023. This allowed the statutory deadline for publication to be met.



## 2. Financial management

### Main judgements

The Council has appropriate budget setting and monitoring arrangements in place.

During 2022/23 the Council managed its budget and ended the year with a net underspend position of £11 million which included a one off repayment of overpaid VAT of £6.8 million.

The level of usable reserves held by Midlothian Council increased from £86 million in 2021/22 to £91 million in 2022/23. The usable reserves balance of £91 million includes General Fund reserves of £35 million of which £18 million is earmarked for specific purposes, Housing Revenue Account reserves of £32 million, Capital Fund reserves of £20 million and £4 million reserves for repairs and renewals.

### The Council operated within budget in 2022/23

**27.** The Council approved its 2022/23 budget in February 2022. The budget was set at £251 million with a projected funding gap of £9 million. The Council agreed the deferral of debt repayments to secure an additional £6.4 million of funding with the remainder of the budget gap funded from a transfer from reserves. These measures enabled the Council to set a balanced budget for 2022/23.

**28.** During 2022/23 the Council managed its budget and ended the year with a net underspend position of £11 million which included a one off repayment of overpaid VAT of £6.8 million. The remaining underspend relates to savings in loan charges and vacant posts, lower spend in education and higher than anticipated funding from previously undistributed Scottish Government Grants. The General Fund Balance increased from £32 million at 31 March 2022 to £34 million at 31 March 2023.

**29.** The Council previously approved the use of a financial flexibility permitting the use of capital receipts to fund projects designed to transform service delivery or reduce costs. Capital Receipts in 2021/22 of £0.6 million were set aside for this purpose. For the flexibility to apply funding must have been utilised by 31st March 2023.

**30.** The following projects were funded from the use of financial flexibilities, enabling funds to be freed up to cover increases in salary costs:



- Building Maintenance Review (£0.14 million)- radical service redesign and modernisation of all processes within the Building Maintenance Service with the purpose of raising the business efficiency and effectiveness at all levels across the organisation.
- Customer Services Project (£0.19 million) - in 2022/23 the multi-year project developed and delivered new Freedom of Information Registrar and Contact Us modules designed to provide significant service enhancement and efficiency.
- School Week Transformation Drive (£0.04 million) - transformational change in the design and delivery of the curriculum within secondary schools taking into account national development and digital solutions.
- Climate Change (£0.03 million) - Zero Carbon external support to develop the Council's ambition to make the Council's activities net carbon zero by 2030.

The unused balance of £0.16 million was appropriately added to the capital fund.

### **Housing revenue account operated within budget**

**31.** The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

**32.** During 2022/23 the Council overspent by £0.9 million on repairs and maintenance and housing rents were £0.9 million less than budgeted. However, total income was £4 million more than expenditure for the year and the balance on the housing revenue account reserve increased to £32 million at 31 March 2023 (2021/22: £28 million).

**33.** This balance is committed to fund the Council's ambitious capital investment plan to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement and Energy Efficiency Standard for Social Housing (ESSH) works.

### **The Council has appropriate budget setting and monitoring arrangements.**

**34.** We performed a review of the Council's annual budget setting arrangements. The budget process implemented by the Council appears to be well established and officers and Finance Business Partners are very clear about their responsibilities and time frames. The process involves appropriate scrutiny arrangements, with the Business Transformation Steering Group and Council both having opportunities to scrutinise the budget and consider opportunities to reduce any emerging budget gap.

**35.** The budget setting document includes realistic financial assumptions and it offers good information regarding where there are projected over and underspends. It also gives brief explanations and context setting as appropriate.

**36.** We observed that senior management and members receive regular and accurate financial information on the Council's performance against budgets.

### Capital expenditure increased in 2022/23

**37.** Total capital expenditure in 2022/23 was £75 million of which £23 million related to general services and £52 million to the housing revenue account.

**38.** The Council has an ambitious capital housing programme and spent £42 million on New Social Housing and Market Purchases in 2022/23 (2021/22: £35 million). The capital housing programme consists of five phases:

- phases 1 and 2 are complete and provided 1,353 additional houses within Midlothian over a period of 7 years with a total budget of £185 million
- phases 3 & 4 combined - the original plan was for 729 units to be constructed with a budget of £166 million but this has reduced to 645 units due to actual costs being greater than initial estimates. The increase in costs have arisen through various factors, namely, war in Ukraine, EU exit and Covid-19 impacting on building costs over recent years
- phase 5 has a current approved budget of £78 million however projected budget variations on previous phases and an increase in the Scottish Government Affordable Housing Supply Programme (AHSP) grant allocation means that there is potential for a further £6 million to be utilised for New Social Housing.

**39.** A total of 214 homes have reached completion in 2023 calendar year; 300 homes are on site at various stages of construction; and a further 115 homes are on site but undergoing final snagging and in the process of final handovers.

### Financial systems of internal control

**40.** From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any issues with the design of the controls which would increase the risk of a material misstatement in the financial statements. However, we identified three areas where controls could be improved:

#### Exhibit 5

##### Key findings from review of key controls

Audit finding	Additional audit procedures
<b>1. Journals</b>  The Council's financial ledger is the system for recording all transactions and preparing the	We reviewed the journals across the year to identify those which had been posted by those with a higher level of

financial statements. Journal entries are how the Council's financial ledger is manually updated. We conducted controls testing over this area and identified the following issues:

- To minimise the risk of error and fraud we would expect each journal entry to be prepared and authorised by different members of staff. This control is not in operation for a small number of staff within the finance team. The ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.
- Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. We identified in year that access rights were not regularly reviewed. We also found there were some users with a high level of access rights which had not been timeously removed.
- We tested a sample of 17 journals to ensure the approvals process had been followed. There was insufficient evidence of authorisation for one of the sample.

access. We identified some journals which relate to former employees, however, they relate to interfaces with the ledger which are not actually posted but are automatic journals. The user recorded is the user who created the interface. We are satisfied that there are compensating controls within the overall IT access rights which would prevent ex-employees accessing the ledger.

Our journals testing across the year reflected the increased risk arising from self-approval of journals and we did not identify any issues.

**Recommendation 2** (refer [Appendix 1, action plan](#))

Journals procedures should be reviewed to minimise the risk with the ability of members of the finance team to approve their own journals.

## 2. Bank reconciliations

Bank reconciliations are a critical control to ensure that cash is accurately recorded in the ledger. We found that bank reconciliations were performed for each month of the year but the reconciliations completed for periods 10 to 12 were not completed timeously.

In addition, at the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.

We are satisfied that a reconciliation was conducted at the year end with no issues arising.

The bank letter at the year-end confirmed that the smaller imprest accounts were below our trivial level and did not represent a risk of material misstatement. We note that a number of accounts have a zero balance.

**Recommendation 3** (refer [Appendix 1, action plan](#))

Bank reconciliations should be conducted on a monthly basis for all accounts which are in use. The Council should also consider the bank accounts held and if they are still required.

## 3. Payroll reconciliations

The Council undertakes a reconciliation between the ledger and the payroll system on a monthly basis in line with good practice. We reviewed an example of one month's reconciliation in 2022/23 and found limited

We reviewed the year-end reconciliation between the ledger and payroll system and concluded that the employee costs included in the ledger at the year-end were appropriate.

evidence that the discrepancies between the ledger and payroll were being followed up or investigated on a timely basis.

**Recommendation 4** (refer [Appendix 1, action plan](#))

The Council should ensure any work conducted in reconciling the ledger to payroll is appropriately evidenced.

Source: Audit Scotland

**41.** Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

**Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate**

**42.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**43.** The Council has adequate arrangements in place to prevent and detect fraud or other irregularities.

# 3. Financial Sustainability

## Main judgements

The latest five-year revenue budget strategy agreed in October 2023 is projecting a budget gap of £34.7 million to 2028/29.

It is clear that the Council faces heightened financial challenges in delivering balanced budgets and financially sustainable services. Radical solutions and robust financial plans will be needed to ensure service delivery remains financially sustainable.

The Council has developed a Transformation Blueprint which aligns with the five-year revenue budget strategy to 2027/28. However, detailed workforce and digital plans required to deliver transformation continue to be developed but have not yet been finalised. New strategic leads for Digital and Human Resources have been appointed to lead this work.

## The level of General Fund reserves remains significantly higher than pre-pandemic levels

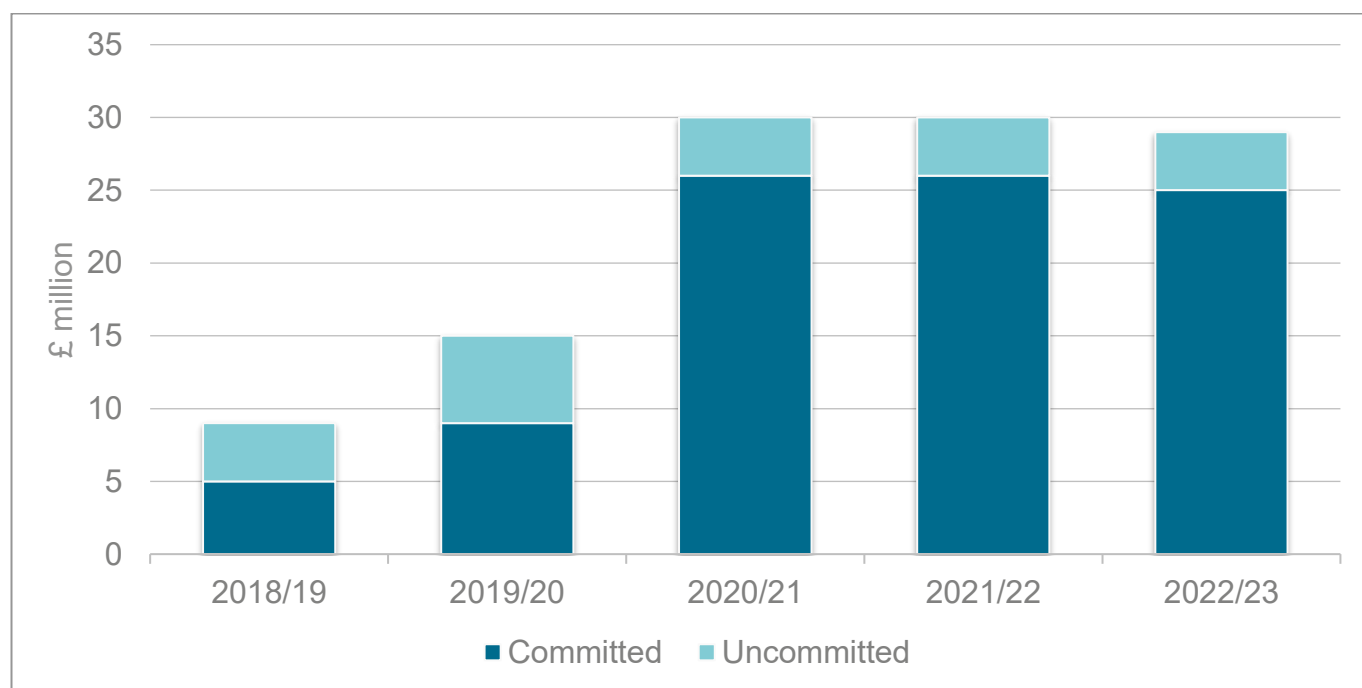
**44.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by Midlothian Council increased from £86 million in 2021/22 to £91 million in 2022/23. The usable reserves balance of £91 million includes General Fund reserves of £35 million of which £18 million is earmarked for specific purposes, Housing Revenue Account reserves of £32 million, Capital Fund reserves of £20 million and £4 million reserves for repairs and renewals.

**45.** [Exhibit 6](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. The significant increase in committed reserves in 2020/21 aligned with the impact of Covid-19 and the increased funding provided by the Scottish Government late in March 2020, leading to a significant increase in reserves.

**46.** This trend has continued to 2022/23 with levels of committed reserves remaining significantly higher than pre-Covid-19 times.

## Exhibit 6

### Analysis of general fund balance



**47.** Almost 90% of committed reserves represent efficiency savings or unspent grants achieved by individual services and carried forward for their use in future years. The Council has a scheme of devolved budget management and services can carry forward unspent grants for their use in following years. Services are not able to carry forward general underspends, which would be included within uncommitted reserves carried forward. All savings carried forward have to be reviewed and approved by the section 95 officer.

**48.** The balance of committed reserves includes £3m to support repairs to Public Realm, £2m committed to support Transformation work and £1 million set aside to balance the 2023/24 budget.

**49.** The level of uncommitted reserves has increased in 2022/23 providing £10 million contingency funds for future years.

### **The five-year revenue budget strategy agreed in October 2023 is projecting a budget gap of £34.7 million to 2028/29**

**50.** In February 2023, the Council agreed a five-year revenue budget strategy for the period 2023/24 to 2027/28. At that time the strategy was projecting a cumulative budget gap of £15 million by 2027/28. The Council updated the five-year revenue budget strategy in October and the cumulative projected budget gap has increased significantly to £24 million to 2027/28.

**51.** Savings proposals to bridge the budget gap were previously considered in the annual budget setting meetings but are now considered by the Business Transformation Steering Group (BTSG). This enables savings proposals to be agreed so that the Council is able to invest in its vision and corporate priorities.

**52.** Midlothian is the fastest growing Council area and this presents challenges in terms of increased service demand within its funding allocation which is based on historical population data. The Council have performed budget exercises using the latest 2022 Scottish census data which the Council state

result in significant increased funding for Midlothian. The Council is taking significant steps to obtain a solution to the funding gap, formally writing to the UK and Scottish Governments regarding the issue and exploring options for a Growth Fund and revisions to the Local Government funding floor.

**53.** It is clear that the Council faces heightened financial challenges in delivering balanced budgets and financially sustainable services. Radical solutions and robust financial plans will be needed to ensure service delivery remains financially sustainable. The Council recognises that transformation is essential to ensure service delivery remains financially sustainable and has published a Transformation Blueprint for Midlothian. The Transformation Blueprint which aligns with the five-year revenue budget strategy to 2027/28 aims to create a wellbeing economy. However, detailed workforce and digital plans required to deliver transformation continue to be developed but have not yet been finalised. New strategic leads for Digital and Human Resources have been appointed to lead this work.

### 2023/24 Projected Outturn

**54.** The latest budget monitoring report reported to the Council in November 2023 is projecting overspends across several services and highlights that £1.096 million of Medium Term Financial Strategy cost reductions have still to be finalised or fully implemented. A number of these are taking longer than planned to implement with an impact on the 23/24 financial position.

**55.** The most significant projected overspends relate to:

- Pupil transport - £0.9 million due to the volume and value of school pupil transport invoices higher than budgeted.
- Sport and Leisure - £0.7 million due to a shortfall in the agreed income target.
- Fleet costs - £0.7 million due to ageing vehicles and higher volumes of external contracting than planned.

**56.** The budget monitoring report is also projecting a reduction in the General Fund balance from £34.9 million at 31 March 2023 to £11.4 million at 31 March 2024. The most significant reduction of £16 million is expected to result from the application of Budgets carried forward from 2022/23 for use in 2023/24.



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## 4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

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### Main judgements

Midlothian Council has demonstrated ongoing commitment to best value since our Best Value Annual Report 2019. We have noted improvements in performance reporting and medium term financial planning as well as the strengthening of officer member relationships.

The Council and its partners are actively working to address inequalities. The new Council Leader initiated, and chairs, the cross party Cost of Living Task Force which has moved from taking a crisis intervention approach to a preventative approach and a child poverty strategy and plan has been produced.

The Council has adopted an ambitious target to be net zero by 2030. Its vision, outcomes and priorities clearly reflect the importance it places on this. But achieving this target brings resourcing and financial risks which the Council is actively managing.

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### Best value audit work is now fully integrated within our annual audit work

**57.** Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions, having regard to:

- efficiency
- effectiveness
- economy
- the need to meet equal opportunity requirements.

**58.** Under the new Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties. There are four aspects to auditors' work:



- follow-up and risk-based work
- service improvement and reporting
- thematic reviews
- contributing to Controller of Audit reports.

## **Leadership of the development of new local strategic priorities**

**59.** Annual thematic Best Value work is set by the Accounts Commission. For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The results of this work were reported to elected members at the Audit Committee in December 2023. This report will be published on the Audit Scotland website.

**60.** The key findings in this report are:

### **Council vision and priorities**

- Midlothian Council has demonstrated ongoing commitment to best value since our Best Value Annual Report 2019. We have noted improvements in performance reporting and medium term financial planning as well as the strengthening of officer member relationships.
- The Council works well with its community planning partners and citizens and this has facilitated the creation of the Single Midlothian Plan and a clear vision for Midlothian to create “a great, green place to grow” over the next four years.

### **Citizen and community**

- Partnership working continues to be a strength for the Council. It has effectively involved its communities in developing shared priorities. Officers and elected members are aware of community needs and have established a cost of living task force chaired by the Council Leader to support citizens.

### **Reducing inequalities and tackling climate change**

- The Council and its partners are actively working to address inequalities. The new Council Leader initiated, and chairs, the cross party Cost of Living Task Force which has moved from taking a crisis intervention approach to a preventative approach and a child poverty strategy and plan has been produced.
- The Council has adopted an ambitious target to be net zero by 2030. Its vision, outcomes and priorities clearly reflect the importance it places on this. But achieving this target brings resourcing and financial risks which the Council is actively managing.

## Alignment of delivery plans

- The latest five-year revenue budget strategy agreed in October 2023 is projecting a budget gap of £34.7 million to 2028/29. The Council recognises that transformation is essential to ensure service delivery remains financially sustainable and has published a Transformation Blueprint for Midlothian. The Transformation Blueprint which aligns with the five-year revenue budget strategy to 2027/28 aims to create a wellbeing economy. However, detailed workforce and digital plans required to deliver transformation continue to be developed but have not yet been finalised. New strategic leads for Digital and Human Resources have been appointed to lead this work.

## Leadership

- We have observed good constructive relationships between members and officers which have facilitated the creation of the Cost of Living Taskforce and the Transformation Blueprint.
- The Council has taken steps to improve decision-making and encourage scrutiny. Midlothian Council has an appropriate approach to ensuring there is sufficient knowledge at a member level to support the decision making and scrutiny.

## Controller of audit reports

**61.** The Controller of Audit also reports to the Accounts Commission on each council's performance in meeting its Best Value duties at least once over the five-year audit appointment. The programme of Controller reports will commence in October 2023. There are therefore no such reports required for 2022/23 audits. Based on the current provisional timetable, the Controller of Audit will report on Midlothian Council's performance in meeting its Best Value duties in financial year 2026/27. If the timetable is changed, the auditor will update the Council.

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# 5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Main judgements

**Midlothian Council continues to have effective and appropriate governance arrangements in place that support scrutiny of decisions made.**

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### The Council has a clear vision, strategy and priorities

**62.** The [Accounts Commission Strategy 2021-26](#) sets out its priorities to focus on inequalities, funding, communities and recovery. The Code of Audit practice sets out the Best Value work required to report on these priorities.

**63.** Over our 5-year audit appointment, a separate management report from auditors will be issued each year that details the outcome of thematic Best Value work. It should be recognised that much of Best Value work overlaps with the wider-scope elements. For 2022/23, our management report concludes on the effectiveness of the Council's leadership of the development of the Council's strategic priorities, following the 2022 local government elections.

**64.** The Best Value section of this report highlights that the new Single Midlothian Plan sets out a clear vision for Midlothian and also identifies success measures to monitor performance.

### Midlothian Council has appropriate governance arrangements in place to support effective scrutiny, challenge and informed decision making

**65.** The governance and transparency arrangements we consider in reaching our conclusions include:

- Council and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of Council and committees

- reporting of performance and whether this is fair, balanced and understandable.

**66.** The Council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. Our observations at committee meetings have found that these are conducted in a professional manner and there is a reasonable level of scrutiny and challenge by members.

**67.** We consider that governance arrangements remain appropriate and support effective scrutiny, challenge and decision making.

## Climate change arrangements

**68.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**69.** The Council recognises the strategic risks of fulfilling the requirements of the Climate Change Act including staffing and significant financial investment and began actively managing the risks in 2019. The Council declared a climate emergency in December 2019 and published its Climate Change Strategy and action plan in August 2020.

**70.** A Carbon Charter and action plan for Midlothian Businesses has been created and includes local, national and international resources to support businesses to become more energy and carbon efficient.

**71.** A Climate Emergency Group has been established to monitor progress of the Council's ambitious targets. The group consists of elected members, individuals and representatives of the community councils and community groups, national government agencies, third sector organisations, the local chamber of commerce, landowners and Midlothian Energy Ltd.

**72.** Failure to adapt to climate change is included in the Council's corporate risk register and is actively monitored through the corporate risk management process. We will continue to review progress against actions identified to mitigate the risks.

**73.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

## 6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

### Conclusions

The Council has appropriate arrangements in place for improving services and monitoring desired outcomes through a balanced scorecard approach.

Internal audit conducted a review and published a report on performance management and performance indicators in 2023. The report provided substantial assurance in the reporting of performance indicators.

### Midlothian Council has an appropriate performance management framework in place

**74.** The Council has a revised Planning and Performance Management Framework (PPMF). The framework sets out arrangements to ensure the Council can demonstrate a focus on outcomes while continuing to reflect statutory performance reporting requirements set out in the Statutory Performance Information Direction 2021.

**75.** In response to the 2019 BVAR, the Council implemented a digital dashboard performance management system, Pentana Browser, where elected members can access up-to-date performance data.

**76.** The CPP Board monitors performance of the Single Midlothian Plan every six months with the annual report highlighting success stories arising from the achievement of outcomes. The Council use a separate balanced scorecard to track the performance indicators for the services it is directly responsible for.

**77.** There are 21 key indicators presented as relating to the SMP and these are split between the SMP's three stated outcomes (Individuals and Communities have Improved Health and Learning Outcomes, No Child or Household Living in Poverty, Significant Progress is made towards Net Zero Carbon Emissions by 2030). In 2022/23, 12 were reported as on target, 4 off target, 2 data only and 3 no data available. Results for all perspectives are detailed below.

## Exhibit 7

### Summary of 2022/23 Balanced Scorecard Results

Perspective	On Target	Off Target	Data Only	No Data available
<b>SMP Key Indicators</b>	12	4	2	3
<b>Customer/Stakeholder</b>	16	8	26	3
<b>Financial Health</b>	1	1	16	0
<b>Internal Processes</b>	2	2	7	0
<b>Learning and Growth</b>	1	0	9	0

Source: Midlothian Council Balanced Scorecard 2022/23

**78.** The Accounts [Commission's 2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The Direction states that each council will report a range of information covered by the following two indicators:

- Statutory Performance Indicator 1: Improving local services and local outcomes
- Statutory Performance Indicator 2: Demonstrating Best Value

**79.** The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

### Improving local services and local outcomes

**80.** We have evaluated Midlothian Council's arrangements for fulfilling the above requirements and concluded that appropriate arrangements are in place for improving services and monitoring desired outcomes through a balanced scorecard approach. The balanced scorecard was approved at the June 2023 Midlothian Council meeting alongside the Council service plans. There are 113 indicators set out in a dashboard format. A RAG status is included to show how many indicators are on target and areas where data is missing. The balanced scorecard enables comparison over time and with other similar authorities by providing comparable figures for a 6 year period and performance against other councils forms part of the benchmarking. Citizens can view the scorecards and performance reports on the Council website.

**81.** Internal audit conducted a review and published a report on performance management and performance indicators in 2023. The report provided substantial assurance in the reporting of performance indicators though it did

highlight that there was scope for improving the audit trail in some limited areas, in relation to Local Government Benchmarking Framework indicators. This was a low risk recommendation which had been accepted for action by Executive business Managers.

### **Demonstrating Best value**

**82.** Best value principles have been built into the PPMF and the document highlights the importance of evaluating and scrutinising performance to ensure continuous improvement. In particular it highlights that there will be:

- a balance in reporting areas of improvement that have been achieved and not achieved. This is demonstrated in the annual scorecard report published by the Council
- that the reporting will be undertaken in a timely manner - quarterly reports on performance are timely as seen through the committee minutes
- easy access to its performance information for all of its citizens and communities, with such information presented in an accessible style – there are links provided on the Council website.

**83.** It is clear that best value considerations are taken into account throughout the Council and have been considered at a strategic and local level when drawing together corporate priorities, assessment and action, with some reports drawing attention to specific best value principles where appropriate. Best Value principles are embedded within the Council. This is supported through the introduction of a Best Value framework in May 2023.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Review of control accounts for classifications</b></p> <p>Our audit work identified some areas where the classification of transactions or balances was incorrectly disclosed within the notes to the accounts.</p> <p>Risk – the notes to the accounts do not reflect the underlying categories of the transactions.</p>	<p>The Council should ensure going forward that control accounts such as trade debtors are reviewed to ensure balances with central government and other public sector bodies are classified appropriately at the year-end.</p> <p><a href="#">Exhibit 2,4</a></p>	<p>A further layer of internal review will be implemented for the 2023/24 accounts to ensure that the accuracy of Balance Sheet and Disclosure note classification is enhanced.</p> <p>Chief Financial Officer</p> <p>March 2024</p>
<p><b>2. Journals</b></p> <p>We reviewed the journals across the year to identify those which had been posted by those with a higher level of access. We identified some journals which relate to former employees, however, they relate to interfaces with the ledger which are not actually posted but are automatic journals.</p> <p>Risk – there is a risk of fraud or error.</p>	<p>Journals procedures should be reviewed to minimise the risk with the ability of members of the finance team to approve their own journals.</p> <p><a href="#">Exhibit 5,1</a></p>	<p>We operate a control environment where staff at a designated level of seniority do not require counter signature. This being a reflection of the trust placed in senior employees and also to maintain a degree of practicality. I feel this is an acceptable risk for journal entries as non-cash transactions.</p> <p>Chief Financial Officer</p> <p>October 2023</p>
<p><b>3. Bank reconciliations</b></p> <p>Bank reconciliations were performed for each month of the year but the</p>	<p>The Council should ensure bank reconciliations are performed and reviewed in a timely manner. The Council should also consider the bank</p>	<p>There was a period during 2022/23 where reconciliations were not completed in line with normal established timescales due to staff</p>



Issue/risk	Recommendation	Agreed management action/timing
<p>reconciliations completed for periods 10 to 12 were not completed timeously.</p> <p>In addition, at the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.</p> <p>Risk – there is a risk that errors may not be picked up and corrected timeously. There is also a risk that the Council is operating a number of bank accounts which are no longer required.</p>	<p>accounts held and if they are still required.</p> <p><a href="#">Exhibit 5,2</a></p>	<p>unavailability. Since then reconciliations have returned to a normal cycle.</p> <p>Chief Financial Officer</p> <p>October 2023</p>
<p><b>4. Payroll reconciliations</b></p> <p>The Council undertakes a reconciliation between the ledger and the payroll system on a monthly basis in line with good practice. We reviewed an example of one month's reconciliation in 2022/23 and found limited evidence that the discrepancies between the ledger and payroll were being followed up or investigated on a timely basis.</p>	<p>The Council should ensure any work conducted in reconciling the ledger to payroll is appropriately evidenced.</p> <p><a href="#">Exhibit 5,3</a></p>	<p>Agreed.</p>

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
1. Asset addition recognised in incorrect period	Payables				0.312
	PPE			0.312	
2. Expenditure reclassification	CIES	0.631			
	PPE additions				0.631

# Midlothian Council

## 2022/23 Annual Audit Report

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# Leadership in the development of new local strategic priorities

**Midlothian Council**

**Best Value thematic work in 2022-23**



Prepared by Audit Scotland  
December 2023

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# Contents

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# Key messages

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- 1 Midlothian Council has demonstrated ongoing commitment to best value since our Best Value Annual Report 2019. We have noted improvements in performance reporting and medium term financial planning as well as the strengthening of officer member relationships.
- 2 The Council works well with its community planning partners and citizens and this has facilitated the creation of the Single Midlothian Plan and a clear vision for Midlothian to create “a great, green place to grow” over the next four years.
- 3 The Council and its partners are actively working to address inequalities. There is a cross party cost of living task force which has moved from taking a crisis intervention approach to a preventive approach and a child poverty strategy and plan has been produced.
- 4 The Council has adopted an ambitious target to be net zero by 2030. Its vision, outcomes and priorities clearly reflect the importance it places on this. But achieving this target brings resourcing and financial risks which the Council is actively managing.
- 5 The latest five-year revenue budget strategy agreed in September 2023 is projecting a budget gap of £34.7 million to 2028/29. The Council recognises that transformation is essential to ensure service delivery remains financially sustainable and has published a Transformation Blueprint for Midlothian. The Transformation Blueprint which aligns with the five-year revenue budget strategy to 2027/28 aims to create a wellbeing economy. However, detailed workforce and digital plans required to deliver transformation continue to be developed in partnership with elected members, Council staff and partners. New strategic leads for Digital and Human Resources have been appointed to lead this work.
- 6 We have observed improved constructive relationships between members and officers which have facilitated the creation of the Cost of Living Taskforce, chaired by the Council Leader and the Transformation Blueprint.
- 7 The Council has taken steps to improve decision-making and encourage scrutiny. Midlothian Council has an appropriate approach to ensuring there is sufficient knowledge at a member level to support the decision making and scrutiny.

# Scope of the audit

1. When discussing the [Local Government in Scotland Overview 2022](#), the Chair of the Accounts Commission noted: “Councils are operating in a complex and increasingly volatile, unprecedented and unpredictable environment. Strong leadership from councils is needed now more than ever, with new and returning Councillors being able and willing to make difficult decisions about where and how to spend highly pressurised resources.”
2. This report concludes on the effectiveness of the Council’s leadership of the development of the Council’s strategic priorities, following the 2022 local government elections.
3. [The Accounts Commission’s Strategy \(2021-26\)](#) sets out its priorities to focus on inequalities, funding, communities and recovery. The Code of Audit Practice sets out the Best Value work required to report on these priorities.

## Code of Audit Practice 2020 Best Value reporting requirements

### Best Value reporting – extract from the Code

87. The Accounts Commission’s approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports:

- As part of their integrated wider-scope annual audit work appointed auditors use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations.
- The Accounts Commission also requires the Controller of Audit to report to the Accounts Commission on each Council or Integration Joint Board (IJB) at least once over the five-year audit appointment on the body’s performance on its Best Value duty. This enables the Accounts Commission to make findings for improvement where appropriate. <sup>1</sup>
- The Accounts Commission reports nationally on thematic aspects of local government bodies’ approaches to, and performance in, meeting their Best Value and community planning duties. Local government appointed auditors report locally on any such Best Value thematic work prescribed by the Accounts Commission.

<sup>1</sup> The Controller of Audit will report the first tranche of Council BV reports to the Commission between October 2023 and August 2024 on Moray, Falkirk, Dundee City, Orkney Islands, South Ayrshire, Dumfries and Galloway, Clackmannanshire and West Dunbartonshire.

**4.** This report covers the thematic aspect of the Best Value audit requirements. The Commission has directed auditors to report on the effectiveness of the leadership of the development of the Council's strategic priorities.



**5.** In carrying out the work auditors have considered the following questions:

- How clear is the new Council vision and its priorities?
- How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?
- How effectively do the Council priorities reflect the need to reduce inequalities and climate change?
- How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?
- Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them?

**6.** An improvement action plan is included at [Appendix 1](#) of this report. This sets out audit recommendations in key areas, and the Council's planned response including responsible officers and dates for implementation.

**7.** The coverage of the work is in line with the expectations for councils' arrangements for the seven Best Value themes in the [Local Government in Scotland Act 2003, Best Value Statutory Guidance 2020](#).



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# Council vision and priorities

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8. A Council focused on achieving Best Value in how it operates will be able to demonstrate that elected members and officers have a clear vision and priorities for their area.

9. The [Local Government in Scotland Overview 2022](#) says that Scotland’s councils have had a pivotal role in supporting and working with communities as they respond to the impacts of Covid-19. Following the Council elections in May 2022, councils will have reviewed their priorities.

**The Council has created a clear vision through joint working with its community planning partners**

10. Midlothian Council (the Council) agreed its Single Midlothian Plan 2023-27 (SMP) in June 2023.

11. The SMP was developed through joint working with community planning partners, engagement with citizens and the Citizens Panel, and following various stakeholder events throughout 2022. (refer to paragraph 22). It has been written in plain English to improve accessibility and marks a move from short term to medium term planning for the Council and its community planning partners.

12. The Council has created a clear vision for Midlothian to create “a great, green place to grow” over the next four years.

13. [Exhibit 1](#) sets out the Council’s vision statement. The vision is supported by three key outcomes and seven thematic groups which have been established within the Community Planning Partnership (CPP). Each of the seven thematic groups have set out their own improvement actions:

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## Exhibit 1

### Single Midlothian Plan 2023-27

Vision statement	By working together as a Community Planning Partnership, individuals and communities will be able to lead healthier, safer and greener lives by 2030. No child or household need live in poverty. Midlothian will be a great green place to grow by achieving our net zero carbon ambitions and supporting local people to strengthen the skills they need for learning, life and work.
	Individuals and communities have improved health and skills for learning, life and work

<b>Three Key Outcomes</b>	No child or household living in poverty	
	Significant progress is made towards net zero carbon emissions by 2030	
<b>Thematic priorities</b>	Midlothian will be healthier	13 actions
	Midlothian will be safer	10 actions
	Midlothian will Get it Right for Every Child	12 actions
	Midlothian will support residents to improve employability and outcomes in our communities	24 actions
	Midlothian will be green	21 actions
	Midlothian will have a wellbeing economy and be better connected	9 actions
	Midlothian will work towards reducing poverty	18 actions
	<b>Total</b>	<b>107 actions</b>

Source: Single Midlothian Plan (SMP) 2023-27

**14.** The SMP is a live document and is informed by consultation through the thematic groups. The work of CPP is reported to communities for feedback. In addition, key equality groups (Midlothian Peoples Equality Group and Faith Partnership Group) provide direct feedback and the Housing Services Tenant Participation Officer liaises with the tenants group over the actions within the SMP.

## Performance reporting is continuing to improve

**15.** The CPP Board monitors performance of the Single Midlothian Plan every six months with the annual report highlighting success stories arising from the achievement of outcomes. The Council uses a separate balanced scorecard to track the performance indicators for the services for which it is directly responsible. In response to the [2019 Best Value Assurance Report](#), the Council implemented a digital dashboard performance management system, Pentana Browser, where elected members can access up-to-date performance data.

**16.** The Single Midlothian Plan H2 Performance Report which included the SMP balanced scorecard indicators was approved at the June 2023 Midlothian Council meeting alongside the Council service plans. There are 110 indicators set out in a dashboard format. A RAG status is included to show how many

indicators are on target and areas where data is missing. Citizens can view the scorecards and performance reports on the Council's website.

**17.** Improvements in performance reporting, incorporating both quantitative and qualitative data over time, are assisting the Council and partners more clearly in demonstrating performance against agreed actions and targets.

### **The Council's vision and priorities have been shared with citizens and staff**

**18.** The Council has engaged with citizens and staff to articulate its vision and priorities. The Council shared details of the renewed SMP with members of the public in June 2023 through a press release and the SMP is available on the Council's website.

### **The Council is arranging more community planning events to showcase the work of the partnership**

**19.** A community planning launch event took place in November 2023 and over the next four years there is expected to be an increased profile of community planning led events, showcasing the work of the partnership.

**20.** The chief executive shares the vision and priorities with staff through a weekly email bulletin, the Leadership Forum and through a separate bulletin to stakeholders.

**21.** Midlothian Council is a partner with the 5 other local authorities that make up the Edinburgh and South East Scotland City region, who together with regional universities, colleges and the private sector signed a City Region Deal with the UK and Scottish Governments, with a value of over £1.3 billion. The City Region Deal aims to drive productivity and growth while reducing inequalities and deprivation, pulling in significant government investment by innovation, skills and infrastructure. Performance will be significantly improved, and the inclusive growth will tackle inequality and deprivation.

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# Community engagement and feedback

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**22.** Councils, with their community planning partners, have a responsibility to ensure that people and communities are able to be fully involved in the decisions that affect their everyday lives. There must be a focus on getting the services people need in place, to have the best impact on the lives of individuals and communities.

**23.** Early and meaningful engagement and effective collaboration with communities to identify and understand local needs, and in decisions that affect the planning and delivery of services should be a core part of determining a Council's vision and priorities.

**24.** In Midlothian, the Community Planning Partnership is led by the Community Planning Partnership Board which is made up of members from many organisations including Police Scotland, NHS Lothian, various community groups and Midlothian Voluntary Action. There is a Community Planning Working Group which reports to the Board, and this group is supported by the 7 thematic groups ([Exhibit 1](#)).

## **The Council worked with key stakeholders to develop shared priorities which informed the Single Midlothian Plan**

**25.** Community engagement and feedback is important to Midlothian Council. There is supporting evidence that the Council meets with Public, Private, Voluntary sectors and local communities on a regular basis throughout the year. To inform the development of the SMP an annual community planning development day was held, with over 70 representatives from the Council, community groups, and third sector organisations. This provided an inclusive forum for attendees to reflect on the previous SMP and to analyse survey results from a citizen panel to form actions for the new plan.

**26.** Three additional events were held in May 2023 to gain feedback on the draft plan and the draft plan was also circulated across the CPP network of over 3,500 people for comments.

**27.** In recognition that some community groups are harder to reach the Midlothian Youth Platform organised events to gather the views of young people aged 12-21. This included a conference called a "Hackathon" at Dalkeith Primary which was attended by around 70 people.

**28.** The Council has reported the following additional successes through engaging with communities:

- Annual participation measure for young people over 16 is 93.4% for Midlothian (2022/23: 95%).
- Following public consultations, the Council created a cross party cost of living task force in June 2022 to tackle the increased pressure on household finances. Five elected members continue to meet monthly to identify local solutions to support families in crisis and work with partner agencies and local organisations to put support in place.
- In November 2022 a public consultation was held on road speed limits in the area. Over 1,000 comments and suggestions were received from local residents, community councils and other organisations. The Council approved the creation of an action plan in May 2023 which will be considered at a future Council meeting and shared on the Council's website to update participants on the final results.
- The Council's ageing well programme has delivered over 50 activities each week.
- Volunteering at Midlothian Community Hospital has increased by 125%.
- A grant of £10,000 has been obtained for the Midlothian Tourism Forum.
- Biodiversity work has been included in the school curriculum.
- The number of children and young people receiving support from community-based services increased.
- 1-1 support was offered for 22 Third Sector organisations.
- This year 3,300 volunteer hours were spent in countryside sites ensuring an attractive, safe and welcoming environment for all to enjoy. Volunteer numbers have increased significantly over the last few years, with a 20% increase in volunteer hours this quarter compared to the same period last year. Green flag status was awarded for Kings Park Dalkeith and Straiton Pond. The awards for Countryside sites demonstrate the success of close partnership working between volunteers and their coordination by our Ranger Service.
- The Countryside Ranger Service continues to engage with communities and volunteers on various initiatives and events. Grassland management, to increase pollinator species and carbon sequestration rates, was carried out at Vogrie, Roslin and Straiton Pond by volunteers cutting and lifting wildflower rich meadow areas. 'Vogrie Bioblitz' of the former golf course took place with partners and volunteer recorders to gather information on species as a benchmark for future management interventions in species diversity. Butterfly surveys were carried out weekly from April to September by volunteers as part of a national monitoring scheme.

# Reducing inequalities and tackling climate change

**29.** Council priorities are expected to reflect the Best Value expectations that all activity should contribute to tackling poverty, reducing inequality and promoting fairness, respect and dignity for all citizens, alongside a focus on sustainable development, including climate change.

**30.** The Accounts Commission's [Local Government in Scotland Overview 2023](#) report highlights that changing demographics, the pandemic and the cost-of-living crisis have increased pressure on Council services and people already experiencing inequality are most affected. As councils take steps to radically change how they deliver services, the needs of the most vulnerable or people living in poverty must be at the centre.

**31.** The Accounts Commission's report also notes that councils have a critical role in achieving Scotland's national climate change goals and contributing towards the national target of net zero by 2045.

**32.** Around two-thirds of councils have formally declared a climate emergency, and COSLA's Blueprint for Local Government states that climate change is a 'greater threat than COVID'. The Scottish Government has recently published guidance on public sector leadership on the global climate emergency to help public bodies in leading climate action. Addressing the climate emergency and setting actions to achieve net zero will need to be a key element of councils' recovery and renewal from the pandemic.

## The Council has a clear focus on reducing poverty and tackling inequality

**33.** The Council has a clear focus on the UN Convention of the Rights of the Child and has carried out a significant amount of work in delivering against the UNCRC as evidenced in the Midlothian Children's Rights Report 2020-2023. As a child-centred organisation, the UNCRC provides the Council and NHS Lothian with a platform to help determine progress in improving and promoting the wellbeing of children.

**34.** Work is ongoing across the Council in partnership with NHS, Police and 3<sup>rd</sup> sector organisations to improve educational attainment and achievement, improve health and wellbeing outcomes, support parents and carers, reduce unemployment and ensure the participation of young people.

**35.** The Council has set up a cross party cost of living task force and moved from taking a crisis intervention approach to a preventive approach.

**36.** The Council has an established strategic poverty prevention group comprising cross party elected members, public health workers and representatives from partner organisations and communities. The group, which was established in the Autumn 2022, is working with the Midlothian Financial Inclusion Network on cost of living issues. In addition, the Council jointly leads a child poverty working group with NHS Lothian and they report annually on locally agreed actions to reduce child poverty during the year.

**37.** The strategic poverty prevention and the child poverty working groups plan to collaboratively develop a long term child poverty strategy and action plan by 2024-25. It will be informed by Midlothian's Scottish Index of Multiple Deprivation profile and people with lived experience.

**38.** Understanding the areas in Midlothian where the population is most income deprived will help to target and measure actions to reduce child poverty. This data will be used as one source of information to continue to inform the development of a Child Poverty Index and Poverty locality maps, using multiple data sources that will ensure a more robust data set. The CPI uses DWP Low Income families, Free School Meal, School Clothing Grant and Education Maintenance Allowance data to identify geographic areas where high levels of child poverty may be prevalent.

**39.** Elected Members, the Council Management Team and staff attend, or complete mandatory online equality and diversity awareness training and it is included in the staff induction programme.

**40.** The Council engages with local equality groups including the Peoples Equality Group, Young People's Advice Service and LGBT Youth Group through various events and forums. Some examples of this engagement are:

- Equal Midlothian week which was held in March 2023 and included events on topics including disability and cooking skills.
- The Depute Provost was appointed as the Midlothian Council Equalities and White Ribbon Champion, which is an initiative to encourage men to end violence against women.

**41.** Midlothian Council uses an Integrated Impact Assessment (IIA) tool to examine the impact of decisions on the community. IIAs are required for all policies that affect people to ensure the impact is considered equally including for those with protected characteristics.

## **Reducing climate change is a strategic priority for the Council and it is considered a corporate risk**

**42.** Tackling climate change is central to the SMP 2023-27 and its vision for the area. The Council has an agreed outcome in the SMP to make significant progress towards its 2030 target of net zero carbon emissions.

**43.** The Council recognises the strategic risks of fulfilling the requirements of the Climate Change Act including staffing and significant financial investment and began actively managing the risks in 2019. The Council declared a climate

emergency in December 2019 and published its Climate Change Strategy and action plan in August 2020.

**44.** A Carbon Charter and action plan for Midlothian Businesses has been created and includes local, national and international resources to support businesses become more energy and carbon efficient.

**45.** A Climate Emergency Group has been established to monitor progress of the Council's ambitious targets. The group consists of elected members, individuals and representatives of the community councils and community groups, national government agencies, third sector organisations, local chamber of commerce, landowners and the Council's joint venture; Midlothian Energy Ltd.

**46.** Failure to adapt to climate change is included in the Council's corporate risk register and is actively monitored through the corporate risk management process. We will continue to review progress against actions identified to mitigate the risks.



# Alignment of delivery plans

**47.** Making the best use of public resources is at the heart of delivering Best Value. With clear plans and strategies in place, and with sound governance and strong leadership, a council will be well placed to ensure that all of its resources are deployed to achieve its strategic priorities, meet the needs of its communities and deliver continuous improvement.

**48.** In our [Local Government in Scotland Overview 2023](#), we acknowledged that budget constraints and increasing cost pressures are putting councils' finances under severe strain. An increasing proportion of funding is ringfenced or directed for national policy initiatives. While this is important to help deliver national priorities, it prevents councils from making decisions about how funds can be used at a local level, to meet local need. Increasingly difficult choices about spending priorities and service provision are having to be made. Delivering services differently should be focused on improving performance and outcomes in ways that are innovative, affordable, and sustainable.

## **The five-year revenue budget strategy agreed in September 2023 is projecting a budget gap of £34.7 million to 2028/29**

**49.** In February 2023, the Council agreed a five-year revenue budget strategy for the period 2023/24 to 2027/28. At that time the strategy was projecting a cumulative budget gap of £15 million by 2027/28. The Council updated the five-year revenue budget strategy in September and the cumulative projected budget gap has increased significantly to £24 million to 2027/28.

**50.** We performed a review of the Council's annual budget setting arrangements and have concluded that the budget process implemented by the Council appears to be well established and officers and Finance Business Partners are very clear about their responsibilities and time frames. The process involves strong scrutiny arrangements, with the Business Transformation Steering Group and Council both having opportunities to scrutinise the budget and consider opportunities to reduce any emerging budget gap. The budget setting document includes realistic financial assumptions and it offers good information regarding where there are projected over and underspends. It also gives brief explanations and context setting as appropriate.

**51.** Savings proposals to bridge the budget gap were previously considered in the annual budget setting meetings but are now considered by the Business Transformation Steering Group (BTSG). This enables savings proposals to be agreed so that the Council is able to invest in its vision and corporate priorities.

**52.** Midlothian is the fastest growing Council area and this presents challenges in terms of increased service demand within its funding allocation which is based on historical population data. The Council have performed budget exercises using the latest 2022 Scottish census data which the Council state

result in significant increased funding for Midlothian. The Council is taking significant steps to obtain a solution to the funding gap, formally writing to the UK and Scottish Governments regarding the issue and exploring options for a Growth Fund and revisions to the Local Government funding floor.

**53.** It is clear that the Council faces heightened financial challenges in delivering balanced budgets and financially sustainable services and radical solutions and robust financial plans will be needed to ensure service delivery remains financially sustainable.

### **New service plans are in place and demonstrate clear links to the Council's strategic plans and Single Midlothian Plan**

**54.** Service plans were approved by the Council in June 2023. Each service has a service improvement plan that links the local outcomes to the commitments in the Single Midlothian Plan and Council strategic priorities. Progress of the plans are scrutinised quarterly by the Cabinet and Performance, Review and Scrutiny Committees.

**55.** The service plans are sufficiently detailed and include the main priorities that the Council are looking to pursue. The plans are interconnected ensuring that the key priorities are being monitored and worked on. They identify each service's performance and challenges well and provide good level of detail in terms of planned actions for the coming quarters.

### **The Council has aligned its key strategies to recover from Covid-19 by focusing on creating a wellbeing economy**

**56.** The Council's Transformation Blueprint aims to bridge the Council's projected funding gap and builds on the previous Route Map through and out of the Covid Pandemic. It aligns with the Medium Term Financial Strategy 2023/24 - 2027/28 and has an allocation of £2 million from the General Fund for delivery.

**57.** It has three main aims:

- individuals and communities have improved health and learning outcomes
- no child or household live in poverty
- significant progress is made towards the net zero agenda.

**58.** The Transformation Blueprint is aligned to the Scottish Government's vision for Scotland and the Wellbeing Economy Monitor. A wellbeing economy includes promoting wellbeing, inclusion and fairness, and the environment. The Transformation Blueprint also aligns to the Single Midlothian Plan 2023-27 and is designed to help secure greater financial sustainability as well as making sure the Council has the technology, assets, skilled staff and multi-agency working to create more efficient and effective services for local people.

**59.** There is an emphasis on workforce in theme 2 of the blueprint but we have observed that the Council does not have a current workforce plan. However, the [2023/24 Corporate Services Service Plan](#) outlines a number of updates in

relation to workforce planning. It notes that there is a Corporate Workforce Plan in place, that workforce plans for all service areas is an objective for 2023/24, and the rollout of a Wellbeing Strategy for the workforce is planned in 2023/24.

**60.** We have also observed that the current digital strategy covers the period 2020-2023 and is soon to be out of date. We have been advised that the Council is currently revising the strategy.

**61.** The Council plans to deliver transformation in 19 sprints over the five year period and a three year fixed term project management office will be established to drive forward the Transformation Blueprint. Each programme will have a series of key performance indicators embedded within each sprint.

**62.** Performance will be monitored by senior management and quarterly reports will be submitted to Cabinet and the Performance, Review and Scrutiny committee. Performance improvement will be targeted towards moving the 41 low performing Local Government Benchmarking Framework indicators into the upper quartiles in order to deliver better outcomes.

**63.** The Council needs to closely monitor progress with the Transformation Blueprint and ensure it can deliver its plans within the constrained financial context.

**64.** The Capital Plan outlines the Council's corporate priorities and the considerations required relating to funding, governance and assessing affordability. There is recognition through the prioritisation process engagement between officers and members that there is a need to balance investment in maintaining and enhancing existing infrastructure against the ambition for developing new assets.

## **The Council engages with citizens in budget decisions**

**65.** The Council have previously piloted a participatory budgeting process to encourage citizens to get involved in the allocation of budgets.

**66.** The Council carried out an online consultation on the 2023/24 budget. It received over 450 responses. 12 Have Your Say emails and 84 social media comments were also considered. The majority of responses were from individuals but around 10% came from organisations. The results were provided as part of the budget setting meeting papers to provide transparency for members of the public. Examples of comments included:

- “Maintaining leisure facilities is vital. Youngest are struggling with mental health issues following covid. It is vital that they can exercise and clubs are not forced to close as a result of price increases.”
- “Early years learning very important for struggling families, working parents. Should be one of the priorities in Council list.”
- “Partner organisations provide really good value for money so do not cut their budgets. Third sector are a great support.”

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# Leadership

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**67.** We have observed good constructive relationships between members and officers which have facilitated the creation of the Cost of Living Taskforce and the Transformation Blueprint. Effective leadership from councillors, chief executives and senior officers, is key to councils achieving their objectives and providing clear strategic direction. The complex local government environment means collaborative leadership, working with partners, communities and citizens to improve outcomes is more important than ever.

**68.** Leaders need to be skilled in effective strategic thinking, decision-making and collaborative working and able to learn lessons from new ways of working. Councillors and officers must continue to be clear on their roles in setting the vision and planning for its delivery.

**69.** Leaders should continue to demonstrate behaviours and working relationships that foster a culture of cooperation, and a commitment to continuous improvement and innovation. Good conduct and behaviours when working together are crucial. Working relationships between members and between members and officers should be constructive and productive. Councillors should show a commitment to agreed Council priorities and work together to achieve them.

**70.** The current chief executive has been in post since 2018. She is supported by three directors who are responsible for health, place and children, young people, families, communities and partnerships..

**71.** The previous BVAR recommended that the Council develop and sustain more constructive relationships between members and between members and officers. There is evidence this is happening through discussions with officers and members and the creation of the Cost of Living Task Force and creation of the Transformation Blueprint.

**72.** Members also worked together to agree the Medium Term Financial Strategy in February 2023. This was supplemented by officer led briefings to all three political groups prior to the full Council meeting. The Corporate Management Team and Elected Members Business Transformation Steering Group also discussed budget saving proposals and transformation priorities prior to full Council approval.

## **The Council has taken steps to improve decision-making and encourage scrutiny**

**73.** Prior to the local government election in May 2022 all Council committees were chaired by the administration except the Performance Review and Scrutiny Committee and the Audit Committee. The new Council leader worked with members following the election to ensure the current committee structure

has cross party representation. Additionally, in the last term all outside bodies and organisations were allocated to administration members, but they are now shared proportionately between the three political groups. This demonstrates the Council has taken steps to improve decision-making, encourage scrutiny and build Councillors' personal development. The Council leader hopes this approach will lead to the retention of Councillors at the next election.

## **The Council supports continuous improvement for elected members and staff**

**74.** Midlothian Council has an appropriate approach to ensuring there is sufficient knowledge at a member level to support decision making and scrutiny. Elected members were provided with a wide-ranging training programme as part of the formal induction process following the local government election in May 2022. The eight week programme covered all aspects of the Council and in more complex areas such as treasury management, more regular briefing sessions were provided. Sessions were generally well attended, with an average attendance of 11 members across 30 sessions, ranging from three members attending local by default to 16 members attending a session on local government finance. Elected members are encouraged to maintain their own personal development plans.

**75.** In February 2022 the Council launched a staff survey in the Place Directorate. Nesta innovation foundation was invited to conduct the research and over 70 people participated. The "Listen and Learn" report led to several improvements including: greater awareness of where staff can get support that works for them at the right time; more managers implemented an open-door policy; and a new IVF and miscarriage policy was created.

# Appendix 1

## Improvement Action plan

Issue/risk	Recommendation	Agreed management action / timing
<p><b>1. Financial sustainability</b></p> <p>In February 2023, Midlothian Council agreed a five-year revenue budget strategy for the period 2023/24 to 2027/28. At that time the strategy was projecting a budget gap of £15 million by 2027/28. The Council updated the five-year revenue budget strategy in September and the projected budget gap has increased significantly to £34.7 million to 2028/29.</p> <p>It is clear that the Council faces heightened financial challenges in delivering balanced budgets and financially sustainable services (including statutory services) and more radical solutions will be needed to ensure service delivery remains financially sustainable.</p>	<p>Robust financial planning will be required to make the strategic decisions and transformation necessary to deliver financially sustainable services into the longer term (refer <a href="#">paragraph 53</a>).</p>	<p>Management Response: The budget gap for the forthcoming financial year will be updated as detailed information becomes available on Scottish Government funding, the position with council tax increases, conditions attached to Scottish Government funding and base budget pressures. The Transformation Blueprint sprints will develop savings options and Capital Plan Prioritisation will maintain an affordable level of debt charges. The projected budget gap for the remainder of the MTFS will be updated in light of the 2024/25 budget setting.</p> <p>Officer: Corporate Management Team</p> <p>Date: 30 June 2023</p>
<p><b>2. Implementing the Transformation Blueprint</b></p> <p>The Council's Transformation Blueprint aims to bridge the Council's projected five year funding gap and builds on the previous Route Map out of the Covid Pandemic. It aligns with the Medium Term Financial Strategy 2023/24 - 2027/28 and has an</p>	<p>The Council needs to closely monitor progress with the Transformation Blueprint and ensure it can deliver its plans within the constrained financial context (refer <a href="#">paragraph 63</a>).</p>	<p>Management Response: A structured and regular reporting mechanism for the Transformation Blueprint is in place and will continue.</p> <p>Officer: Chief Executive</p> <p>Date: Ongoing.</p>

allocation of £2 million from  
the General Fund for delivery.

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