Notice of Meeting and Agenda

Audit Committee

Venue: **Council Chambers,**
Midlothian House, Dalkeith, EH22 1DN

Date: **Tuesday, 24 September 2019**

Time: **10:00**

Director, Resources

Contact:

Clerk Name: Janet Ritchie
Clerk Telephone: 0131 271 3158
Clerk Email: janet.ritchie@midlothian.gov.uk

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

5 Public Reports

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 3 December 2019

Minute of Meeting

Audit Committee

Date	Time	Venue
Tuesday 24 June 2019	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Independent Chair)
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Parry
Councillor Smaill
Councillor Cassidy (Substitute)
Peter de Vink (Independent Member)

In attendance:

Grace Vickers	Chief Executive
Mary Smith	Director Education, Communities and Economy
Kevin Anderson	Acting Director Resources
Alison White	Head of Adult Health and Social Care
Gary Fairley	Head of Finance and Integrated Service Support
Alan Turpie	Legal Services Manager/Monitoring Officer
Grace Scanlin	External Auditor, Ernst and Young
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

The Chair, Mike Ramsay welcomed everyone to the meeting, following which there was a round of introductions.

Apologies were received from Councillor Baird. It was noted that Councillor Cassidy was substituting for Councillor Baird.

2. Order of Business

The order of business was confirmed as outlined in the agenda.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 28 May 2019 was submitted and approved as a correct record having been proposed by Councillor Hardie and seconded by Councillor Cassidy.

4.2 The Action log was submitted and the following agreed:

1) ‘Annual Governance Statement 2017/18 (2018/19 Areas for Improvement)’ - To note that the Annual Governance Statement 2018/19 was included with the Unaudited Accounts which is item 5.2 on this Agenda and this action is now complete.

2) ‘Briefing – Informal Audit Committee Session’ - To note this action is now complete.

3) ‘Delivering Excellence – Governance Arrangements’ – The Chief Internal Auditor advised that as yet there was no specific date attached to this action but the change in transformation governance arrangements would be covered in the programme of work as part of their Internal Audit Annual Plan and would be reported back to the Audit Committee in due course.

4) ‘Risk Register – Lothian Buses Pension Fund – To note that a further report would be presented to the Audit Committee in September 2019.

The Director of Education, Communities and Economy raised an action with regards to Item 5.1 ‘Final Internal Audit Report Follow-up Review of Developer Contributions’ and confirmed that a Training Session on Developer’s Contributions for Members of the Planning Committee would be arranged after the summer recess.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Annual Treasury Management Report 2018/19	Head of Finance and Integrated Service Support
Outline of report and summary of discussion		
The purpose of this report was to inform Members of the Treasury Management activity undertaken in 2018/19 and the year-end position. The Head of Finance and Integrated Service Support advised the Committee that a training session with the external Treasury Advisors would be arranged for Members of the Audit Committee and all Elected Members on Treasury Management in the Autumn prior to the Audit meeting in January 2020. Thereafter he presented this report highlighting the main sections within the report and in response to a comment from the Chair confirmed that he would review the discrepancy in figures with regards to Appendix 2 to this report and the Unaudited Accounts and amend as appropriate.		
Decision		
The Audit Committee noted the Treasury Management Annual Report for 2018/19 and recommended that the report is submitted to Council for approval.		
Action		
The Head of Finance and Integrated Service Support		

Report No.	Report Title	Submitted by:
5.2	Unaudited Financial Statements 2018/19	Head of Finance and Integrated Service Support
Outline of report and summary of discussion		
The purpose of this report was to enable Audit Committee to consider and comment on the unaudited accounts for 2018/19. A separate presentation was provided to the committee prior to consideration of this report and the accounts. The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts and the requirements for the Audit Committee to consider the unaudited accounts by 31 August 2019. The External Auditors, EY will begin the substantive phase of the audit of the accounts during July with a clearance meeting to be arranged during late August 2019. The aim was to complete the audit and for EY to be provided with draft audited accounts by early September 2019. Thereafter the audited accounts are scheduled to be presented to Audit Committee on 24 September 2019 together with EY Annual Audit Report. The report outlines the requirements for completion, approval and signing of the accounts as set out in the Local Authority Accounts (Scotland) Regulations 2014.		

The Head of Finance and Integrated Service Support presented this report to the Committee highlighting the main sections within the report and the requirements for the Audit Committee to consider the unaudited accounts by 31 August 2019. He expressed his thanks to the Finance team and colleagues across the Council in supporting the completion of these Accounts. The Head of Finance and Integrated Service Support responded to questions and comments raised by Members of the committee which included a question raised by Councillor Smaill regarding the number of immaterial write offs approved by Cabinet during the year. Members the Cabinet also commented that they had also raised concerns regarding this and explained that Midlothian Council non-domestic rates were collected by Edinburgh Council and after meeting with them were confident that they had done all they could in pursing it. Also raised by several members of the committee was the outturn underspend and some of internal and external influences which contributed to this. The Chief Internal Auditor referred to item 1 of the action log and advised the Committee that the draft Annual Governance Statement previously had been a separate document but was now included as a section in the unaudited Accounts and highlighted the importance of this assurance document. Thereafter the Chief Executive highlighted the main sections within the assurance statement and some of the significant changes which not only provided year end assurances but also provided detailed assurances throughout the year.
Decision
In accordance with The Local Authority Accounts (Scotland) Regulations 2014, set out in section 2 of the report, the Audit Committee considered and commented on the unaudited accounts for 2018/19.

Report No.	Report Title	Submitted by:
5.3	Audit Committee Annual Report 2018/19	Chair of Audit Committee
Outline of presentation and summary of discussion		
The purpose of this report was to provide Members with the Audit Committee Annual Report 2018/19 and the annual self-assessments of the Committee against best practice. The Independent Chair of the Audit Committee presented this report advising the committee that Appendix 1 was The Audit Committee Annual Report 2018/19 for consideration and was designed to provide assurance to full Council and to identify areas of improvement which were designed to enhance the Audit Committee's effectiveness as a scrutiny body. He also advised that Appendix 2 and 3 were the outcomes of the self-assessments carried out with the Good Practice Principles Checklist and the Evaluation of Effectiveness toolkit.		

The Chair then provided the Committee with a brief summary of the contents of the Audit Committee Annual Report 2018/19 highlighting some of the work carried out by the Audit Committee and the Committee's role in the scrutiny process of internal controls and governance. He also highlighted the Assurance Statement to the Council and the recommendation to Council to amend the Terms of Reference for the Audit Committee for the coming year.
Decision
The Audit Committee approved the Audit Committee Annual Report 2018/19 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agreed that the Audit Committee Annual Report 2018/19 should be presented to the Council.
Action
Chair/Chief Internal Auditor

Exclusion of Members of the Public

In view of the nature of the business to be transacted, the Audit Committee agreed that the public be excluded from the meeting during discussion of the undernoted items, as contained in the Addendum hereto, as there might be disclosed exempt information as defined in paragraph 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

6. Private Reports

Report No.	Report Title	Submitted by:
6.1	Chief Executive's Update including Independent Consultant's Report	Chief Executive
Decision		
The Audit Committee noted: • The report provided by the Independent Consultant • The actions taken by the Council • The responsiveness and ongoing actions being taken forward by the Acting Director, Resources • The responsiveness and ongoing work being undertaken by Internal Audit as part of the annual Audit Plan • The Legal Services Manager would provide a report to the Audit Committee with regards to 'Where does a Councillor go if they lose faith in Senior Officers'. • That Members of the Committee would shred this confidential document immediately following the meeting.		

7. Date of Next Meeting

The next meeting will be held on 24 September 2019 at 10 am

The meeting terminated at 12.30 pm

Actions Log

Audit Committee
Tuesday 24 June 2019
Item No: 4.2

Midlothian

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	**Delivering Excellence Programme - Governance**	12/03/19	Noted that the Governance arrangements were being addressed through the BTSG and Agreed that they be reported back to the Audit Committee, as required.	Chief Internal Auditor	As Required	As yet there was no specific date attached to this action but the change in transformation governance arrangements would be covered in the programme of work as part of the Internal Audit Annual Plan and would be reported back to the Audit Committee in due course.
2	**Risk Register – Lothian Buses Pension Fund**	12/03/19	Agreed to seek a further report addressing the potential risks and any possible future financial implications to the Council	Legal Manager/Head of Finance and Integrated Services Support	24/09/2019	Included in Agenda
3	**Final Internal Audit Report Follow-up Review of Developer Contributions**	28/05/19	Arrange a Training Session on Developer's Contributions for Members of the Planning Committee.	Director, Education Communities and Economy		Confirmed at 24 June 2019 meeting that a Training Session on Developer's Contributions for Members of the Planning Committee would be arranged after the summer recess.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
4	**Treasury Management Training Session**	24/06/19	Arrange a Training Session with the External Treasury Advisors for the Members of the Audit Committee and all Elected Members	Head of Finance and Integrated Service Support	05/11/19	scheduled
5	**Annual Accounts 2018/19**	24/06/19	Audited Accounts to be presented to Audit Committee together with E.Y. Annual Audit Report	Head of Finance and Integrated Service Support	24/09/19	Included in Agenda
6	**Audit Committee performance self-assessment**	24/06/19	The Audit Committee Annual Report 2018/19 should be presented to the Council.	Chair / Chief Internal Auditor	20/08/19	Presented to Council on 20 August 2019
7	**Report on 'Where does a Councillor go if they lose faith in Senior Officers?'**	24/06/19	Legal Services Manager to investigate and provide a report on 'Where does a Councillor go if they lose faith in Senior Officers'.	Legal Services Manager	03/12/19	

Midlothian

Financial Statements for the year ended 31 March 2019

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to present the Council's draft audited Financial Statements for 2018/19 to Audit Committee and to provide a brief overview of the changes made during the audit process.

2 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30th June 2019 and they were examined in detail at a special Audit Committee on Monday 24th June 2019.

2.1 Regulations

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

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

> *(a) Meet to consider the audited Annual Accounts; and*
> *(b) Aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.*

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

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

> *(a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;*
> *(b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;*
> *(c) the annual governance statement by the Chief Executive and the Leader of the Council;*
> *(d) the remuneration report by the Chief Executive and the Leader of the Council; and*
> *(e) the balance sheets by the proper officer, to authorise publication of the financial statements.*

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

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

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

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

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

Accordingly the accounts are presented to Audit Committee today as required by the regulations alongside the Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2019 prepared by the appointed external auditor, Ernst & Young LLP.

The external auditors report will also be presented to Council on Tuesday 12th November 2019 and a copy of the audited accounts will be provided to all members of Council.

2.2 Changes to the unaudited accounts during the audit process

There are no qualifications to the Financial Statements.

Five audit differences were identified and adjusted for during the audit. None of these have any impact on the Council's reported outturns for the year.

At the time of writing the audit of the accounts is not finalised thus members will be advised at committee if any further material changes arise.

The five adjustments agreed during the audit to date are:

- Reclassification of the site at 6-8 Eskmills Road Penicuik from an operational asset to a surplus asset. The value in the Balance Sheet of this site is £0.400 million;
- Upwards Revaluation of £0.554 million for the site adjacent to Nobles Garage Loanhead, which is currently being marketed;
- An increase in the value of the Pension Liability of £9.207 million as a consequence of recent legal judgements on the McCloud and Guaranteed Minimum Pensions (GMP) cases;
- A change in accounting treatment relating to assets that were demolished during the year. The impact is a £1.365 million charge to the CIES which is subsequently reversed out through statute in the Movement in Reserves Statement. Previously accounting entries were seen solely in the Balance Sheet;
- An adjustment of £0.407 million to the carrying value for Newbattle Community Learning Centre.

These adjustments have no impact on the General Fund Balance of £8.637 million, the Housing Revenue Account Reserve Balance of £39.084 million or the Capital Fund Balance of £20.168 million.

2.3 Management Commentary and Annual Governance Statement

During the audit a number of agreed enhancements were made to both the Management Commentary and the Annual Governance Statement.

3 Report Implications

3.1 Resource

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

3.2 Risk

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

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Impact on Performance and Outcomes

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

3.5 Adopting a Preventative Approach

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

3.6 Involving Communities and Other Stakeholders

No consultation was required.

3.7 Ensuring Equalities

There are no equality implications arising directly from this report.

3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.9 IT Issues

There are no IT implications arising from this report.

4 Recommendations

Audit Committee is recommended to approve the 2018/19 accounts for signature having regard to the appointed auditor's report for 2018/19.

11th September 2019.

Report Contact:
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Background Papers:

Midlothian

Midlothian Council

Audited

Financial Statements

2018/19

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Management Commentary by the Head of Finance and Integrated Service Support

Introduction

These Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2019. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) and are by necessity technical in places.

The purpose of the management commentary is to provide the reader with an overview of the Council's financial performance for the year, its financial outlook and risks and non-financial strategic and contextual information about the Council.

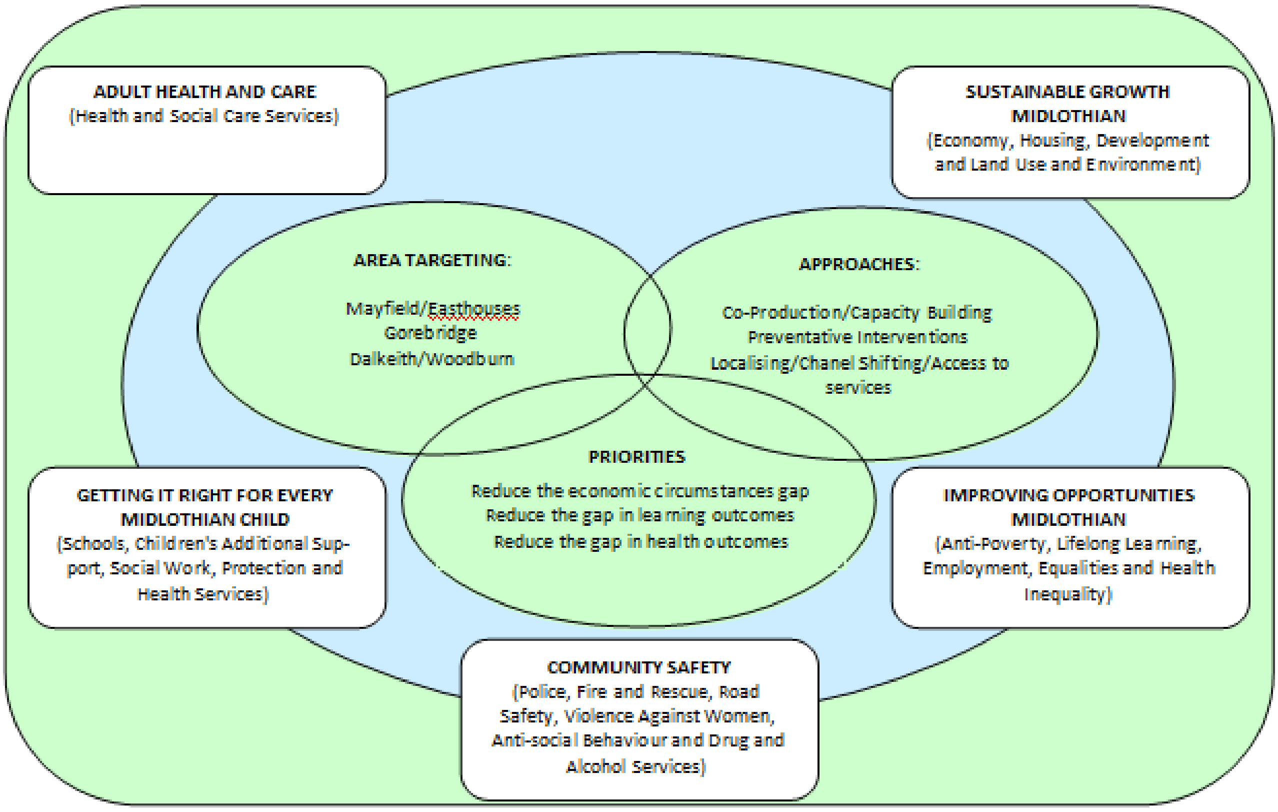
Council Priorities

Midlothian Council's priorities are set out in the Single Midlothian Plan (SMP) and it delivers these priorities through the Community Planning Partnership (CPP). The Council outlines its key objectives and associated performance indicators in annual service plans formally approved each year. These plans primarily relate to the Council's core, and often, statutory duties, which are mainly the responsibility of the local authority rather than the wider CPP.

The top three priorities in the SMP were revised during the year and are extended to 2019-22 as follows:

- Reducing inequalities in learning outcomes;
- Reducing inequalities in health outcomes;
- Reducing inequalities in economic circumstances.

The SMP incorporates five overarching thematic groups which support the achievement of outcomes. This thematic approach is used for quarterly public performance reporting and are demonstrated in the chart below:



The Council has a number of large-scale projects underway including the development of a new town at Shawfair and accelerating economic growth across the region as part of the Edinburgh and South East Scotland Region City Deal. The Borders Rail line continues to have a positive impact on east Midlothian and master planning activities along the line will increase benefits across a number of communities including Stobhill, Newtongrange, Mayfield and Gorebridge.

The Council demonstrates a strong commitment to partnership working across all aspects of its delivery. This is exemplified by: Community Planning with the third and private sector; Public Protection jointly with East Lothian and Strategic Partners; the Education Service including the Lifelong Learning and Employability Service links with partners, volunteers, colleges and universities; the integration of Health and Social Care services and through the Midlothian Integrated Joint Board.

The CPP partnerships have delivered improvements in the following outcomes:

- Positive destinations for young people – 5 year positive trend;
- Closing the learning outcome gap – significant improvements for pupils residing in Scottish Index of Multiple Deprivation (SIMD) top 20% with an overall trend of rising attainment;
- Improved community safety – reduced crime rates and increased support for key groups;
- Preventative work for those in protected characteristic groups - including recovery cafés, addiction treatment services and reducing isolation amongst older people;

- Growth in the local economy - improvements in employment rates, qualifications levels of working age adults and Gross Value Added per head, increased numbers of local Small to Medium Entities, expansion of Midlothian Science Zone now employing over 1,000 people;
- Increased public engagement - effective partnership working in adult health and care, voluntary sector summits, service user joint planning groups, participatory budgeting, neighbourhood planning using place standard and community asset transfers;
- Housing – effective partnership between Council and Registered Social Landlords resulting in growth in social housing, new homelessness support and accommodation with third sector support.

Strategic Plans and Performance

The following is an extract from the 2018/19 published Balanced Scorecard which provides further details for the key indicators used for the three key priorities identified earlier:

<u>Reducing the gap in economic circumstances</u>

PI Description	Target	2016/17 Value	2017/18 Value	2018/19 Value
Amount generated by Midlothian Council Welfare Rights Team (WRT)	£2,500,000	£2,874,343	£3,408,151	£4,407,373
% of those leaving school secure a positive destination	95%	95.10%	95%	94.35%
Midlothian Citizen Advice Bureaux (CABs) will generate an income maximization of £625k per quarter	£2,500,000	£3,820,265	£3,704,161	£3,352,380
Increase the number of households accessing energy saving or fuel poverty advice and assistance schemes	3,000	3,278	2,583	data not yet available
% of young people approaching the homelessness service who engage with Youth Homelessness Prevention Service	95%	33%	65%	data not yet available
Number of new homes completed	165	80	114	0

Data Only

Number of new business start-ups assisted in Midlothian area of Borders Rail Line corridor	n/a	100	202	172
Number of LEADER projects funded (cumulative)	n/a	10	16	17

As demonstrated where targets have been allocated Midlothian Council has met or superseded the allocated targets with the exception of school leavers secured in an initial positive destination which is only slightly off target and the number of new homes completed although 157 homes are due to be completed by the end of 2019.

<u>Reducing the gap in health outcomes</u>

PI Description	**Target**	**2016/17 Value**	**2017/18 Value**	**2018/19 Value**
Offer immediate mental health assessments through the new Gateway pilot project. Run 2 sessions a week across Midlothian and provide 200 mental health assessments	200	395	237	287
Recovery College: number of people engaging in education, training, volunteering and employment	74	43	84	75
Data only				
Number of Health & Social Care staff who have participated in face to face or on-line training (in health inequalities)	n/a	233	88	131
The number of service users/patients supported through Community Health and Inequalities Team	n/a	3,736	178	193
Number of Health & Social Care staff who have participated in face to face or on-line training (cumulative)	n/a	n/a	1,741	1,595

Reducing the gap in learning outcomes

PI Description	Target	2016/17 Value	2017/18 Value	2018/19 Value
Average primary school attendance	96.50%	95%	94.47%	94.86%
Average secondary school attendance	92%	90.24%	89.39%	89.34%
SEEMiS Exclusion data - Primary (2% reduction)	72	101	74	94
SEEMiS Exclusion data - Secondary (2% reduction)	311	318	299	210
Number of eligible 2 year olds in receipt of Early Learning and Child Care	200	171	161	184
Increase % of NVQ4 and above qualification levels of Midlothian residents	40.90%	38.50%	38.50%	41.80%
Midlothian residents with no qualifications have reduced	7%	6.40%	6.40%	7.30%
Data Only				
Improvement in the percentage of pupils from SIMD deciles 1 and 2 pupils achieving the expected CfE level by the end of P1, P4,P7 and S3	Data Only	n/a	65.40%	72.47%
Percentage of increase in PIPS score achieved by P1 pupils from SIMD deciles 1 and 2 between entry and exit compared to the Midlothian average improvement	Data Only	81.20%	132%	n/a

Financial Performance

The Council’s financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 33. To show the financial position of the Council it is necessary to adjust the CIES for statutory items that require to be taken into account in determining the General Fund and Housing Revenue Account (HRA) balances for the year. These are shown in the Expenditure and Funding Analysis on page 54, the Movement in Reserves Statement on page 36 and in more detail in note 6, adjustments between accounting basis and funding under regulations, on page 58.

General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise.

The outturn position for the General Fund compared to budget in 2018/19 is shown in the table below. Full details were reported to Midlothian Council on 25th June 2019 and are available on the Council's website.

The Expenditure Funding Analysis (EFA) provides the link between the council's budget monitoring reports and the figures in the main financial statements.

Midlothian Council Budget Monitoring

Service Area	Budget	Net Expenditure	(Under) / Overspend
	£000	£000	£000
Management	1,855	1,913	58
Children's Services	15,348	15,722	374
Communities and Economy	3,419	2,574	-845
Education	90,293	89,189	-1,104
Adult Social Care - Delegated	39,932	39,932	0
Adult Social Care -None Delegated	802	806	4
Customer and Housing Services	10,389	11,296	907
Commercial Services	14,394	14,701	307
Finance and Integrated Service Support	9,933	10,408	475
Properties and Facilities Management	13,708	14,625	917
Lothian Valuation Joint Board	551	523	-28
Central costs	50	549	499
Non-distributable costs	1,494	1,358	-136
Loan charges	7,560	6,228	-1,332
CFCR	60	60	0
NDR Discretionary Relief	70	160	90
Investment Income	-406	-438	-32
Savings Targets	-351	0	351
Allocations to HRA, Capital Account etc.	-4,844	-4,860	-16
Net General Fund Expenditure	**204,257**	**204,746**	**489**
Less Funding:			
Scottish Government Grant	154,302	154,847	-545
Council Tax Income	47,319	47,758	-439
General Fund Utilisation of Reserves	**2,636**	**2,141**	**-495**

The most significant areas contributing to adverse variances against budget were:

- Demand led pressures of £1.714 million including £0.719 million for the Community Care Resource Panel and Homecare packages, residential placements in Children's Services of £0.716 million and bed and breakfast expenditure of £0.227 million for homeless clients;
- As in previous years the Council encountered slippage in delivering the package of £9.356 million of transformational, operational and service cost reductions and income generation measures approved by Council. Actual savings achieved in the year were £6.684 million;
- Housing benefit subsidy of £0.533 million as a consequence of DWP rule changes and an increase in the volume and value of outstanding debt;

- Insurance settlements of £0.374 million as a consequence of the unusually high volume of claims during the severe winter of 2017/18 and a higher than anticipated volume and value of claims made during the 2018/19 winter;
- Price inflation and policy related pressures on energy spend of £0.238 million.

These were more than offset by favourable movements totalling £5.011 million. These included:

- A £1.332 million saving on loan charges reflecting a revised methodology used to apportion costs associated with external borrowing;
- An underspend in Schools of £0.461 million after allowing for carry forwards of a maximum of 1% in accordance with current Devolved School Management rules;
- A continued growth of properties in Midlothian generated an improvement on budget of £0.439 million for Council Tax Income;
- One-off Scottish Government Grant funding of £0.545 million to partially offset costs associated with the severe winter and also as a result of distribution of grant which in some areas was higher than anticipated;
- Planning and Building Warrant fee income exceeding budget by £0.528 million;
- The impact of vacant posts across the Council savings £1.186 million;
- The impact of the Midlothian Integrated Joint Board Recovery Plan of £0.524 million.

The movement in General Fund Reserves is demonstrated in the table below. The Council approved a Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve at £3.3 million.

General Fund Reserve	Uncommitted Reserves	Earmarked Reserves	Total Reserves
Balance Brought Forward	(4,337)	(6,440)	(10,777)
(Increase in)/Use of Balances	233	1,907	2,140
General Fund Reserve Balance	**(4,104)**	**(4,533)**	**(8,637)**

The earmarked element of the reserve includes budgets provided for specific purposes where spend was carried forward into 2019/20 of £3.220 million, budgets for schools in accordance with the Scheme of Devolved School Management of £0.364 million and funding set aside to support the Council Transformation Programme of £0.949 million.

In line with previous Council decisions a number of specific initiatives were funded from earmarked reserves during the year including staff severance costs of £0.783 million.

Housing Revenue Account

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The HRA records all income and expenditure relating to the Council’s own housing stock. Revenue expenditure on housing management, repairs and maintenance is funded from rent paid by tenants.

The table below provides analysis of financial performance for 2018/19

2017/18 £000's	Housing Revenue Account Balance	2018/19 £000's
(29,753)	Opening Balance	(33,862)
(515)	Positive Variances	(824)
(3,594)	Planned Increase of HRA Reserve	(4,398)
(33,862)	**Closing Balance**	**(39,084)**

The council has an ambitious capital investment plan which currently runs to 2032/33 to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with the costs of borrowing met from rental income and planned utilisation of the HRA reserve which is projected to reduce to approximately £2 million by the end of the plan. The Council had 6,846 houses at the 31st March 2019.

HRA Capital

In 2018/19 £8.4 million (2017/18 £3.9 million) was invested in increasing the number of council houses and £6.3 million (2017/18 £4.7 million) on SHQS improvement works and other adaptations. In the period to 31 March 2024 it is planned to invest a further £175.5 million on increasing council housing stock and £31.8 million on SHQS improvements.

General Fund Capital

The Council continues to make significant capital investment in its non-housing assets to provide essential infrastructure to meet the needs of a growing population, as illustrated in the table below.

2017/18 £m's	Capital Spend	2018/19 £m's
8.1	School Estate	4.6
2.4	Roads, Pavements and Street Lighting	3.6
1.5	Fleet Replacement and Upgrades	0.8
1.5	Digital Assets	2
1.4	Centralised Property Upgrades	3.1
2	Other Capital Projects	4.1
16.9	**Total Spend**	**18.2**

This expenditure was funded by a combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and borrowing. A full analysis of capital expenditure and financing is provided in note 30 to the financial statements.

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

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure. It is not allowed to rise indefinitely and statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe. The outturn capital financing requirement compared to the actual external borrowing is shown in the table below:

2017/18 £000's	**Capital Financing Requirement**	**2018/19 £000's**
241,031	Actual External Borrowing	237,279
280,248	Capital Financing Requirement	274,879
39,217	**Under Borrowed**	**37,600**

This demonstrates that the Council maintains its intention to have an under borrowed position. This means that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital, reserves and balances to support capital programmes whilst investment returns are low.

During the year the Council's aggregate external debt was contained within both the operational boundary and the authorised limit. The authorised limit of £482.021 million for 2018/19 (2017/18 £482.021 million) reflects a level of debt which could be affordable in the short term but may not be sustainable in the long term. The operational boundary of £325.196 million for 2018/19 (2017/18 £318.647 million) is an estimate of the most likely maximum debt requirement and represents the limit beyond which external debt is not expected to exceed.

The ratio of financing costs to net revenue stream represents the proportion of the budget that is allocated to the financing of capital expenditure and highlights the trend in this allocation through financial years. Actual figures for General Services were 3.25% which is in line with approved strategy and 38.24% for HRA which is reflected in long term HRA financial plans to 2032/33.

The General Services capital plan for future years will see further major investment in school infrastructure including a new primary school and community hub at Danderhall and a new denominational & non-denominational joint campus primary school at Hopefield. Early Years Expansion plans are expected to be fully implemented over this period across a number of current and new primary school facilities in the county. There will also be capital investment to complement the new Design, Build, Finance and Maintain (DBFM) projects for the Newbattle Centre and the Zero Waste Residual Treatment Facility. In addition, there will be continued investment in the roads and street lighting infrastructure and ongoing asset management replacement plans for buildings, fleet and digital assets.

Investment in the construction of a new depot to replace the existing Stobhill depot and Council office accommodation is also scheduled in the medium term.

Long-term Borrowing

The council borrowed money throughout the year to meet actual and anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31st March 2019 total borrowing amounted to £237.279 million which is a £3.752 million decrease from the position at 31st March 2018. During 2018/19 new long term borrowing of £10.000 million was taken from Deutsche Pfandbriefbank to refinance a maturing PWLB loan. The average rate of interest paid on all external debt increased marginally to 3.64% in 2018/19 from 3.37% in 2017/18. The internal loans fund rate increased from 3.08% in 2017/18 (2nd lowest in mainland Scotland) to 3.12% in 2018/19 and is again expected to remain one of the lowest amongst Scottish mainland Local Authorities.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the PWLB. Further details are provided in note 15 to the Financial Statements.

Assets and Liabilities

The Balance Sheet on page 38 summarises the Council's assets and liabilities as at 31st March 2019. Total net assets increased by £86.531 million from the position at 31st March 2018.

Long term assets increased in value by £145.866 million mainly due to upward revaluations and acquisition of assets. Short term investments stayed at a similar level and cash and cash equivalents increased in value by £1.794 million.

The net pension liability of the Council as at 31st March 2019 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £124.359 million which is an increase of £38.846 million from 31st March 2018. The main reasons for this are the result of a reduction in Corporate Bond yields during 2018/19 and provision made for potential liabilities in relation to the McCloud Ruling by the Court of Appeal that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' pension scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS potentially increasing the liabilities and future funding requirements.

IAS 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. It should be noted this is a snapshot of the position at 31st March 2019. The triennial actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's contribution rates and this, together with employee contributions and revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The last actuarial valuation at 31st March 2017 showed a funding level of 98% of liabilities which is a 5% increase from the position at the previous valuation at 31st March 2014. Employer contribution rates are agreed as part of the Contribution Stability Mechanism until 2020/21 and these are reflected in the Council's Financial Strategy.

The Council has made provisions for potential liabilities in respect of unsettled insurance claims of £0.692 million and staff release costs agreed at the 31st of March 2019 of £0.068 million.

The provision for non-collection of debt at 31st March 2019 was £37.9 million (2017/18 35.4 million). There were a number of immaterial write offs approved by Cabinet during the year.

Financial Outlook and Key Risks

The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2018/19 saw continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures. Welfare reform, the integration of health and social care and the implementation of the Children Act 2014 as well as the planned expansion in early learning and childcare are major policy developments that will not only impact on the council budgets but also change the way services are provided.

In approving the Council budget for 2019/20 Council agreed that a medium term financial strategy (MTFS) be presented to Council when it meets on 25th June 2019. The MTFS to 2022/23 sets out cost projections for pay inflation, price inflation and the impact of demographic changes are together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

Pay inflation and Scottish Government Grant income projections are critical areas of modelling given their overall significance and uncertainty. For 2018/19 and again for 2019/20 the Scottish Government published a one year budget and grant settlement, and as such Councils are currently unaware of the level of funding that will be available to them beyond 2019/20. There are a number of factors which will influence the level of grant support Council might expect for 2020/21 and beyond. Among these will be a range of economic factors will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government and the negotiations with other parties in the Scottish Parliament to support the passage of the budget bill.

Whilst an assessment of economic factors can be made at this time, based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and Scotland's Fiscal Outlook, the Scottish Government's second medium term financial strategy and the impact of Scottish Government's tax and spending priorities will only become fully apparent when the Scottish Government's 2020/21 budget is published in December 2019.

In February 2019 the Council set a budget for 2019/20 which included savings of £9.356 million and increases in council tax funding of £3.668 million. In the context of reduced funding and growth in demand for services the Council has a considerable challenge to ensure its future expenditure plans are sustainable. The latest projections show the Council with a budget gap of £4.636 million in 2020/21 rising to £18.844 million by 2022/23.

Structure of Council Leadership and Council Staff

Following the local government elections on the 4 May 2017 and a subsequent by-election the political makeup of the Council is 6 Labour members, 7 SNP members and 5 Scottish Conservative and Unionist members. The Labour party forms a minority administration. The Leader of the Council is Derek Milligan and the Provost is Peter Smaill. The Council's Chief Executive is Dr Grace Vickers who took up the post from the 1 August 2018. The Council is structured into 3 Directorates:

- Health and Social Care (Joint Director, Allister Short);
- Resources (Acting Director, Kevin Anderson);
- Education, Communities and Economy (Director, Mary Smith).

Emerging Issues, Service Changes and Future Developments

As the fastest growing local authority in Scotland, Midlothian Council will invest over £208 million to deliver local services in 2019/20. However, with a rapidly growing population and greater demand for services, the Council has recognised the need for a strategic step change in the form of the development and agreement of a Medium Term Financial Strategy (MTFS) which sets out budget projections for the next three financial years together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

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

The current outcome of Brexit remains unknown until the new deadline of 31st October 2019. The outcome of Brexit negotiations has implications for every local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.
The significant areas impacted could include:

- The availability of grant funding and impact on other funding streams;
- The valuation of land and buildings;
- The fair value of long-term borrowing (but not the principal sum or interest payable);
- The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation;
- Unusable reserves – any movement in the liability related to defined benefit pension schemes or movement in the value of land and buildings will be offset within unusable reserves.

The implications of Brexit for the Council in terms of potential changes to procurement, data protection, planning, environmental legislation, employment law and grant funding have been assessed and contingency plans are being kept under review as new information is made available. The Council's strategic risk register includes analysis of the potential impact on the Council from the triggering of Article 50, and the Corporate Management Team reviews the position at each of its meetings.

Following allegations last financial year of procurement irregularities regarding around £2.1 million (including VAT) of highway spending spread over six years a financial analysis of transactions has indicated a loss of £0.512 million to the Council (excluding investigatory and other costs) compared to it having carried out the work in house. The Council has commenced steps to seek to recover the loss.

The new Newbattle Community Campus opened in May 2018 as the Council's first centre of excellence in digital technology. This new facility provides enhanced educational and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

Conclusion

2018/19 remained a challenging year from a financial perspective, with continued increasing demand pressures and reduced real terms funding being the dominant issues. Despite this the Council continued to invest for the future in its asset base to provide the essential infrastructure to support the growing population. Despite financial pressures the council made significant improvements across a range of areas especially the integration of health and social care. Very significant financial and service challenges lie ahead and the approval of a Medium Term Financial Strategy and delivery of the measures set out in that strategy will be a critical step for the Council as it seeks to ensure its continued financial sustainability.

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

Signed:
Gary Fairley
Head of Finance and Integrated Service Support
Date:

Statement of Responsibilities for the Financial Statements

This sets out the respective responsibilities of the Council and the Head of Finance and Integrated Service Support (Chief Finance Officer).

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance and Integrated Service Support;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- To approve the Annual Accounts.

Signed on behalf of Midlothian Council

Councillor Derek Milligan

Date:

The Head of Finance and Integrated Service Support's Responsibilities

The Head of Finance and Integrated Service Support is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Annual Accounts, the Head of Finance and Integrated Service Support has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with Legislation;
- Complied with the Code (in so far as it is compatible with legislation), except where stated in the policies and disclosure notes.

The Head of Finance and Integrated Service Support has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

These Financial Statements present a true and fair view of the financial position of the Council and its group at 31st March 2019 and its income and expenditure for the year then ended.

Signed:

Gary Fairley

Head of Finance and Integrated Service Support

Date:

Annual Governance Statement

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2019, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement;

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

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

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

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

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

The Council’s Local Code of Corporate Governance, which is consistent with the principles and recommendations of the ‘Framework’ and the supporting guidance notes for Scottish authorities (November 2016), was approved by Council in December 2017.

The Governance Framework

The Council’s Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council’s governance arrangements as set out in the Local Code include:

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

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

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, including the Council's 'Shaping Our Future' plans, using a range of consultation and engagement methods adopted across Services.

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

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

Asset management planning and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities.

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

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

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

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

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

The corporate management structure consists of the Chief Executive, three Directors and nine Heads of Service. The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the 'Making Performance Matter' (MPM) process in place during the year.

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

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

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

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

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

The Head of Finance and Integrated Service Support (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

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

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

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2018/19. This is based on work carried out by an in-house team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement.

The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

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

The Annual Accounts and Report for 2018/19 setting out the financial position in accordance with relevant accounting regulations is being prepared.

Review of Adequacy and Effectiveness

The Council carries out an annual review of the effectiveness of its overall governance framework. The output is this Annual Governance Statement which is presented to the Audit Committee whose role includes high level oversight of the Council's governance, risk management, and internal controls.

Update reports to the Audit Committee in December 2018 on implementation of Actions associated with Areas of Improvement in its Annual Governance Statement 2017/18 and Internal Audit Recommendations arising from the May 2018 Report into the findings of the Roads Investigation demonstrated good progress. Cultural issues within some areas of the Resources directorate continue to be addressed.

The review was further informed by assurances from: the Directors and Heads of Service, who have responsibility for the development and maintenance of the governance environment within their Directorates and Services and who in turn identify actions to improve governance at a strategic and operational level; the Chief Internal Auditor's annual assurance report; and comments and recommendations made by External Auditors and other external scrutiny bodies and inspection agencies.

Significantly this year the latter includes the findings and recommendations arising from the Best Value audit. The Accounts Commission published a Best Value Assurance Report for Midlothian Council on 4 July 2019.

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where improvement in governance arrangements can be made to enhance compliance with the Council's Local Code of Corporate Governance and to demonstrate Best Value, including financial sustainability, financial management and service transformation.

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the recommendations (1-8 below) in order to demonstrate Best Value:

1) As a matter of urgency, officers and elected members need to work together to develop and agree the medium term financial strategy and progress the council's transformation plans.
2) The council needs to develop and sustain more constructive relationships between members and between members and officers. It needs to implement effective cross party governance arrangements to ensure that it delivers the medium term financial strategy and transformation plans.

3) The council needs to ensure that workforce planning reflects the medium term financial strategy.
4) The council should undertake a review of its capital programme, to ensure that the timeframes for delivery are achieved going forward and that monitoring and reporting mechanisms are enhanced to drive more accurate analysis and planning around capital work.
5) The council needs to continue to implement financial planning arrangements to address budget gaps, underpinned by robust financial budgeting and monitoring arrangements.
6) The council should refine its vision in light of the outcome of consultation work through the Services with Communities transformation workstream and to ensure that it focuses its activity most effectively.
7) Elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8) The council should continue to build on positive elements of community empowerment. It should look to increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

In addition, other improvement actions (9-13 below) have been agreed during the year that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

9) Adopt a Business Partner model for corporate support services, such as HR, Finance, and Procurement, in order to better support Service Managers and facilitate better decision making.
10) Strengthen resource capacity and skills in the Procurement function to better support Service Managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to ensure that controls are operating effectively and contract performance outcomes of external service providers are being achieved to deliver value for money.
11) Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
12) Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems and then keep these under regular review. Address long-standing issues with Finance computer-based feeder systems to enhance quality of information, and implement automation of routine processes.
13) Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.

These actions to enhance the governance arrangements in 2019/20 will be driven and monitored by the Corporate Management Team on a regular basis in order to inform the next annual review. Internal Audit work planned in 2019/20 is designed to test improvements and compliance.

Conclusion and Opinion on Assurance

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Cultural issues within some areas of the Resources directorate continue to be addressed. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council’s Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

Grace Vickers	Derek Milligan
Chief Executive	Leader of the Council

Remuneration Report

The Remuneration Report provides details of the Council's remuneration policy for its senior employees and senior councillors and states how its remuneration arrangements are managed. Senior employees within the Council are defined as those having the responsibility for the management of the Council to the extent that they can direct or control the major activities and / or have statutory responsibilities.

As well as providing details of the Council's remuneration policy, the remuneration report also details:

- Remuneration paid to senior employees and senior councillors of the Council for 2018/19;
- The number of employees whose remuneration was £50,000 or more, disclosed in pay bands of £5,000;
- The number and total cost of exit packages, disclosed in pay bands of £20,000;
- The Council's senior employees and senior councillors who participate in the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the benefits provided under the scheme.

Audit of Remuneration Report

All information disclosed in the tables in this report will be audited by Ernst & Young LLP and all other sections of the Remuneration Report will be reviewed to ensure that they are consistent with the financial statements.

Employees Remuneration Policy

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. For 2018/19 the salaries of the Directors were 88% of the Chief Executive's salary.

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

a) Teaching Staff – The Scottish Negotiating Committee for Teachers (SNCT);
b) Other staff – Scottish Joint Negotiating Committee for Local Authority Services (SJNC).

Councillors Remuneration Policy

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

The salary that is to be paid to the Leader of the Council is set out in the regulations and for 2018/19 this was £28,326. The regulations permit the Council to remunerate one civic head, the Provost. The regulations set out the maximum salary that may be paid to the Provost and Council policy is to pay this salary which for 2018/19 was £21,245.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its senior councillors shall not exceed £152,942. The maximum number of senior councillors allowable is eight (in addition to the leader of the Council and the Provost). The Council is able to exercise local flexibility in the determination of the number of senior councillors and salary within these limits. The Council's policy is to pay seven senior councillors the maximum allowable salary of £21,245.

In addition to the senior councillors of the Council the regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board. The regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener of a Joint Board.

Pension Entitlement

The Council's senior employees and senior councillors can participate in the Local Government Pension Scheme administered by the Lothian Pension Fund. This is a career average salary pension scheme which means that pension benefits are based an average of the pay over the number of years that a person has been a member of the scheme. The scheme's normal retirement age for employees is the same as the state pension age.

From 1 April 2009 a five tier contribution system was introduced with employee contributions rates applied in tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay at the end of the preceding year. This is designed to give more equality between the cost and benefits of scheme membership.

The tiers and employees contributions rates for 2018/19 are as follows:

Actual Pensionable Pay	Contribution rate (%)
On earnings up to and including £21,300	5.5%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.5%
On earnings above £35,700 and up to £47,600	9.5%
On earnings above £47,600	12%

Using these tiers average employee contribution rates are calculated for any given pensionable pay and these range from 5.5% to 12%. If an employee works part-time their contribution rate is worked out on the whole time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum on retirement. Pension scheme members may opt to commute pension for a lump sum payment up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of career average salary and years of pensionable service. Prior to 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80ths of final pensionable salary and years of pensionable service.

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

Remuneration by Pay Band

Details of the Council's employees receiving more than £50,000 remuneration for the year, excluding employer's pension and national insurance contributions, are as follows:

Total Employees 2017/18	Remuneration Band	Non- Teaching Employees 2018/19	Teaching Employees 2018/19	Total Employees 2018/19
63	£50,000 - £54,999	23	35	58
33	£55,000 - £59,999	6	23	29
8	£60,000 - £64,999	9	5	14
6	£65,000 - £69,999	7	3	10
1	£70,000 - £74,999	0	1	1
9	£75,000 - £79,999	3	1	4
0	£80,000 - £84,999	2	0	2
1	£85,000 - £89,999	0	1	1
0	£95,000 - £99,999	1	0	1
2	£100,000 - £104,999	2	0	2
0	£110,000 - £114,999	1	0	1
1	£120,000 - £124,999	0	0	0
124	**TOTAL**	**54**	**69**	**123**

Exit Packages by Band

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

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

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

Number of Employees 2017/18 Restated	Total Cost £000 2017/18 Restated	Package Band	Number of Employees 2018/19	Total Cost £000 2018/19
27	314	£0 - £19,999	6	76
34	1,060	£20,000 - £39,999	13	383
19	1,131	£40,000 +	5	306
80	**2,505**	**TOTAL**	**24**	**765**

Remuneration paid to Senior Employees

The table below details remuneration paid to senior employees within the Council.

For year to 31 March 2018		For year to 31 March 2019		
Total Remuneration	**Name and Post Title**	**Salary, Fees & Allowances**	**Non Cash Benefits**	**Total Remuneration**
£77,686	G Vickers (from 01.08.18) Chief Executive (2)	£100,246	£3,430	£103,676
£120,383	K Lawrie, (to 31.07 18) Chief Executive (1)	£34,367	£0	£34,367
£0	K Anderson, Director Resources (Acting)	£50,483	£0	£50,483
£100,284	J Blair, Director Resources	£97,738	£4,146	£101,884
£16,817	A Short Joint Director Health & Social Care (4)	£42,530	£0	£42,530
£100,330	M Smith, Director Education, Communities and Economy	£102,070	£0	£102,070
£77,842	G Fairley, Head of Finance & ISS	£76,849	£3,713	£80,562
£0	M Lloyd (from 01.08.18) Head of Education (3)	£47,467	£0	£47,467
£32,348	A White Head of Adult and Social Care	£78,803	£3,379	£82,182
£63,394	A Turpie, Legal Services Manager	£61,340	£0	£61,340
£589,084	**Total**	**£691,893**	**£14,668**	**£706,561**

1 K Lawrie resigned 31st July 2018. Full year equivalent salary is £115,156;
2 G Vickers appointed as Chief Executive 1st August 2018, previously Head of Education. Full year equivalent salaries are £110,345 and £74,256 respectively;
3 M Lloyd appointed as Head of Education 1st August 2018. Full year equivalent salary is £68,789.76;
4 Post joint funded 50:50 with NHS Lothian. Full time equivalent salary £85,059.

Pension Entitlement of Senior Employees

The table below details employer's pension contributions made in respect of senior employees within the Council.

For year to 31-Mar-18	Name and Post Title	For year to 31-Mar-19
£15,000	G Vickers, Chief Executive (2)	£20,751
£24,402	K Lawrie, Chief Executive (1)	£7,879
£0	K Anderson, Director Resources (Acting)	£10,007
£19,420	J Blair, Director Resources	£20,232
£1,231	A Short, Joint Director Health & Social Care (4)	£6,309
£19,420	M Smith, Director Education, Communities and Economy	£20,232
£15,000	G Fairley, Head of Finance & Integrated Service Support	£15,908
£0	M Lloyd, Head of Education (3)	£9,415
£6,250	A White, Head of Adult and Social Care	£15,908
£11,129	A Turpie, Legal Services Manager	£12,167
£111,852	**Total**	**£138,808**

1 K Lawrie resigned 31st July 2018. Full year equivalent pension contribution is £22,841;
2 G Vickers appointed as Chief Executive 1st August 2018, previously Head of Education. Full year equivalent pension contributions are £22,841 and £15,371 respectively;
3 M Lloyd appointed as Head of Education 1st August 2018. Full year equivalent pension contribution is £13,645;
4 Post joint funded 50:50 with NHS Lothian. Full time equivalent pension contribution £12,617.

Accrued Pension Benefits

Name and Post Title	As at 31-Mar-19 Pension £'000	Lump Sum £'000	Difference from 31-Mar-18 Pension £'000	Lump Sum £'000
G Vickers, Chief Executive	7	0	3	0
K Lawrie, Chief Executive	40	60	1	0
J Blair, Director Resources	49	94	3	2
K Anderson Director Resources (Acting)	44	85	8	12
A Short, Joint Director Health & Social Care	18	36	5	6
M Smith, Director Education, Communities & Economy	33	44	3	1
G Fairley, Head of Finance & ISS	38	74	3	3
M Lloyd Head of Education	0	0	0	0
A White, Head of Adult & Social Care	17	8	3	1
A Turpie, Legal Services Manager	27	49	3	3
Total	**273**	**450**	**32**	**28**

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

The McCloud judgement, referenced in the Management Commentary, could potentially have a material impact on the accrued pension benefits figures above. As advised by Lothian Pension Fund the impact is still to be finalised therefore it will only be reflected in the disclosure information in the year the member leaves or retires.

Remuneration of Senior Councillors

The following table provides details of the remuneration paid to senior councillors of Midlothian Council.

For year to 31 March 2018		For year to 31 March 2019		
Total				**Total**
Remuneration	**Name**	**Salary**	**Expenses**	**Remuneration**
£27,536	D Milligan, Leader of the Council,	£28,326	£626	£28,952
£21,032	M Russell, Depute Provost,	£21,245	£164	£21,409
£20,608	J Muirhead, Depute Leader,	£21,245	£30	£21,275
£0	P Smaill, Provost, (1)	£20,811	£350	£21,161
£20,894	R Imrie, Senior Councillor,	£21,245	£260	£21,505
£19,099	S Curran, Senior Councillor,	£21,245	£120	£21,365
£19,159	J Hackett, Senior Councillor,	£21,245	£147	£21,392
£20,947	K Parry, Senior Councillor / SNP Group Leader,	£16,926	£0	£16,926
£19,243	P Winchester, Scottish Conservative and Unionist Group Leader,	£21,245	£291	£21,536
£168,518	**Total**	**£193,533**	**£1,988**	**£195,521**

1. P Smaill appointed as Provost on 8th May 2018.

The Council paid £0.359 million (2017/18 £0.346 million) salaries to Councillors and expenses of £0.004 million (2017/18 £0.005 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

Accrued Pension Benefits

	As at		Difference from	
	31-Mar-19		**31-Mar-18**	
Name and Post Title	**Pension**	**Lump Sum**	**Pension**	**Lump Sum**
	£0	**£0**	**£0**	**£0**
K Parry, Senior councillor	2	0	1	0
R Imrie, Senior Councillor	4	1	1	0
S Curran, Senior Councillor	1	0	1	0
Total	**7**	**1**	**3**	**0**

Pension Entitlement of Senior Councillors

	In-year employer's pension contributions	
For year to 31-Mar-18	**Name**	**For year to 31-Mar-19**
£4,075	R Imrie, Senior Councillor,	£4,398
£2,137	S Curran, Senior Councillor,	£4,398
£3,831	J Hackett, Senior Councillor,	£4,398
£3,831	P Winchester, Scottish Conservative and Unionist Group Leader,	£4,398
£4,231	K Parry, Senior Councillor/SNP Group Leader,	£3,504
£18,105		**£21,096**

Trade Union Facility Time

The Council is now required to publish details of Trade Union facility time incurred during the year. Further information is published on the Council website:

https://www.midlothian.gov.uk/info/691/performance_and_spending/568/trade_union_facility_time

For the reporting year 2018/19, the equivalent of 5.6 FTE employees (across 14 individuals) of paid time facility was made available.

Of the total time made available, 11 individuals spent 1% to 50% of time during the year on trade union related activities, 3 between 51% and 99% and nil at 100%.

The Percentage of the total pay bill spent on paying employees who were TU representatives for facility time during the relevant period is as follows:-

Total cost of facility time	£191,695
Total pay bill	£136,292,000
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.14%

Time spent on paid TU activities as a percentage of total paid facility time: 10,519 hours = 100%

Signed:

Derek Milligan
Leader of the Council

Grace Vickers
Chief Executive

Date:

Group and Council Comprehensive Income and Expenditure Statement

For the year ended 31 March 2019

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. The Council raises taxation and rents to cover expenditure in accordance with statutory requirements; these differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. In accordance with IFRS 8 the CIES does not now include internal recharges and comparative figures have been amended accordingly.

Midlothian Council			Group			Midlothian Council			Group
Restated 2017/18 Gross Expenditure	Restated 2017/18 Gross Income	Restated 2017/18 Net Expenditure	Restated 2017/18 Net Expenditure			2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure	2018/19 Net Expenditure
£000	£000	£000	£000	Service	Notes	£000	£000	£000	£000
2,015	-82	1,933	1,933	Management	7	2,033	-105	1,928	1,928
17,252	-354	16,898	16,898	Children's Services	7	16,876	-634	16,242	16,242
7,105	-3,318	3,787	3,787	Communities and Economy	7	7,627	-4,569	3,058	3,058
98,288	-4,312	93,976	93,976	Education	7	102,844	-7,789	95,055	95,055
98,940	-58,637	40,303	40,303	Adult Social Care	7	103,548	-61,263	42,285	42,285
31,425	-24,881	6,544	6,544	Customer and Housing Services	7	29,777	-24,955	4,822	4,822
29,346	-5,151	24,195	24,195	Commercial Services	7	26,777	-4,896	21,881	21,881
12,765	-995	11,770	11,770	Finance and Integrated Service Support	7	21,287	-902	20,385	20,385
35,855	-15,040	20,815	20,815	Properties and Facilities Management	7	35,165	-16,561	18,604	18,604
29,439	-27,058	2,381	2,381	Housing Revenue Account	7	-51,607	-28,802	-80,409	-80,409
562	0	562	562	Lothian Valuation Joint Board	7	523	0	523	523

Midlothian Council			Group			Midlothian Council			Group
Restated 2017/18 Gross Expenditure	Restated 2017/18 Gross Income	Restated 2017/18 Net Expenditure	Restated 2017/18 Net Expenditure			2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure	2018/19 Net Expenditure
£000	**£000**	**£000**	**£000**	**Service**	**Notes**	**£000**	**£000**	**£000**	**£000**
-533	0	-533	-533	Central Costs	7	-548	0	-548	-548
2,092	0	2,092	2,173	Non-Distributable Costs	8	1,323	0	1,323	1,326
364,551	-139,828	224,723	224,804	**Net Cost of Services**		295,625	-150,476	145,149	145,152
		0	-342	Share of operating results of associates				0	-1,435
		-177	-177	Other Operating Expenditure	9			1,463	1,463
		15,567	15,567	Financing and Investment Income and Expenditure	10			16,010	16,010
		-210,733	-210,733	Taxation and non-specific grant income	11			-222,170	-222,170
		29,380	**29,119**	**(Surplus) or Deficit on Provision of Services**				**-59,548**	**-60,980**
		-1,899	-1,899	(Surplus) or Deficit on revaluation of non-current assets				-44,084	-44,084
		-44,600	-44,600	Re-measurement of the net defined benefit liability	33			17,287	17,287
		-3,290	-3,879	Other (Gains) / Losses				-184	-68
		-49,789	**-50,378**	**Other Comprehensive (Income) and Expenditure**				**-26,981**	**-26,865**
		-20,409	**-21,259**	**Total Comprehensive (Income) and Expenditure**				**-86,529**	**-87,845**

Group and Council Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other 'unusable reserves'. This statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax and rents for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following these adjustments.

	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**	**Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures**	**Total Group Reserves**
		£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2017		**-17,651**	**-29,753**	**-16,707**	**-3,100**	**-67,211**	**-198,408**	**-265,619**	**867**	**-264,752**
Adjustments relating to revalued assets funded from developer contributions		0	0	0	0	0	-2,594	-2,594	0	-2,594
Adjustment relating to PPP long term liability		0	0	0	0	0	-230	-230	0	-230
Revised Balance at 1 April 2017		**-17,651**	**-29,753**	**-16,707**	**-3,100**	**-67,211**	**-201,232**	**-268,443**	**867**	**-267,576**
Total Comprehensive Expenditure and Income	CIES	21,039	8,341	0	0	**29,380**	**-49,789**	**-20,409**	**-850**	**-21,259**
Adjustments between accounting basis and funding basis under regulations	6	-16,391	-12,451	-318	0	-29,160	29,160	0	0	**0**
Net increase/ (decrease) before transfers to other statutory reserves		**4,648**	**-4,110**	**-318**	**0**	**220**	**-20,629**	**-20,409**	**-850**	**-21,259**
Transfers to/(from) other statutory reserves		2,226	0	-2,437	211	0	0	0	0	**0**
Increase/(Decrease) in year		**6,874**	**-4,110**	**-2,755**	**211**	**220**	**-20,629**	**-20,409**	**-850**	**-21,259**
Balance at 31 March 2018		**-10,777**	**-33,863**	**-19,462**	**-2,889**	**-66,991**	**-221,861**	**-288,852**	**17**	**-288,835**
General Fund Analysed Over										
Amounts Earmarked	37	-6,440								
Amounts Uncommitted		-4,337								
Total General Fund Balance at 31 March 2018		**-10,777**								

	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**	**Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures**	**Total Group Reserves**
		£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2018		**-10,777**	**-33,863**	**-19,462**	**-2,889**	**-66,991**	**-221,861**	**-288,852**	**17**	**-288,835**
Adjustments relating to revalued assets funded from developer contributions		0	0	-249	0	-249	249	0	0	0
Movement between Lothian Valuation Joint Board 2017/18 Unaudited Accounts and Audited Accounts		0	0	0	0	0	0	0	-81	-81
Revised Balance at 31 March 2018		**-10,777**	**-33,863**	**-19,711**	**-2,889**	**-67,240**	**-221,612**	**-288,852**	**-64**	**-288,916**
Total Comprehensive Expenditure and Income	CIES	14,685	-74,235	0	0	**-59,550**	**-26,978**	**-86,528**	**-1,317**	**-87,845**
Adjustments between accounting basis and funding basis under regulations	6	-12,612	69,014	-457	0	55,946	-55,949	-4	0	-4
Net increase/ (decrease) before transfers to other statutory reserves		**2,072**	**-5,221**	**-457**	**0**	**-3,605**	**-82,927**	**-86,531**	**-1,317**	**-87,848**
Transfers to/(from) other statutory reserves		68	0	0	-68	0	0	0	0	0
Increase/(Decrease) in year		**2,141**	**-5,221**	**-457**	**-68**	**-3,605**	**-82,927**	**-86,531**	**-1,317**	**-87,848**
Balance at 31 March 2019		**-8,637**	**-39,084**	**-20,168**	**-2,957**	**-70,846**	**-304,539**	**-375,383**	**-1,381**	**-376,764**

General Fund Analysed Over		
Amounts Earmarked	37	-4,533
Amounts Uncommitted		-4,104
Total General Fund Balance at 31 March 2019		**-8,637**

Group and Council Balance Sheet

As at 31 March 2019

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets are matched by reserves which are reported in two categories. The first is 'usable reserves' which are available to the Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Council is not able to use to provide services. This includes reserves that contain unrealised gains and losses where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences are shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Midlothian Council 31/03/2018 £000	**Group 31/03/2018 £000**		**Notes**	**Midlothian Council 31/03/2019 £000**	**Group 31/03/2019 £000**
634,013	634,013	Property, Plant and Equipment	12	779,364	779,364
514	514	Intangible Assets	13	924	924
76	76	Heritage Assets		86	86
8,399	8,399	Long Term Investments	16	8,424	8,424
0	-70	Investments share of net assets of associates		0	1,335
2,927	2,889	Long Term Debtors	17	2,997	2,957
645,929	**645,821**	**Long Term Assets**		**791,795**	**793,090**
65,221	65,221	Short Term Investments	15	65,420	65,420
4,257	4,257	Assets held for Sale	14	5,543	5,543
881	881	Inventories		868	868
18,455	18,510	Short Term Debtors	17	18,931	18,982
8,886	8,886	Cash and Cash Equivalents	18	10,680	10,680
97,700	**97,755**	**Current Assets**		**101,442**	**101,493**
25,725	25,725	Short Term Borrowing	15	20,507	20,507
39,214	39,178	Short Term Creditors	19	38,751	38,716
1,793	1,793	Provisions	20	760	760
24,410	24,410	Grants Receipts in Advance	28	31,041	31,041
91,142	**91,106**	**Current Liabilities**		**91,059**	**91,024**
218,176	218,176	Long Term Borrowing	15	219,605	219,605
145,459	145,459	Other Long Term Liabilities	21	207,190	207,190
363,635	**363,635**	**Long Term Liabilities**		**426,795**	**426,795**
288,852	**288,835**	**Net Assets**		**375,383**	**376,764**
66,991	67,567	Usable Reserves	6&22	70,844	72,911
221,861	221,268	Unusable Reserves	23	304,539	303,853
288,852	**288,835**	**Total Reserves**		**375,383**	**376,764**

Gary Fairley, Head of Finance and Integrated Service Support

Unaudited Accounts were authorised for issue on 21st June 2019 and the audited accounts were authorised for issue on 24th September 2019.

Cash Flow Statement

For the year ended 31 March 2019

This statement summarises the inflows and outflows of cash arising from the transactions with third parties on both day-to-day revenue transactions and expenditure on capital activities. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financial activities. For the purpose of this statement, cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

2017/18			**2018/19**
£000	**Revenue Activities**	**Notes**	**£000**
-31,034	**Net surplus or (deficit) on the provision of services**		**59,548**
66,947	Adjustment to surplus or deficit on the provision of services for non cash movements	24	-22,157
-17,870	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	39,943
18,043	**Net Cash Flows From Operating Activities**		**77,334**
-2,444	Net cash flows from investing activities	25	-69,735
-17,607	Net cash flows from financing activities	26	-5,805
-2,008	**Net Increase or Decrease in Cash and Cash Equivalents**		**1,794**
10,894	Cash and cash equivalents at the beginning of the reporting period	18	8,886
8,886	**Cash and cash equivalents at the end of the reporting period**		**10,680**

Notes to the Financial Statements

The notes to the Financial Statements present information about the basis of preparation of the Financial Statements and the specific accounting policies used. It discloses the information required by The Code that is not presented elsewhere in the Financial Statements together with other explanatory information.

1. Statement of Accounting Policies

1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2018/19 financial year and its position as at 31 March 2019. The Council is required to prepare Annual Accounts in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 also requires the Annual Accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government in Scotland Act 2003.

Accounting Concepts and Principles

The accounting concepts followed in the application of accounting policies are:

- Accruals - sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year;

- Going concern - this assumes that the Council will continue in existence for the foreseeable future.

1.2 Summary of Significant Accounting Policies

1.2.1 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- National Non-domestic Rate debtors were previously shown on local authority balance sheets as debtors of the authority. Following a review of all types of local taxation, CIPFA/LASAAC concluded that local authorities act as an agent of the Government when collecting NDR. The code requires local authorities not to recognise NDR debtors in their balance sheets but instead to recognise a creditor or debtor for cash collected from NDR debtors as agent of the Government but not paid or overpaid to the Government.

1.2.2 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

1.2.3 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement by way of loans fund principal charges. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the principal repayment when determining the movement in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.2.4 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary severance and are charged on an accruals basis to the Non Distributed Costs line in the CIES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary severance.

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

Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA);
- The Local Government Pensions Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contribution payable to teachers' pensions in the year.

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

The Local Government Pension Scheme

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

- The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices;
- The assets of Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value. Quoted securities at current bid price, unquoted securities at professional estimate, and unitised securities at current bid price and property at market value.

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked;
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;
- Net interest on the net defined liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.;

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

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

1.2.5 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

1.2.6 Financial Instruments

Financial Liabilities

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

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or HRA Balances to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

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

<u>Financial Assets Measured at Amortised Cost</u>

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset’s original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

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

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

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

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis. The Council does not carry any of these financial assets.

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

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

Under IFRS9 the Council designates that investments held for strategic purposes be classified as being measured at Fair Value through Other Comprehensive Income. Any gains or losses on these investments will be held in the Financial Instruments Revaluation Reserve.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Financial Instruments Revaluation Reserve.

Changes in fair value are balanced by an entry in the Financial Instruments Revaluation Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Financial Assets measured at fair value through Profit or Loss. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Financial Instruments Revaluation Reserve.

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

1.2.7 Interests in Companies and Other Entities

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

1.2.8 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Assets are carried in the Balance Sheet using the following measurement bases:

- Council Houses are valued using the Beacon principle based on valuations carried out by the Council's Property Investment Manager. The main valuation basis used is existing use value– social housing. Gross valuations are reduced by applying a discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;

- Land and operational properties, including schools, have been valued at current value, determined as the amount that would be paid for an asset in its existing use;
- Community and Infrastructure assets are valued at depreciated historic cost;
- Vehicles, Plant and Equipment have been valued at depreciated historic cost;
- Assets Under Construction are held at historic cost;
- Surplus Assets are valued at open market value;
- Heritage Assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the financial statements.

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain Community Assets) and assets that are not yet available for use (i.e., assets under construction).

Deprecation is calculated on the following bases:

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

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

- Council Dwellings – 40 to 60 years;
- Buildings – 10 to 30 years;
- Vehicles, Plant and Equipment – 5 to 10 years;
- Infrastructure – 15 years.

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

1.2.9 Intangible Assets

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

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES.

1.2.10 VAT

Income and Expenditure excludes any amount relating to Value Added Tax (VAT), as all VAT collected is payable to H.M. Revenue & Customs and all VAT paid out is recoverable from them.

2. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code.

- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- Amendments to IAS 40 *Investment Property*: Transfers of Investment Property;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration;*
- IFRIC 23 *Uncertainty Over Income Tax Treatments;*
- IFRS 16 *Leases*;
- Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation.

These changes will be effective from the 1st April 2019 and none are expected to have a material impact on the Councils 2018/19 or 2019/20 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

- There is a high degree of uncertainty about future levels of funding for Local Government, however, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision.
- Accounting for public-private partnerships. The council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The council controls the services provided under the scheme and ownership of the schools will pass to the council at the end of the contract. The schools are therefore recognised on the council's balance sheet.

Local Government Pension Scheme

- Guaranteed minimum pension (GMP)
    - Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However, overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the second state pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMP's, which could lead to inequalities between men and women's benefits.
    - As an interim solution to avoid this problem, GMP rules were changes so that the responsibility for ensuring GMP's kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age

between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

    - The fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the liabilities of Midlothian Council for financial reporting purposes. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.
    - The estimate as it applies to Midlothian Council is that total liabilities could be o.2% higher as at 31 March 2019, an increase of approximately £1.5m. This increased liability has been reflected in the revised accounting report as a past service cost.
    - These numbers are approximate estimates based on employer data as at 31 March 2017 and will be revised at the upcoming valuation.

- McCloud judgement
    - Legislation requires the LGPS to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. The cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' pension scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS potentially increasing the liabilities). The Council's actuary has included an estimate within the pension liability as a past service cost (refer to Note 24 – Retirement Benefits) which will be subject to future revision as the outcome of the judgement becomes clearer in line with the upcoming triennial valuation of the fund.

4. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Council's Balance Sheet as at 31 March 2019 for which there is significant risk of material adjustment in the forthcoming year are as follows:

4.1 Property, Plant and Equipment

Uncertainties

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bring into doubt the useful lives assigned to assets.

Effect if Actual Results Differ from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £6.097 million for every year that useful lives had to be reduced.

4.2 Pension Liabilities

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which earnings are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson LLP are engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if Actual Results Differ from Assumptions

The following table shows the sensitivity of the results to the changes in assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown below:

	Approximate % increase to Employer Obligation	Approximate monetary amount £000
Sensitivities at 31 March 2019		
0.5% decrease in Real Discount Rate	10%	70,314
0.5% increase in the Salary Increase Rate	2%	13,208
0.5% increase in the Pension Increase Rate (CPI)	8%	55,524

In addition it is estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%.

4.3 Collectability of debtors

A provision for bad debt is used to estimate the collectability of debtors. This is calculated as a percentage of debt outstanding using historical debt collection rates.

5. Expenditure and Funding Analysis

For the year ended 31 March 2019

The Expenditure and Funding Analysis demonstrates how the funding available to the Council (government grants, rents, council tax and business rates) has been used in providing services in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how resources have been allocated for decision making purposes between the Council's Services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18	2017/18	2017/18		2018/19	2018/19	2018/19
Net expenditure chargeable to the General Fund and HRA balances	**Adjustments between the funding and accounting basis (1)**	**Net expenditure in the Comprehensive Income and Expenditure Statement (3)**	**Service**	**Net expenditure chargeable to the General Fund and HRA balances**	**Adjustments between the funding and accounting basis (1)**	**Net expenditure in the Comprehensive Income and Expenditure Statement (3)**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
1,835	98	1,933	Management	1,837	91	1,928
16,069	829	16,898	Children's Services	15,686	556	16,242
3,449	338	3,787	Communities and Economy	2,666	392	3,058
75,455	18,521	93,976	Education	77,647	17,408	95,055
38,281	2,022	40,303	Adult Social Care	40,355	1,929	42,285
6,492	52	6,544	Customer and Housing Services	4,548	273	4,822
17,932	6,263	24,195	Commercial Services	16,646	5,235	21,881
11,775	-5	11,770	Finance and Integrated Service Support	11,036	9,349	20,385
14,620	6,195	20,815	Properties and Facilities Management	14,668	3,935	18,604
-14,461	16,842	2,381	Housing Revenue Account	-15,729	-64,681	-80,409
562	0	562	Lothian Valuation Joint Board	523	0	523

Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis (1)	Net expenditure in the Comprehensive Income and Expenditure Statement (3)	Service	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis (1)	Net expenditure in the Comprehensive Income and Expenditure Statement (3)
£000	**£000**	**£000**		**£000**	**£000**	**£000**
-533	0	-533	Central Costs	-652	104	-548
2,075	17	2,092	Non-Distributable Costs	1,358	-35	1,323
173,551	**51,172**	**224,723**	**Net Cost of Services**	**170,589**	**-25,444**	**145,149**
9,102	-9,279	-177	Other Income and Expenditure	10,497	-9,034	**1463**
12,386	3,181	15,567	Financing and Investment Income and Expenditure	13,448	2,562	16,010
-192,275	-18,458	-210,733	Taxation and non-specific grant income	-197,613	-24,557	-222,170
2,764	**26,616**	**29,380**	**(Surplus) or Deficit on Provision of Services**	**-3,079**	**-56,473**	**-59,548**
-47,406			**Opening General Fund and HRA Balance**	**-44,640**		
-44,642			**Closing General Fund and HRA Balance (2)**	**-47,719**		

1. See **note 5** for further analysis of the movements
2. For the split of this balance between the General Fund and the HRA see the **Movement in Reserves Statement**
3. See **note 7** for further analysis of these totals

5a. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis				2017/18
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (1)**	**Net change for the pension adjustments (2)**	**Restated Other Differences (3)**	**Restated Total Adjustments**
Service	**£000**	**£000**	**£000**	**£000**
Management	0	84	14	98
Children's Services	400	452	-23	829
Communities and Economy	6	321	11	338
Education	12,455	4,720	1,345	18,520
Adult Social Care	637	1,143	242	2,022
Customer and Housing Services	-23	0	75	52
Commercial Services	6,514	848	-1,098	6,264
Finance and Integrated Service Support	688	-268	-425	-5
Properties and Facilities Management	5,191	1,204	-200	6,195
Housing Revenue Account	16,455	387	0	16,842
Lothian Valuation Joint Board	0	0	0	0
Central Services	0	0	0	0
Non-Distributable Costs	0	0	17	17
Net Cost of Services	**42,323**	**8,891**	**-42**	**51,172**
Other income and expenditure from the Expenditure and Funding Analysis	-27,729	3,181	-8	-24,556
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**14,594**	**12,072**	**-50**	**26,616**

Adjustments between Funding and Accounting Basis				2018/19
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (1**	**Net change for the pension adjustments (2)**	**Restated Other Differences (3)**	**Restated Total Adjustments**
Service	**£000**	**£000**	**£000**	**£000**
Management	0	92	-16	76
Children's Services	92	496	-50	538
Communities and Economy	46	352	-38	360
Education	10,974	5,184	50	16,208
Adult Social Care	645	1,255	-139	1,761
Customer and Housing Services	309	0	-68	241
Commercial Services	5,387	932	-111	6,208
Finance and Integrated Service Support	935	8,938	-129	9,744
Properties and Facilities Management	2,870	1,322	-159	4,033
Housing Revenue Account	-65,105	425	0	-64,680
Lothian Valuation Joint Board	0	0	0	0
Central Services	104	0	0	104
Non-Distributable Costs	0	0	-35	-35
Net Cost of Services	**-43,743**	**18,996**	**-695**	**-25,442**
Other income and expenditure from the Expenditure and Funding Analysis	-33,582	2,562	-9	-31,029
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**-77,325**	**21,558**	**-704**	**-56,471**

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement. For statutory accounting purposes, the undernoted adjustments are required to be included within the Comprehensive Income and Expenditure Statement. These adjustments are not charged to the Council for Council Tax or Rent setting purposes and are excluded for the General Fund and HRA Balances available to support services.

1) **Adjustments for Capital Purposes**

This column adds in depreciation, impairment and revaluation gains and losses in the Council Service lines, and for:

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

2) **Net change for the pension adjustments**

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

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

3) **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and the amounts payable/receivable to be recognised on a statutory basis:

- **For Services** this represents the accrual made for the cost of holiday/Flexi-time/Time-off-on-lieu entitlement earned by employees but not taken before the year end which employees can carry forward into the next financial year. These require to be included within the net cost of services under generally accepted accounting practices, however are not chargeable to the General Fund; and
- **For Services** internal recharges, as covered by IFRS 8 and associated guidance, that are shown in budget monitoring statements are removed from segments in the CIES.
- **For Financing and investment income and expenditure** this is an effective interest adjustment on the Council's Lender Option/Borrower Option (LOBO) debt;

6. Adjustments between accounting basis and funding under regulations

2017/18	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
Adjustments Primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the CIES					
Charges for depreciation of non-current assets	-22,247	-7,125	0	**-29,372**	**29,372**
Amortisation of intangible assets	-206	0	0	**-206**	**206**
Revaluation losses on PPE and assets held for sale	-3,414	-9,330	0	**-12,744**	**12,744**
Net gain or loss on sale of non-current assets	-255	432	0	**177**	**-177**
Statutory Provision for the financing of capital investment	5,222	4,083	0	**9,305**	**-9,305**
Net revenue expenditure financed from capital under statute (REFFCUS)	0	0	0	**0**	**0**
Adjustments primarily involving the Capital Grant Unapplied Account					
Application of grants to capital financing transferred to the CAA	16,021	0	0	**16,021**	**-16,021**
Adjustments primarily involving the Capital Fund					
Capital Receipts Transferred to the Capital Fund	0	0	-319	**-319**	**319**
Adjustments involving the Financial Instruments Adjustment Account					
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	8	0	0	**8**	**-8**
Adjustments primarily involving the pensions reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	-25,431	-510	0	**-25,941**	**25,941**
Employers Pension contributions and direct payments to pensioners payable in the year	13,869	0	0	**13,869**	**-13,869**
Adjustments primarily involving the Employee Statutory Adjustment Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	41	0	0	**41**	**-41**
Total Adjustments	**-16,392**	**-12,450**	**-319**	**-29,161**	**29,161**

2018/19	General Fund £000	Housing Revenue Account £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
Adjustments Primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the CIES					
Charges for depreciation of non-current assets	-22,628	-7,511	0	**-30,139**	**30,139**
Amortisation of intangible assets	-232	0	0	**-232**	**232**
Revaluation Gains on PPE and assets held for sale	1,603	72,616	0	**74,219**	**-74,219**
Net gain or loss on sale of non-current assets	-1,440	-23	0	**-1,463**	**-1,463**
Statutory Provision for the financing of capital investment	5,965	4,456	0	**10,421**	**-10,421**
Net revenue expenditure financed from capital under statute (REFFCUS)	-164	0	0	**-164**	**164**
Capital Financed From Current Revenue (CFCR)	60	0	0	**60**	**-64**
Adjustments primarily involving the Capital Grant Unapplied Account					
Application of grants to capital financing transferred to the CAA	24,556	0	0	**24,556**	**-24,556**
Adjustments primarily involving the Capital Fund					
Capital Receipts Transferred to the Capital Fund	0	0	-457	**-457**	**457**
Adjustments involving the Financial Instruments Adjustment Account					
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	9	0	0	**9**	**-9**
Adjustments primarily involving the pensions reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	-35,964	-524	0	**-36,488**	**36,488**
Employers Pension contributions and direct payments to pensioners payable in the year	14,929	0	0	**14,929**	**-14,929**
Adjustments primarily involving the Employee Statutory Adjustment Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	694	0	0	**694**	**-694**
Total Adjustments	**-12,612**	**69,014**	**-457**	**55,945**	**-55,949**

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure

7. Group and Council Expenditure and Income Analysed by Segment and Nature

2017/18 Service Area	Employee Expenses	Restated Other Service Expenses	Depreciation, Amortisation and Impairment	Interest Payments	Loss/Gain on Disposal of non-current assets	Share of Operating Results of Associates	**Restated Total Expenditure**	Restated Fees, Charges and Other Service Income	Interest and Investment Income	Income from Council Tax	Government Grants and Contributions	**Restated Total Income**	**Restated Net Expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,716	299	0	0	0	0	**2,015**	-82	0	0	0	**-82**	1,933
Children's Services	6,086	10,766	400	0	0	0	**17,252**	-208	0	0	-146	**-354**	16,898
Communities and Economy	3,898	3,201	6	0	0	0	**7,105**	-1,892	0	0	-1,426	**-3,318**	3,787
Education	68,687	17,145	12,455	0	0	0	**98,287**	-1,180	0	0	-3,131	**-4,311**	93,976
Adult Social Care	18,008	80,295	637	0	0	0	**98,940**	-57,204	0	0	-1,433	**-58,637**	40,303
Customer and Housing Services	5,248	26,199	-23	0	0	0	**31,424**	-1,715	0	0	-23,165	**-24,880**	6,544
Commercial Services	11,934	10,899	6,514	0	0	0	**29,347**	-4,983	0	0	-169	**-5,152**	24,195
Finance and Integrated Service Support	10,057	2,020	688	0	0	0	**12,765**	-995	0	0	0	**-995**	11,770
Properties and Facilities Management	19,889	10,777	5,190	0	0	0	**35,856**	-14,688	0	0	-353	**-15,041**	20,815
HRA	0	12,984	16,455	0	0	0	**29,439**	-27,058	0	0	0	**-27,058**	2,381
Lothian Valuation Joint Board	0	562	0	0	0	0	**562**	0	0	0	0	**0**	562
Central Costs	0	-533	0	0	0	0	**-533**	0	0	0	0	**0**	-533
Non-distributable costs	2,173	0	0	0	0	0	**2,173**	0	0	0	0	**0**	2,173
Costs not included in a Service	3,181	0	0	13,136	-177	-342	**15,798**	0	-750	-40,698	-170,035	**-211,483**	-195,685
Total	**150,877**	**174,614**	**42,322**	**13,136**	**-177**	**-342**	**380,430**	**-110,005**	**-750**	**-40,698**	**-199,858**	**-351,311**	**29,119**

2018/19 Service Area	Employee Expenses	Other Service Expenses	Depreciation, Amortisation and Impairment	Interest Payments	Loss/Gain on Disposal of non-current assets	Share of operating results of associates	**Total Expenditure**	Fees, Charges and Other Service Income	Interest and Investment Income	Income from Council Tax	Government Grants and Contributions	**Total Income**	**Net Expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,701	332	0	0	0	0	**2,033**	-2	0	0	-103	**-105**	1,928
Children's Services	6,201	10,584	92	0	0	0	**16,876**	-187	0	0	-447	**-634**	16,242
Communities and Economy	3,741	3,840	46	0	0	0	**7,627**	-1,976	0	0	-2,593	**-4,569**	3,058
Education	73,735	18,135	10,974	0	0	0	**102,844**	-749	0	0	-7,040	**-7,789**	95,055
Adult Social Care	19,112	83,790	645	0	0	0	**103,548**	-12,129	0	0	-49,134	**-61,263**	42,285
Customer and Housing Services	4,364	25,104	309	0	0	0	**29,777**	-2,862	0	0	-22,093	**-24,955**	4,822
Commercial Services	11,763	9,627	5,387	0	0	0	**26,777**	-4,716	0	0	-180	**-4,896**	21,881
Finance and Integrated Service Support	8,772	11,580	935	0	0	0	**21,287**	-902	0	0	0	**-902**	20,385
Properties and Facilities Management	20,870	11,425	2,869	0	0	0	**35,164**	-16,165	0	0	-395	**-16,560**	18,604
HRA	0	14,582	-65,105	0	0	0	**-50,524**	-29,880	0	0	-5	**-29,885**	-80,409
Lothian Valuation Joint Board	0	523	0	0	0	0	**523**	0	0	0	0	**0**	523
Central Costs	0	-548	0	0	0	0	**-548**	0	0	0	0	**0**	-548
Non-distributable costs	1,322	0	0	0	0	5	**1,327**	0	0	0	0	**0**	1,327
Costs not included in a Service	2,562	0	0	14,470	1,463	-1,435	**17,060**	0	-1,023	-42,926	-179,244	**-223,193**	-206,133
Total	**154,144**	**188,974**	**-43,849**	**14,470**	**1,463**	**-1,430**	**313,772**	**-69,569**	**-1,023**	**-42,926**	**-261,234**	**-374,751**	**-60,980**

8. Non-distributable costs

2017/18 £000		2018/19 £000
2,092	Pension Costs	1,323
2,092	**Total Non-distributable Costs**	**1,323**

9. Other operating income and expenditure

2017/18 £000		2018/19 £000
-177	(Surplus)/Deficit on sale or disposal of non-current assets	1,463
-177	**Total Other Operating Income and Expenditure**	**1,463**

10. Financing and investing income and expenditure

2017/18 £000		2018/19 £000
13,678	Interest payable and similar charges	15,138
3,181	Pension interest cost on defined benefit obligation and interest income on plan assets	2,562
-1,292	Interest received and similar income	-1,690
15,567	**Total**	**16,010**

11. Taxation and non-specific grant income

2017/18 £000	**Credited to Taxation and Non-Specific Grant Income**	2018/19 £000
40,698	Council Tax Income	42,925
29,204	Non Domestic Rates Income	27,955
122,373	Non-Specific Government Grants	126,733
18,458	Capital grants	24,557
210,733	**Total Taxation and Non-Specific Grant Income**	**222,170**
	Credited to Services	
23,162	Housing Benefit Subsidy	22,109
0	Unitary Charge Funding	2,296
2,273	Pupil Equity Funding	2,273
1,108	Community Justice Grant	1,356
370	LEADER Programme	965
72	Track 2 Train	528
2,837	Other Entities & Individuals	2,298
29,822	**Total**	**31,825**

2017/18 £000	**Grants Receipts in Advance**	2018/19 £000
	Revenue Grants	
1,018	Scottish Government Blueprint Grant Gorebridge Connected	630
141	Scottish Government Blueprint Grant Track to Train	0
338	Scottish Government Regeneration Capital Grant Track to Train	0
0	Scottish Government Regeneration Capital Grant Rosewell Development Trust	5

0	Scottish Government Early Years Grant	3,777
	Capital Grants	
22,879	Section 75 contributions from private developers	26,629
34	Scottish Government Inspiring Learning Spaces Grant	0
0	Hopefield Insurance Receipt	0
24,410	**Total**	**31,041**

12. Movement in non-current assets, property, plant and equipment

The Council carries out a rolling programme which ensures that the Property, Plant and Equipment required to be measured at current value, Council Dwellings, Land and Buildings and Surplus Assets, undergoes revaluation at least every five years. Professionally qualified valuers (RICS: Royal Institute of Chartered Surveyors) employed within the Council's Asset Management Team carry out valuations of all property-based assets held by the Council

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation as at 31 March 2017	**303,957**	**301,783**	**11,308**	**29,180**	**62,483**	**7,659**	**41,510**	**6,013**	**763,893**
Adjustment	644	-4,485	3,838	3	0	0	0	0	**0**
Restated Opening balance 01 April 2017	**304,601**	**297,298**	**15,146**	**29,183**	**62,483**	**7,659**	**41,510**	**6,013**	**763,893**
Additions	7,766	9,503	25	3,505	3,072	19	3,383	3	27,276
Disposals	-1,850	-423	-5	-1,388	0	0	0	0	-3,666
Reclassification	6,317	28,636	-2,436	0	0	0	-35,272	452	-2,303
Revaluation to I&E	-9,330	-3,212	-1,364	0	0	0	0	0	-13,906
Revaluation to Revaluation Reserve	0	-9722	138	4	0	301	0	0	-9279
Gross Book value at 31 March 2018	**307,504**	**322,080**	**11,504**	**31,304**	**65,555**	**7,979**	**9,621**	**6,468**	**762,015**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Depreciation as at 31 March 2017	**-33,375**	**-23,929**	**0**	**-19,676**	**-34,693**	**-480**	**0**	**-44**	**-112,197**
Adjustment	78	-60	0	-16	0	0	0	-2	**0**
Restated Opening balance 01 April 2017	**-33,297**	**-23,989**	**0**	**-19,692**	**-34,693**	**-480**	**0**	**-46**	**-112,197**
Depreciation Charge for the Year	-7,048	-16,147	0	-2,430	-3,215	-484	0	-46	-29,370
Disposals	216	0	0	1,211	0	0	0	0	1,427
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	1,162	0	0	0	0	0	0	1,162
Revaluation to Revaluation Reserve Depreciation	0	10,122	0	0	0	854	0	0	10,976
Depreciation as at 31 March 2018	**-40,129**	**-28,852**	**0**	**-20,911**	**-37,908**	**-110**	**0**	**-92**	**-128,002**
Net book value as at 31 March 2017	**270,582**	**277,854**	**11,308**	**9,504**	**27,790**	**7,179**	**41,510**	**5,969**	**651,696**
Net book value as at 31 March 2018	**267,375**	**293,228**	**11,504**	**10,393**	**27,647**	**7,869**	**9,621**	**6,376**	**634,013**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation as at 31 March 2018	**307,504**	**322,080**	**11,504**	**31,304**	**65,555**	**7,979**	**9,622**	**6,468**	**762,016**
Additions	9,103	4,245	0	2,777	5,301	130	39,889	0	61,445
Disposals	-304	-11,269	-358	-1,127	0	-105	0	-763	-13,926
Reclassification	1,023	36,456	-2,687	-66	0	0	-33,055	-2,380	-709
Revaluation to I&E	34,350	-127	1,396	0	0	0	0	-143	35,476
Revaluation to Revaluation Reserve	28,260	2,060	2,152	0	0	68	0	-978	31,562
Gross Book value at 31 March 2019	**379,936**	**353,445**	**12,007**	**32,888**	**70,856**	**8,072**	**16,456**	**2,204**	**875,864**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Depreciation as at 31 March 2018	**-40,129**	**-28,852**	**0**	**-20,911**	**-37,908**	**-111**	**0**	**-92**	**-128,003**
Depreciation Charge for the Year	-7,511	-16,255	0	-2,905	-3,285	-135	0	-46	-30,137
Disposals	258	10,862	0	1,018	0	16	0	0	12,154
Reclassification	-181	128	0	53	0	0	0	0	0
Revaluation to I&E Depreciation	38,266	475	0	0	0	0	0	0	38,741
Revaluation to Revaluation Reserve Depreciation	7,105	3,598	0	0	0	42	0	0	10,745
Depreciation as at 31 March 2019	**-2,192**	**-30,044**	**0**	**-22,745**	**-41,193**	**-188**	**0**	**-138**	**-96,500**
Net book value as at 31 March 2018	**270,582**	**277,854**	**11,308**	**9,504**	**27,790**	**7,179**	**41,510**	**5,969**	**651,696**
Net book value as at 31 March 2019	**377,744**	**323,401**	**12,007**	**10,143**	**29,663**	**7,884**	**16,456**	**2,066**	**779,364**

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events which is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council, these include Software Licences and Carbon Reduction Commitment (CRC) Allowances.

2017/18		2018/19
£000		£000
1,941	**Gross carrying amount at start of year**	**1,893**
-1,175	Accumulated amortisation	-1,380
766	**Net carrying amount at the start of year**	**513**
216	Additions – purchased	908
-262	Surrender of CRC Allowance	-265
-206	Amortisation	-232
514	**Net Book Value at Year End**	**924**

14. Movement in assets held for sale

2017/18		2018/19
£000		£000
1,950	**Balance Outstanding as at 1 April**	**4,257**
2303	Transfers from Non Current Assets during the year	0
-1	Revaluations and Restatements	1,410
5	Additions	47
0	Asset Disposal - Other	-171
4,257	**Balance Outstanding as at 31 March**	**5,543**

All assets included above would come under the fair value hierarchy category of Level 2 – Fair Value measured using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

15. Financial instruments

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

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

The amounts the Council hold under each of these asset classifications is shown in the table below:-

Asset Class	Amortised Cost	Fair Value Through Profit & Loss	Fair Value Through Other Comprehensive Income
	£000's	£000's	£000's
Carrying Amount	87,011	0	8,424

Reclassification and re-measurement of financial assets at 1 April 2018

The effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting has not resulted in any re-measurement to the carrying amounts of assets.

The adoption of IFRS 9 Financial Instruments has had no impact on the General Fund or Financial Instrument Revaluation Reserve.

The effect of the adoption of IFRS 9 has had no material impact on the measurement of impairment loss allowances and no opening balances have therefore been restated.

Previous Classification	Carrying Amount Brought Forward At 1 April 2018	New Classification at 1 April 2018	
		Amortised Cost	Fair Value Through Other Comprehensive Income
	£000's	£000's	£000's
Loans & Receivables	76,809	76,476	333
Available for Sale	8,067	0	8,067
Reclassified Amounts at 1 April 2018	**84,876**	**76,476**	**8,400**
Re-measurements at 1 April 2018	0	0	0
Re-measured carrying amounts at 1 April 2018	**84,876**	**76,476**	**8,400**

Effect of Asset Reclassification and Re-measurement on the Balance Sheet

The table below shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

Previous Classification	Amortised Cost	Fair Value Through Other Comprehensive Income	Non-financial Instrument Balances	Total Balance Sheet Carrying Value
	£000's	£000's	£000's	£000's
Long Term Investments	0	8,400	0	8,400
Current Investments	74,106	0	0	74,106
Current Debtors	2,370	0	16,085	18,455
Remeasured Carrying Amounts at 1 April 2018	**76,476**	**8,400**	**16,085**	**100,962**

Financial Instrument Balances

The carrying amounts of financial liabilities and assets presented in the Balance Sheet relate to the following measurement categories:-

31 March 2018			31 March 2019	
Long Term Restated	Current Restated		Long Term	Current
£000	£000		£000	£000
		Financial Instrument Liabilities		
218,176	25,725	External Borrowings at amortised cost	219,605	20,507
51,958	1,449	PPP Liability at amortised cost (see Note 33)	82,832	2,303
0	23,340	Creditors at amortised cost	0	14,221
270,134	**50,514**	**Total Financial Instrument Liabilities**	**302,437**	**37,031**
0	15,874	Total non-financial instrument liabilities (statutory creditors)	0	24,530
		Financial Instrument Assets		
0	8,886	Cash and Cash Equivalents at amortised cost (see Note 18)	0	10,680
0	65,221	Loans and Receivables at amortised cost	0	65,420
0	2,370	Debtors at amortised cost	0	10,911
8,400	0	Assets held at fair value through other comprehensive income	8,424	0
8,400	**76,477**	**Total Financial Assets**	**8,424**	**87,011**
0	16,085	Total non-financial instrument assets (statutory debtors)	0	8,020

Financial Instrument Balances in 2018/19 accounts have the correct split between the current and long term element of the PPP Liability for the 2017/18 comparators. The 2017/18 Audited Accounts figures had an incorrect split for the 2017/18 figures.

The Council’s borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long term liability, repayable after 12 months or longer, or a current liability if it is repayable within 12 months.

Long Term borrowing as shown in the Balance Sheet of £219.605 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £178.824 million, PWLB Annuity Loans of £0.637 million, and LOBO Loans of £20.589 million, Market Loans of £18.750 million and Salix Loans of £0.805 million). Lender Option Borrower Options (LOBO’s) of £20.589 million have been included in long term borrowing (inclusive of the Effective Interest Rate adjustment), this reflecting the contractual period to maturity for these instruments, given the unlikelihood of call within the next 12 months.

Short Term borrowing as shown in the Balance Sheet of £20.507 million comprises accrued interest of £2.236 million, the LOBO Effective Interest Rate adjustment to be amortised in 2018/19 of £0.009 million and principal to be repaid within 12 months of £18.263 million (£9 million Temporary Loans; £8.400 million PWLB Maturities; £0.714 million Market Loans, £0.111 million Salix Loan, £0.037 million PWLB Annuities).

Gains and Losses on Financial Instruments

There were no gains or losses on Financial Assets recognised in the Comprehensive Income and Expenditure Statement for the year.

Total Interest Income/Expense

Total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not at fair value through profit or loss for 2018/19 was £7.870 million [equating to £8.537 million interest paid on external borrowings less £0.667 million interest received on loans and receivables and cash and cash equivalents].

Fee Income and Expense

Total fee expense for financial assets and liabilities that are not at fair value through profit or loss for 2018/19 was £0.081 million.

2017/18			2018/19	
Surplus or Deficit on the Provision of Services	**Other Comprehensive Income and Expenditure**		**Surplus or Deficit on the Provision of Services**	**Other Comprehensive Income and Expenditure**
£000's	**£000's**		**£000's**	**£000's**
		Net gains/losses on:-		
3,131	0	Investments in equity instruments designated at fair value through other comprehensive income	26	0
3,131	**0**	**Total net gains/losses**	**26**	**0**
		Interest Revenue		
0	541	Financial assets measured at amortised cost	0	667
0	371	Other financial assets measured at fair value through other comprehensive income	0	438
0	**912**	**Total Interest Revenue**	**0**	**1,105**
		Interest Expense		
0	8,615	Financial assets measured at amortised cost	0	8,522
0	**8,615**	**Total Interest Revenue**	**0**	**8,522**
		Fee Expense		
0	127	Financial assets or financial liabilities that are not at fair value through other profit and loss	0	81
0	**127**	**Total Fee Expense**	**0**	**81**

Fair Value of Assets and Liabilities Carried at Amortised Cost

The code requires that financial instruments are to be shown at fair value which is defined as the amount for which an asset could be exchanged for or a liability settled, assuming the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy / sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

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

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below. The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. It is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

The rates quoted in this valuation were obtained by Link Asset Services, the Council's treasury management consultants, from the market on 31 March 2019.

The calculations are made with the following assumptions:

- Fair values have been calculated for all financial instruments in the portfolio;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- The valuation of Loans Receivable is made by utilisation of the prevailing benchmark market rates;
- The valuation of fixed term deposits (maturity investments) is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit;
- For PWLB debt, the discount rate used is:-
    - the valuation of fixed the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;
- For Fixed Rate market debt the discount rate used is:-
    - the New market Loan Rate for an instrument with the same terms from a comparable lender ["Fair Value (New Loan)" column of table on page 72]; and

    - the Premature Repayment Rate [“Fair Value (Premature Redemption)” column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;

- For non-fixed rate LOBO debt the discount rate used is:-
    - The relevant Gilt Rate plus 80 basis points [“Fair Value (New Loan)” column of table on page 72]; and
    - the Premature Repayment Rate [“Fair Value (Premature Redemption)” column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;

Fair values of financial liabilities (where available) are calculated as:

31 March 2018			31 March 2019						
Carrying Amount	(a) Fair Value	(b) Fair Value	Liability	Principal Outstanding	Add LOBO Accounting Adjustment	Add Accrued Interest	Carrying Amount	(a) Fair Value (New Loan)	(b) Fair Value (Premature Redemption
£000	£000	£000		£000	£000	£000	£000	£000	£000
199,854	246,817	291,927	**PWLB**	187,899	0	1,793	189,691	240,864	285,683
20,879	31,029	38,277	**LOBO**	20,000	597	274	20,872	31,598	38,849
9,886	10,266	12,350	**Market Loans**	19,464	0	165	19,629	21,927	21,927
13,005	13,005	13,006	**Short Term Borrowing**	9,000	0	4	9,004	9,004	9,004
277	248	263	**Salix**	916	0	0	916	846	886
243,901	**301,365**	**355,823**	**Total**	**237,279**	**597**	**2,236**	**240,112**	**304,238**	**356,349**

Fair values of financial assets are calculated as:

31 March 2018		31 March 2019				
Carrying Amount	Fair Value	Investments	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000
8,886	8,886	**Cash and Cash Equivalents**	10,675	5	10,680	10,680
65,221	65,088	**Short Term Investments**	64,985	435	65,420	65,420
74,107	**73,974**	**Total**	**75,660**	**440**	**76,100**	**76,100**

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

The fair value hierarchy for financial assets and financial liabilities that are not measured at fair value are shown in the table below:-

Level	Level 2 £000's
Financial Liabilities held at Amortised Cost	
PWLB	240,864
LOBO	31,598
Market Loans	21,927
Short Term Borrowing	9,004
Salix	846
PFI & Finance Lease Liability	85,135
Total	**389,374**

Fair value hierarchy for financial assets and financial liabilities that are measured at fair value

The fair value hierarchy for financial assets and financial liabilities that are measured at fair value are shown in the table below:-

Level	Level 2 £000's	Level 3 £000's
Financial Assets Held at Fair Value		
Financial Assets – Equity Shareholding in Lothian Buses	8,093	0
Financial Assets – Subordinated Debt Subscription in Newbattle DBFMCo	0	331
Total Financial Assets	**8,093**	**331**

Nature and extent of risks arising from Financial Instruments
The Council's activities expose it to a variety of financial risks:

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

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

The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

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

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

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

<u>Expected Credit Loss Model</u>
The authority recognises expected credit losses on all of its financial assets held at amortised cost and FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. The provision for Bad Debts as outlined in Note 17 – Debtors – reflects this.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.
The Expected Credit Loss for the Council's financial assets held at amortised cost has been calculated above to be £0.013 million. The Council deems this to be immaterial and therefore has not included any impact of this within the CIES.

The Expected Credit Loss for the Council's financial assets held at FVOCI is as follows:-

- Lothian Buses Shareholding: Expected Credit Loss of zero. This has been calculated on the basis that there has been no default on the dividends payable to the Council over the period the Council has held this investment;
- Subordinated Debt Investment in Newbattle DBFM Co SPV: Expected Credit Loss of zero. Whilst there are no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated/costed, there are no indications of adverse performance within the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPV on an annual basis.

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

Age Analysis

31 March 2018 £000		31 March 2019 £000
8,886	Less than 3 months	10,680
35,208	3 to 6 months	20,406
15,010	6 months to 1 year	30,008
15,003	More than 1 year	15,006
74,107	**Total**	**76,100**

Liquidity Risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

An age analysis of external borrowings is shown in the table below:-

Age Analysis

31 March 2018 £000		31 March 2019 £000
23,452	Less than 1 year	20,507
8,855	1 to 2 years	9,275
11,030	2 to 5 years	3,857
3,270	5 to 10 years	5,569
59,162	10 to 20 years	62,820
2,679	20 to 30 years	5,437
85,534	30 to 40 years	85,597
42,049	40 to 50 years	42,048
5,000	Greater than 50 years	5,000
241,031	**Total**	**240,110**

Refinancing and Maturity Risk
The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk.

The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Furthermore, the Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

Market Risk
The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

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

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the CIES;
- Increases in interest rates will affect interest paid on variable rate borrowings potentially increasing interest expense charged to the CIES;
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet or the CIES for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets shown on the balance sheet at fair value;
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet or CIES for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

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

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

According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Interest Rate Risk

	£000	**£000**
Increase in interest payable on variable rate borrowings	68	
Increase in interest receivable on variable rate instruments	(759)	
Increase in government grant receivable for financing costs	0	
Impact on CIES	**(691)**	
	A	**B**
Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**0**	**0**
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**(46,414)**	**(59,368)**

Note: Column A reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “New Loan” rate measurement of Fair Value. Column B reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “Premature Repayment” rate measurement of Fair Value.

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

Price Risk

The Council has a 5.5% shareholding in Lothian Buses which is available for sale to other company shareholders. The Council also have a subordinated debt investment in the Newbattle DBFMCo Limited. There is no price risk associated with either of these.

Foreign Exchange Risk

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

16. Long Term Investments

2017/18 £000		2018/19 £000
8,066	Lothian Buses plc	8,093
333	Newbattle DBFMco Ltd	331
8,399	**Total Long Term Investments**	**8,424**

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

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of assets. In line with the published results of Lothian Buses.

The most recent published results of the company are as follows:-

Year to 31-Dec-18 £000		Year to 31-Dec-19 £000
152,884	Turnover	160,629
10,008	Profit before taxation	2,302
-2,639	Taxation	-1,590
7,369	Profit after taxation	712
6,790	Ordinary dividend	7,691
57,258	Transfer to / (from) reserves	475
147,483	**Net assets at end of year**	**147,958**

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

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

The principal on this investment will be repaid according to the profile outlined below with the principal fully repaid over the 25-year project life. Interest will be paid biannually at a 10.50% coupon based on the average principal outstanding over the relevant 6 month period.

Maturity Period	Principal Repaid £000's
0-1 years	3
1-2 years	2
2-5 years	1
5-10 years	3
10-15 years	9
15-20 years	7
20-25 years	308
Total	**333**

17. Debtors

The debtors balance consists primarily of debts in respect of Council Tax, House Rents and other recoverable accounts.

Short Term Debtors

Short Term Debtors

2017/18 £000	2017/18 £000		2018/19 £000	2018/19 £000
30,144		Council Tax and Community Charge	30,994	
-28,544		Less: bad debt provision	-29,708	
	1,600			1,286
	3,804	Central Government Bodies		4,795
	1149	Other Public Sector Bodies		116
	3,564	Rents		5,736
15,225		Grants, External Debtor accounts and other Income due	15,176	
-6,887		Less: bad debt provision	-8,178	
	8,338			6,998
	18,455	**Net Debtors**		**18,931**

Long Term Debtors

2017/18 £000		2018/19 £000
2,889	Prepayment to PPP Contractor	2,957
38	Pacific Shelf	40
2,927	**Total Long Term Debtors**	**2,997**

18. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours, or card payments made by customers with a two business day settlement period (T+2) or less. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

2017/18		2018/19
£000		£000
436	Cash and Bank Balances	502
8,031	Short Term Deposits Considered to be Cash Equivalents	9,772
419	Bank Current Accounts	406
8,886	**Total Cash and Cash Equivalents**	**10,680**

19. Creditors

The creditors balance consists primarily of amounts due in respect of trade creditors, external interest payments and other sundry creditors.

2017/18		2018/19
£000		£000
15,105	Trade Creditors	15,246
6,640	Central Government Bodies	3,259
6,327	Accumulated Absences	5,633
3,719	Other Public Sector Bodies	2,466
3,116	NDR/Council Tax	1,766
0	Grants	1,326
1,549	Payroll Costs Due	5,644
0	Receipts in Advance	582
0	Bodies External to Gen Govt	18
2,758	Other Entities and Individuals	2,811
39,214	**Total Creditors**	**38,751**

20. Provisions

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

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

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

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.692 million at 31 March 2019 (2017/18 £0.940 million) and is shown in other provisions.

The Council had in place for a period during 2018/19 a time limited Voluntary Severance Scheme. A provision for £0.068 million has been made for staff release costs where employees have an agreed departure date as at 31 March 2018.

Provision for Uninsured Losses

2017/18 £000		2018/19 £000
1,431	**Balance at 1st April**	**940**
499	New insurance provisions made in the period	495
258	Increases to existing insurance provisions made in the period	139
-217	Decrease to existing insurance provisions made in the period	0
-1,031	Full settlement of existing insurance provisions made in the period	-882
940	**Balance at 31st March**	**692**

Provision for the cost of staff released under voluntary severance

2017/18 £000		2018/19 £000
0	**Balance at 1st April**	**853**
0	Amounts used during the year	**-853**
853	Provision for costs of staff released under voluntary severance	68
853	**Balance at 31st March**	**68**

Total provisions

2017/18 £000		2018/19 £000
940	Provision for potential uninsured losses	692
853	Provision for costs of staff released under voluntary severance	68
1,793	**Balance at 31st March**	**760**

21. Long Term Liabilities

31/03/2018 £000		31/03/2019 £000
85,513	Net Pension Liability	124,359
51,956	PPP Liabilities	82,831
7,990	Borders Railway Liability	0
145,459	**Total Long Term Liabilities**	**207,190**

22. Usable reserves

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

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

The Council operates a Capital Fund under the terms of Schedule 3 to the Local Government (Scotland) Act.

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 6.

31/03/2018 £000		31/03/2019 £000
-10,777	General Fund Reserve	-8,637
-33,863	HRA Balance	-39,084
-19,462	Capital Fund	-20,168
-2,889	Repairs and Renewals Fund	-2,957
-66,991	**Total Usable Reserves**	**-70,846**

23. Unusable reserves

31/03/2018 £000		Notes	31/03/2019 £000
-197,754	Capital Adjustment Account	24.1	-285,364
-110,563	Revaluation Reserve	24.2	-143,589
85,513	Pension Reserve	24.3	124,359
6,327	Employee Statutory Adjustment Account	24.4	5,633
2,333	Financial Instruments Adjustment Account	24.5	2,165
-7,717	Available for Sale Financial Instruments Reserve	24.6	-7,743
-221,861	**Total Unusable Reserves**		**-304,539**

23.1 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

At 31st March 2018 the Council, in reflecting an agreed audit adjustment in the accounts, credited the Capital Adjustment Account rather than the Capital Fund for developer contributions totalling £0.249 million that were not yet applied. Opening Balances for 2018/19 have been amended to correct this.

Note 6 provides further details of transactions posted to the Account.

2017/18 £000		2018/19 £000
-202,329	**Balance at 1st April**	**-197,754**
	Adjustments to the opening balance	
-2,594	Adjustments relating to revalued assets funded from developer contributions	249
-230	Adjustment relating to PPP long term liability	0
-205,153	**Revised Balance at 1st April**	**-197,505**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
29,372	- Charges for Depreciation of non-current assets	30,139
12,744	- Charges for Downward Revaluation of non-current assets	-74,219
206	- Amortisation of intangible assets	232
2,239	- PPE non-current assets written off on disposal or sale	1,944
-301	- Revaluation loss on disposal or sale	-1,521
-9,235	- Adjusting amount written out to Revaluation reserve	-8,472
0	- Net revenue expenditure financed from capital under statute (REFFCUS)	164
0	-Capital Financed from Revenue Expenditure (CFCR)	-64
-203	Other movements	-1,060
-170,331	**Net written out amount of the cost of non-current assets consumed in year**	**-250,362**
	Capital Financing for the year:	
-2,416	- Use of Capital Receipts to finance new Capital expenditure	-482
319	- Capital Receipts transferred to the Capital Fund	457
-16,021	- Capital Grants and Contributions credited to the CIES	-24,557
-9,305	- Statutory Provision for the financing of capital investment	-10,420
-197,754	**Balance at 31st March**	**-285,364**

23.2 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are revalued downward or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised. The reserve contains only revaluation gains accumulated since 1st April 2007, the date that reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2017/18 £000		2018/19 £000
-118,403	**Balance at 1st April**	**-110,563**
9,111	(Upward) / downward Revaluation of Assets	-32,275
-10,806	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	-10,744
9,235	Adjusting amount from Capital Adjustment Account	5,565
301	Accumulated losses on assets sold	4,428
-1	Other movements	
-110,563	**Balance at 31st March**	**-143,589**

23.3 Pension Reserve

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

2017/18 £000		2018/19 £000
118,041	**Balance at 1st April**	**85,513**
	Return on Pension Assets	
-44,600	Actuarial (gains) / losses arising on changes in financial assumptions	17,287
25,941	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	36,488
-13,869	Employer's pension contributions	-14,929
85,513	**Balance at 31st March**	**124,359**

23.4 Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. An example of this is annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. The amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements was -£0.041 million (2017/18 -£0.041 million).

2017/18		2018/19
£000		**£000**
6,368	**Balance at 1st April**	**6,327**
-6,368	Settlement or cancellation of accrual made at end of preceding year	-6,327
6,327	Amounts accrued at the end of the current year	5,633
6,327	**Balance at 31st March**	**5,633**

23.5 Financial Instruments Adjustment Account

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

2017/18		2018/19
£000		**£000**
2,500	**Balance at 1st April**	**2,333**
-8	Proportion of equivalent interest rate calculation on lender option / borrower option loans	-9
-159	Change in share of equivalent interest rate calculation	-159
2,333	**Balance at 31st March**	**2,165**

23.6 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost or disposed of and the gains are realized

2017/18		2018/19
£000		**£000**
-4,585	**Balance at 1st April**	**-7,717**
-3132	Revaluation of investments	-26
-7,717	**Balance at 31st March**	**-7,743**

24. Cash Flow Statement – operating activities

2017/18		2018/19
£'000		£'000
-31,034	**Net surplus or (deficit) on the provision of services**	**59,548**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
29,372	Depreciation	30,139
11,697	Impairment & downward revaluations (& non-sale derecognitions)	-74,219
206	Amortisation	232
-69	(Increase)/Decrease in Inventories	13
384	(Increase)/Decrease in Debtors	-339
10,648	Increase/(Decrease) in Creditors	-981
12,072	Movement in Pension Liability	21,559
1,938	Carrying amount of non-current assets sold	1,944
699	Other non-cash movements and transfers to investing activities	-505
66,947		**-22,157**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	64,985
-2,098	Proceeds from the sale of PP&E, investment property and intangible assets	-482
-15,772	Capital grants included in Service expenditure and "Taxation & non-specific grant income"	-24,560
-17,870		**39,943**
18,043	**Net Cash Flows from Operating Activities**	**77,334**
	Operating activities within the cash flow statement include the following cash flows relating to interest	
772	Interest Received	40
-13,583	Interest Paid	-15,175
371	Dividends Received	438

25. Cash Flow Statement - investing activities

2017/18		2018/19
£000		£000
-28,312	Purchase of PP&E, investment property and intangible assets	-34,575
-25,000	Purchase of Short Term Investments (not considered to be cash equivalents)	-64,985
2,416	Proceeds from the sale of PP&E, investment property and intangible assets	1,302
48,452	Other Receipts from Investing Activities	28,523
-2,444	**Net Cash flows from Investing Activities**	**-69,735**

26. Cash Flow Statement - financing activities

2017/18		2018/19
£000		£000
320,500	Cash Receipts from Short and Long Term Borrowing	92,980
-1,336	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	-2,052
-336,771	Repayment of Short and Long Term Borrowing	-96,733
-17,607	**Net Cash flows from Financing Activities**	**-5,805**

27. Audit fees

The Accounts Commission for Scotland has appointed Ernst and Young LLP as the Council's external auditor for the financial years 2016/17 to 2021/22.

The anticipated fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice for 2018/19 is £0.244 million (2017/18 £0.291 million).

28. Capital grants received in advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor. All monies held in the Capital Grants Received in Advance account are as a result of developers contributions, the balances are as follows:

2017/18 £000		2018/19 £000
22,944	**Balance at 1st April**	**24,410**
0	Opening Balance Adjustment	-112
9,219	New capital grants received in advance, conditions of use not met	10,387
-5,159	Amounts released to CIES, conditions of use met	-3,644
-2,594	Adjustment in respect of prior year revaluations	0
24,410	**Balance at 31st March**	**31,041**

29. Related parties

The Council is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

The Scottish Government

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

Officers

A review of the Register of Senior Officers' interests has been conducted. Related party interests for which transactions exist in 2018/19 were declared by three officers:

> With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.001 million.
>
> With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.372 million.

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in the Remuneration Report.

Members' Register of Interests can be viewed on the Council's website. A review of these interests has been conducted. Related party interests for which transactions exist in 2018/19 were declared by seven members:

> With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.085 million.
>
> With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.489 million.

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

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.523 million (2018/19 £0.562 million There was no balance due to or from the Lothian Valuation Board as at 31 March 2019.

The Council has a number of joint working arrangements with other local authorities. In 2018-19 payments of £1.596 million were made to other local authorities and income of £0.651 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.922 million of resource transfer funding to the Council in 2018/19 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund and £1.457 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £39.932 million to the Midlothian Integration Joint Board in 2018/19. These resources were allocated to the Council for the provision of Adult Social Care services. NHS Lothian also delegated financial resources to the Board. The Board provides the strategic direction in relation to the delivery of Health and Adult Social Care Services in Midlothian. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care. As at 31 March 2019 the Council held £1.633 million on behalf of the Board.

The Council is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

30. Capital expenditure and capital financing

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

The figures in the 2018/19 note are correct with the correct 2017/18 comparators. The figures in the 2017/18 accounts have not adjusted the opening CFR balance at 1 April 2016 to reflect the adjustment to the PPP finance lease principal repayments that were adjusted as part of the double count of Third Party Income in the PPP1 disaggregation model.

Restated 2017/18 £000	Restated 2017/18 £000		2018/19 £000	2018/19 £000
	333,527	**Opening Capital Financing Requirement**		**333,678**
		Capital Expenditure		
27,290		Property, Plant and Equipment	31,557	
216		Intangible Assets	0	
0		Revenue Expenditure funded from capital under statute	164	
-203		Long Term Liabilities	33,781	
	27,303			**65,502**
		Capital Financing		
-2,098		Capital Receipts	-3,304	
-11,515		Government Grants	-22,217	
-4,257		Contribution from Other Bodies	-2,403	
-9,282		Loans Fund and Lease Repayments	-11,482	
	-27,152			**-39,406**
	333,678	**Closing Capital Financing Requirement**		**359,774**
	151	**Increase in Capital Financing Requirement**		**26,096**

31. Commitments under capital contracts

As at 31 March 2019, the Council was contractually committed to capital works which amounted to £12.958 million (31 March 2018 equivalent £23.022 million).

The value of work completed as at 31 March 2019 has been established using a stage of completion methodology based on Contract Administrator’s Certificates obtained at year end.

The main capital contracts the Council is committed to are as follows:-

- The new Hopefield Primary School: £9.327 million original contractual commitment; £8.767 million remaining commitment outstanding;
- Cuiken Primary School Extension: £1.296 million original contractual commitment; £1.135 million remaining commitment outstanding;

- HRA Phase III: Site 115, Castlelaw Terrace, Bilston: £1.017 million original contractual commitment; £1.017 million remaining commitment outstanding;
- HRA Phase II: Site 23, Woodburn Terrace, Dalkeith: £1.443 million original contractual commitment; £0.607 million remaining commitment outstanding.

The total value of retentions held as at 31 March 2019 amount to £0.878 million.

32. Public-private partnership

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the CIES;
- Finance cost – an interest charge on the outstanding Balance Sheet liability of:-
    - 9.69% for Dalkeith Schools PPP;
    - 7.29% for Midlothian Primary Schools; and
    - 5.06% for Newbattle Community Campus;

  debited to the Financing and Investment Income and Expenditure line in the CIES;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- Lifecycle component replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

The Council has entered into five Public Private Partnerships.

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

- The second is a contract with Midlothian Schools Ltd for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 6 month's notice.

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

- The fourth is for the provision of a food waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. The contract is for 20 years and at the end of the concession period in 2036, the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying a market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site shall be transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

- The fifth is for the provision of a residual waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. The contract is for 25 years. At 31 March 2019 the contract was in the commissioning phase, with Full Service Commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contact (contract end date 06 May 2044) to ensure that is has been so maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

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

The value of assets held under PFI arrangements at 31 March 2019 is £99.584 million (2017/18 £64.284 million). The movement is in year depreciation of £1.117 million, revaluation £0.173 million and additions £36.244 million (2017/18 £1.117 million depreciation and £0.013 million additions).

There is a deferred liability at 31 March 2019 for the financing of these assets of £85.135 million (2017/18 £53.406 million), with the movement including the recognition of the Newbattle Centre deferred liability opening balance of £33.781 million.

During the year a total of £2.052 million (2017/18 £1.336 million) was paid in relation to finance lease liabilities under the PFI contracts. Details of payments to be made under PFI arrangements are:

Dalkeith Schools Campus

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	764	2,163	2,025	4,952
Within 2 to 5 years	3,872	7,835	8,619	20,326
Within 6 to 10 years	7,362	7,272	12,043	26,677
Within 11 to 15 years	10,322	2,944	12,288	25,555
Total Remaining Contract	**22,320**	**20,214**	**34,975**	**77,510**

Midlothian Primary Schools

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	807	2,162	2,014	4,982
Within 2 to 5 years	3,860	8,013	8,570	20,444
Within 6 to 10 years	6,636	8,206	11,975	26,817
Within 11 to 15 years	9,436	5,406	13,548	28,391
Within 16 to 20 years	8,897	1,530	10,583	21,010
Total Remaining Contract	**29,637**	**25,317**	**46,690**	**101,644**

Newbattle Community Campus

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	732	1,678	122	2,532
Within 2 to 5 years	3,318	6,322	518	10,157
Within 6 to 10 years	5,183	6,867	723	12,773
Within 11 to 15 years	6,633	5,417	818	12,868
Within 16 to 20 years	8,488	3,561	926	12,976
Within 21 to 25 years	8,824	1,171	860	10,855
Total Remaining Contract	**33,177**	**25,016**	**3,967**	**62,161**

33. Retirement benefits

The Council participates in two different pension schemes which meet the needs of employees. Both schemes provide members with defined benefits related to pay and service.

Teachers

The Scottish Teachers Superannuation Scheme is an unfunded scheme administered by the Scottish Government. The scheme is excluded from the accounting requirements of IAS 19 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under IAS 19.

In 2018/19 the Council paid £6.479 million (2017/18 £6.098 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% (2017/18 17.2%).

Local Government Pension (Scotland) Scheme

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to services in respect of these employees have been calculated under IAS 19 – Retirement Benefits.

In 2018/19 the Council paid an employer contribution of £14.929 million (2017/18 £13.689 million) into the Lothian Pension Fund, representing 21.9% (2017/18 21.8%) of pensionable pay. This is the expenditure met from Government Grants and Local Taxation. It is estimated that the employer contribution for the period to 31 March 2020 will be £14.068 million.

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the CIES and the Movement in Reserves Statement

CIES

2017/18 £'000		2018/19 £'000
	Net cost of services:	
22,694	Current Service Cost	24,738
66	Past Service Costs (including curtailments)	9188
	Net operating expenditure:	
15,898	Interest cost	15,952
-12,717	Expected return on scheme assets	-13,390
25,941	**Net charge to CIES**	**36,488**

The service cost figures include an allowance for administration expenses of 0.3% of payroll.

In addition to the recognised gains and losses included in the CIES, actuarial losses of £17.287 million (2017/18 gain of £44.601million) were included in other comprehensive income and expenditure in the CIES.

Assets and Liabilities in relation to retirement benefits

2017/18	Reconciliation of present value of the scheme liabilities:	2018/19
£000		**£000**
£605,968	Opening Balance	**£579,547**
22,694	Current Service Costs	24,738
15,898	Interest Cost	15,952
3,629	Contribution by Members	3,835
-54,266	Actuarial losses/(gains)	50,778
66	Past Service Costs (including curtailments)	9188
-828	Estimated Unfunded Benefits Paid	-826
-13,614	Estimated Benefits Paid	-13,440
579,547	**Balance at 31 March**	**669,772**

2017/18	Reconciliation of fair value of the scheme assets:	2018/19
£000		**£000**
487,926	Opening Balance	494,034
12,717	Expected return on Assets	13,390
3,629	Contributions by Members	3,835
13,041	Contributions by the Employer	14,103
828	Contribution in respect of unfunded benefits	826
-9,665	Actuarial gains / (losses)	33,491
-828	Unfunded Benefits paid	-826
-13,614	Benefits paid	-13,440
494,034	**Balance at 31 March**	**545,413**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £669.772 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £124.359 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund’s actuary reported that, at 31 March 2017, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employer’s contribution in 2018/19 was 353% of employee’s contributions.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2017.

The main assumptions used by the actuary have been:

2017/18		2018/19
	Longevity at 65 for current pensions (Mortality):	
21.7	Men (years)	21.7
24.3	Woman (years)	24.3
	Longevity at 65 for future pensions (Mortality):	
24.7	Men (years)	24.7
27.5	Woman (years)	27.5
2.40%	Inflation / Pension Increase Rate	2.50%
4.10%	Salary Increase Rate	4.20%
2.70%	Discount Rate	2.40%

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

The Pension Funds Assets consist of the following categories, by proportion of the total assets held:

31/03/2018		Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of Total Assets
		Period Ended 31 March 2019			
	Equity Securities				
14%	Consumer	61,006.1		61,006.1	11%
15%	Manufacturing	50,934.5		50,934.5	10%
6%	Energy and Utilities	39,522.9		39,522.9	7%
9%	Financial Institutions	45,165.0		45,165.0	8%
5%	Health and Care	30,564.5		30,564.5	6%
6%	Information Technology	18,588.6		18,588.6	3%
6%	Other	68,126.6		68,126.6	12%
	Debt Securities				
0%	Corporate Bonds (investment grade)				0%
2%	Corporate Bonds (non investment grade)				0%
10%	UK Government	59,902.1		59,902.1	11%
0%	Other				0%
	Private Equity				
2%	All	257.1	5,489.9	5,747.0	1%
	Real Estate				
6%	UK Property		35,115.8	35,115.8	7%
0%	Overseas Property				0%
	Investment Trusts and Unit Trusts				
1%	Equities		5,479.6	5,479.6	1%
0%	Bonds		16,571.1	16,571.1	3%
0%	Hedge Funds				0%
0%	Commodities				0%
12%	Infrastructure	8,293.9	58,404.8	66,698.7	12%
0%	Other	865.2		865.2	0%
	Derivatives				
0%	Inflation				0%
0%	Interest Rate				0%
0%	Foreign Exchange				0%
0%	Other	134.8		134.8	0%
	Cash and Cash Equivalents				
6%	All	40,990.5		40,990.5	8%
100%	**Totals**	**424,352**	**121,061**	**545,413**	**100%**

Projected defined benefit cost for the period to 31 March 2020

Analysis of projected amount to be charged to operating profit for the period to 31 March 2020

Period ended 31 March 2019	Assets	Obligations	Net Liability / (asset)	
	£000	£000	£000	% of pay
Projected Current Service cost *		28,396	-28,396	-43.80%
Past service cost including curtailments		-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	**0**	**28,396**	**-28,396**	**-43.80%**
Interest income on plan assets	13,141		13,141	20.30%
Interest cost on defined benefit obligation		16,286	-16,286	-25.10%
Total Net Interest Cost	**13,141**	**16,286**	**-3,145**	**-4.80%**
Total Included in Profit and Loss	**13,141**	**44,682**	**-31,541**	**-48.60%**

*The current service cost includes an allowance for administration expenses of 0.3% of payroll. The monetary value is based on a projected payroll of £64.758 million.

The contributions paid by the Employer are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2018), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to March 2020 are set out in the Rate and Adjustments certificate.

Investment Returns

Actual Returns from 31 March 2018 to 31 March 2019	9.4%
Total Returns from 1 April 2018 to 31 March 2019	**9.4%**

Local Government legislation provides that Local Authorities have an obligation to meet their share the expenditure of the Joint Boards of which they are constituent members. At 31st March 2019 the liability for Pensions sits at £8.884 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

34. Contingent liability

The council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Act 2017 which removes the three-year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors some will date post-reorganisation and relate to Midlothian Council. At the current time the Council has five ongoing cases. These are currently at differing stages which range from waiting on further information from the pursuer's solicitors to cases being handled by our insurers, where the extent of our cover and the level of excess payable is being investigated. Of these ongoing cases there has been no value cited in the letter of claim and little case law to give any indication of what value might be attached to the case.

The Council was unsuccessful in its legal claim to recover its losses with regards the demolition of 64 Council Houses at Newbyres Crescent and Gore Avenue, Gorebridge due to inadequate ground gas defence systems resulting in high levels of carbon dioxide. The Council has decided not to appeal and is no longer pursuing recovery of any costs, however the Court of Appeal made an award of expenses in favour of the main defendant of £0.161 million and these have been provided for in the accounts. There is also the potential for the other two contractors involved in the legal action to seek to recover their expenses involved in defending the court action. However at this time the nature, timing and extent of any claim is unknown.

Whilst the Council has settled the majority of Equal Pay claims and made appropriate provision for those outstanding, the Council recognises the potential for additional unknown liabilities resulting from historic pay arrangements.

35. Midlothian council trusts, bequests, common good fund and community funds

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

The main funds are:

2017/18 £000		2018/19 £000
13	Dalkeith Common Good	11
2	Penicuik Common Good	2
56	Community Mining Funds	51
20	Other Funds	21
91	**Total**	**85**

A total of £0.038 million has been committed to be spent from these funds.

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

36. Post balance sheet events

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. There are two types of events:

- Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period and the Statements are adjusted to reflect such events;
- Non-adjusting events – those that are indicative of conditions that arose after the reporting period and the statements are not adjusted. Where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Any events occurring after the reporting period will be disclosed in the audited version of these accounts.

37. General Fund Balance

The following amounts have been earmarked within the General Fund Balance.

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 1 April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 1 April 2019 £'000
General Fund Balance	**-17,651**			**-10,777**			**-8,637**
Movement in Earmarked Reserves							
Scheme of Devolved Budget Management carry forwards	-3,635	3,635	-3,244	-3,244	3,244	-3,220	-3,220
Business Transformation Programme	-4,607	2,592	0	-2,015	1,571	-306	-750
Delegated to schools under the Devolved School Management policy	-1,425	1,425	-1,181	-1,181	1,181	-364	-364
Training Budget	0	0	0	0	0	-199	-199
Borders Rail	-196	196	0	0	0	0	0
Total in Earmarked Reserves	**-9,863**	**7,848**	**-4,425**	**-6,440**	**5,996**	**-4,089**	**-4,533**
Uncommitted General Fund Balance at 31 March	**-7,788**			**-4,337**			**-4,104**

38. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2018/19 (The Code) requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

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

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

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

Basis of Consolidation
Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the net assets or liabilities of each entity is incorporated and adjusted each year by the Council's share of the entities' results and its share of other gains and losses (recognised in the Group CIES). All entities have the same reporting date as the Council.

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

	Share	Share of Assets	Share of Liabilities	Share of Revenues	Share of (Profit)/Loss
	%	£000	£000	£000	£000
Subsidiaries					
Trusts, bequests, common good fund and community funds	100	85	85	-1	1
Pacific Shelf 826 ltd	100	0	41	0	2

Associates					
Lothian Valuation Joint Board	9.19	209	812	-1,034	-165
Midlothian Integration Joint Board	50	1,939	0	-70	-1489

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

Combining Entities

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

Subsidiary	Nature	Accounts Available from
Trusts, bequests, common good fund and community funds	To award grants across Midlothian.	Midlothian Council, Midlothian House Dalkeith
Pacific Shelf 826 ltd	Property Development	Midlothian Council, Midlothian House Dalkeith
Associates		
Lothian Joint Valuation Board	Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils	The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverley Court, Edinburgh
Midlothian Integration Joint Board	Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Midlothian House Dalkeith

Non-material interests in other entities

In addition to the organisations outlined above, the Council also has an interest in the following organisations:

Seemis Group LLP who provide Scottish Local Authorities with an Education Management system. Midlothian have a 1.90% interest in Seemis. Net assets at 31st March 2018 were £1.758 million which would equate to a share of £0.033 million for Midlothian.

Housing Revenue Account

Income and expenditure account

The HRA reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The Income and Expenditure Statement reports the net cost for the year and shows how these costs were funded from rents and other income. The Movement in HRA balances reconciles the financial position shown in the Comprehensive Income and Expenditure Statement to the movement in the HRA reserve for the year.

For the year ended 31 March 2019

The following statement shows how much the Council spent in fulfilling its statutory responsibility to provide, improve and manage its Housing Stock.

2017/18 £000		**2018/19 £000**	**per house per week £**
	Income		
25,861	Gross dwelling rents	27,223	76.47
815	Service Charge Income	1,158	3.25
344	Non dwelling rents	356	1.00
38	Other Income	64	0.18
27,058		**28,801**	**80.90**
	Expenditure		
5,536	Repairs and Maintenance	6,040	16.97
4,966	Supervision and Management	5,035	14.14
7,125	Depreciation of Non-Current Assets	7,511	21.10
9,330	Valuation Gain of Non-Current Assets	-72,616	-203.98
1,881	Other Expenditure	2,372	6.66
600	Increase / (Decrease) in Bad Debt Provision	50	0.14
29,438		**-51,608**	**-144.97**
2,380	**Net Cost of HRA services per the whole Council**	**-80,409**	**-225.87**
	Comprehensive Income and Expenditure Account		
250	HRA share of Corporate and Democratic Core	250	0.70
2,630	**Net Cost of HRA Services**	**-80,159**	**-225.16**
	HRA share of the operating income and expenditure included in the whole Council accounts		
-432	Loss / (Gain) on sale of HRA non-current assets	23	0.06
6,226	Interest Payable and similar charges	6,166	17.32
-207	Interest and Investment Income	-364	-1.02
123	Net Defined Benefit Liability and Expected Return on Pension Asset	99	0.26
8,340	**Deficit / (Surplus) for the year on the HRA Services**	**-74,235**	**-208.53**

Movement on the HRA Statement for year ended 31 March 2019

This statement shows how the balance for the year on the HRA Comprehensive Income and Expenditure Account reconciles to the balance for the year on the Housing Revenue Account.

2017/18 £000		2018/19 £000	per house per week £
8,340	**Deficit for the year on the HRA Income & Expenditure Account**	**-74,235**	**-208.53**
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
432	Gain/(loss) on sale of HRA non-current assets	-23	-0.06
-12,372	Transfer to/(from) Capital Adjustment Account	69,561	195.40
-510	HRA share of contributions to/from pension reserve	-524	-1.46
-4,110	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**-5,221**	**-14.65**
-29,753	**Housing Revenue Account Balance brought forward**	**-33,863**	**-95.12**
-33,863	**Housing Revenue Account Balance carried forward**	**-39,084**	**-109.77**

Notes to the Housing Revenue Account

1. General

This account reflects the statutory requirement to account for local council housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents and other income.

2. Housing Stock

At 31 March 2019 the Council had 6,846 houses (31 March 2018 6,793) which can be analysed as follows:

2017/18 Number	Type of Dwelling	2018/19 Number
878	1 Bedroom	897
3,767	2 Bedroom	3,794
1,828	3 Bedroom	1,835
310	4 Bedroom	310
10	5 / 6 Bedroom	10
6,793	Total	**6,846**

3. Rent Arrears

At the end of the year rent arrears amounted to £3.459 million (2017/18 £3.229 million) for which a provision for bad and doubtful debts of £1.650 million (2017/18 £1.6 million) exists.

4. Void Properties

The total value of uncollectable void rents for main provision properties amounted to £0.574 million (2017/18 £0.554 million).This has been netted against rental income.

Council Tax Income Account

Income and expenditure account

For the year ended 31 March 2019

Councils raise taxes from residents by way of a property tax – the Council Tax – which is based on property values. Each dwelling in a local Council area is placed into one of eight valuation bands, A to H. The Council declares a tax for band D properties and all other properties are charged a proportion of this, lower valued properties pay less; higher valued properties pay more. The Council Tax Income Account (Scotland) shows the gross income raised from Council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.

The Council Tax Reduction Scheme was introduced in 2013/14 by the Scottish Government. This scheme replaced Council Tax Benefits, with funding being provided through the General Revenue Grant. Prior to 2013/14, funding for Council Tax Benefit was provided by the Department for Works and Pensions (DWP).

2017/18		**2018/19**
£000		**£000**
52,045	Gross Council Tax levied and Contributions in Lieu	54,775
	Less :	
5,211	Discounts	5,505
4,759	Council Tax Reduction Scheme	4,832
1,398	Write-off of Uncollectable Debts and Allowances for Impairment	1,470
40,677		**42,968**
21	Adjustments to previous years Community Charge and Council Tax	-42
40,698	**Transfers to the General Fund**	**42,926**

Notes to the Council Tax Income Account

Calculation of the Council tax base for the year 2018/19

Property Bands

	A - disabled	A	B	C	D	E	F	G	H	Total
Properties	0	977	12,535	10,972	5,512	4,963	3,561	2,267	179	40,966
Disabled relief	2	38	33	-45	1	-1	-7	-19	-2	0
Less										
Exemptions		70	477	278	97	179	53	35	4	1,193
Discounts	1	145	1,422	915	379	257	116	61	4	3,299
Discounts	-	1	6	5	2	2	3	2	-	20
Other		3	19	22	13	6	3	2	1	68
Council Tax Reduction	1	233	2,399	1,376	260	109	35	18	-	4,430
Effective	1	564	8,245	8,332	4,763	4,410	3,344	2,130	169	31,957
Ratio to band D	5/9	6/9	7/9	8/9	9/9	473/360	585/360	705/360	882/360	
Band D	0	376	6,413	7,406	4,763	5,794	5,434	4,172	413	34,770
Contributions in lieu – Band D										210
Total Council Tax Base										**34,981**
Provision for non payment										-1,179
Total										**33,802**

Number of properties and charges for each band

Band	**A - disabled**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	-	564	8,245	8,332	4,763	4,410	3,344	2,130	169	31,956
£	712.78	855.33	997.88	1,140.44	1,283.00	1,685.72	2,084.87	2,512.54	3,143.35	

Non-Domestic Rates Income Account

Income and expenditure account

For the year ended 31 March 2019

The rates collected from non-domestic ratepayers during the year are shown below. Any difference between the rates collected and the amount the Council is guaranteed to receive under the National Pooling arrangements is adjusted via the Government's Revenue Support Grant to the Council. The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local Council and therefore bears no direct relationship with the amount collected by those authorities.

2017/18 £000		2018/19 £000
40,828	Gross rates levied	43,123
	Less:	
8,609	Reliefs and other deductions	9,500
513	Write-offs of uncollectable debts and allowance for impairment	554
-866	Adjustments to previous years	2,978
32,572	**Net Non Domestic Rate Income**	**30,091**
0	Non-Domestic Rate Income Retained by Authority (BRIS)	111
32,572	**Contribution to Non-Domestic Rate Pool**	**30,202**
	Allocated:	
32,641	Contribution to national non-domestic rates pool	30,083
-69	Midlothian Council	-104
32,572		**29,979**

Notes to the Non-Domestic Rates Income Account

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £28.115 million (2017/18 £29.273 million).

2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Government, and was 48p per £ (2017/18 46.6p per £) where the rateable value was less than or equal to £29,000 and 50.6 per £ (2017/18 49.2p per £) where the rateable value exceeded £51,000.

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

4. Rateable Value as at the start of the year

Number 2017/18	Rateable Value 2017/18 £000		Number 2018/19	Rateable Value 2018/19 £000
1,862	48,898	Shops, Offices and Other Commercial Subjects	1,868	48,636
937	17,258	Industrial and Freight Transport	951	17,288
302	20,705	Miscellaneous (Schools etc)	304	21,299
3,101	**86,861**		**3,123**	**87,223**

The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government.

Glossary of Terms

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

1. Gross Expenditure

This includes all expenditure attributable to the service and activity including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges.

2. Gross Income

This includes the charges to individuals and organisations for the direct use of the Council's services.

3. Corporate and Democratic Core

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

4. Non Distributable Costs

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

5. Employee Costs

This includes salaries, wages, overtime, bonus, enhancements, employer's pension and national insurance contributions, travelling and subsistence expenses and other employees' allowances.

6. Property Costs

This includes rents and rates, property insurance, repairs and maintenance of property, upkeep of grounds, heating and lighting, furnishings and fittings and allocations of central support for accommodation costs.

7. Supplies and Services

This includes food, materials, books, uniforms and protective clothing, the purchase and maintenance of equipment and tools and various services carried out by external contractors.

8. Transport Costs

This includes the costs of operating vehicles and plant such as fuel, repairs and maintenance, tyres, licenses, insurance and procurement of transport for school children.

9. Administration

This includes printing and stationery, advertising, postages, telephone costs and central support services allocations for administration.

10. Financing Costs

This includes the annual costs of financing the sums borrowed by the Council to finance its capital repayment of loans, interest charges and debt management expenses, as well as external repayments for operational leases.

11. Capital Charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

12. Payments to Other Bodies

This includes grants to individuals and organisations, bursaries and payments to other local authorities, Health Boards, Joint Boards and organisations and agencies providing services complementing or supplementing the work of the Council.

13. Capital Financed from Current Revenue

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

14. Other Costs

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

15. Specific Government Grant

This includes grants received from Central Government in respect of a specific purpose or service e.g. housing benefit, education, community regeneration and community services.

16. Capital Expenditure

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

17. Intangible Assets

These are non-financial assets that do not have any physical substance but are identifiable and are controlled by the Council through custody or legal rights.

18. Non-Current Assets

These are created by capital expenditure incurred by the Council. This includes buildings and property, vehicles, plant and machinery, roads, computer equipment etc.

19. Revaluation Reserve

The Revaluation Reserve records unrealized revaluation gains arising (since 1 April 2007) from holding non-current assets.

20. Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code.

21. Useable Capital Receipts Reserve

The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

22. Pension Reserve

This represents the difference between accounting for pension costs in line with UK Accounting Standards, and the funding of pension costs from taxation in line with statutory requirements, and is equal to the change in the pension's liability, i.e. the commitment to provide retirement benefits.

23. Associate

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

24. Entity

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

Midlothian

Lothian Buses Pension Fund
Report by Legal Services Manager

1. Purpose of the Report

The purpose of this report is to advise Members of the Audit Committee of the effect of the assimilation of the Lothian Buses Pension Fund into the general Lothian Pension Fund.

2. Background

Lothian Buses Pension Fund was established in 1986 by agreement between the then Lothian Regional Council and Lothian Regional Transport as a stand-alone sub-fund of Lothian Pension Fund with its own investments, actuarial valuation and accounts.

At local re-organisation in 1996, Lothian Regional Council's shareholding in the Lothian Regional Transport (now Lothian buses Ltd) was shared between the four Lothian Councils. Midlothian Council now therefore has a 5.5% shareholding in Lothian Buses Ltd and a consequent responsibility for 5.5% of the company's liabilities.

In 2018, the Lothian Pension Fund.sought to assimilate the stand-alone Lothian Buses Pension Fund into the general Lothian Pension Fund and as part of this exercise required all four Council shareholders to act as guarantors for Lothian Buses Ltd's contributions to the general fund.

Concerns have been raised on the effect of entering into the Deed of Guarantor on the Council.

As part of the process of agreeing the deed of guarantee, a number of concerns were raised with the Lothian Pension Fund. A note of the concerns raised and the responses received from the Fund are annexed as Appendix 1 to this report. Members are referred to the appendix for its terms but may also wish to note the following points in particular:

- The Pension Fund has confirmed that if it were to enforce the guarantee then it would pursue all 4 Council stakeholders simultaneously;
- Midlothian Council is guaranteeing 5.5% of any pensions deficit and not the whole fund
- Lothian Pension Fund operates on an arms length basis from the City of Edinburgh Council and the fund must be operated in the best interests of the stakeholders of the pension funds and not of any single Council
- The Lothian Pension Fund's Statement of Investment Principles and Funding Strategy Statement are publicly available documents and Lothian Buses Ltd is consulted on the effect of these strategies on the company

- As a shareholder, Midlothian Council can exercise its rights to influence the board of Lothian Buses Ltd to use the company's resources to make good any pension deficit.

In addition to the commentary in Appendix 1, the Lothian Pension Fund Funding Strategy Statement 2018 is also attached as Appendix 2 to this report. Section 7 of the Funding Strategy Statement specifically relates to the funding strategy for Lothian Buses Fund and this continues to apply to Lothian Buses within the Main Fund post-merger (as Lothian Buses has been unitised within the Main Fund). There is therefore no change to the investment position following the assimilation of the fund.

In terms of any increased risks to Midlothian Council following entry into the deed of guarantee, it should be noted that previously, whilst there was no formal guarantee in place for the stand alone Lothian Buses Fund, in the event of a default then the City of Edinburgh Council (as administering authority) would have looked to the four Council shareholders to make good any liability.

This is in terms of the Lothian Pension Fund's Funding Strategy Statement (appendix 2, attached) which states that, in the absence of a formal guarantee and where this is specific alignment to one or more other employers, then the pension liability of a defaulting employer will be assigned or apportioned accordingly to those other employers. The Pension Fund's position is that Midlothian Council's shareholding in Lothian Buses would offer alignment, and accordingly Midlothian Council (as an aligned LPF scheme employer) would already have exposure to this liability, even without entering into the guarantee.

On that basis, the Council's risk profile has not changed as a result of entering into the deed of guarantee.

3. Report Implications

3.1 Resource

No additional resources are required as a result of this report.

3.2 Risk

There has been no change to the Council's risk profile.

3.3 Single Midlothian Plan

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

Not applicable.

3.5 Impact on Performance and Outcomes

Not applicable

3.6 Adopting a Preventative Approach

Not applicable

3.7 Involving Communities and Other Stakeholders

Not applicable

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is asked to note the report.

Date: **10 September 2019**
Report Authors: **Alan Turpie, Legal Services Manager**
E-Mail: **alan.turpie@midlothian.gov.uk**

Midlothian comment on draft guarantee	LPF response
As drafted the Deed of guarantee and indemnity requires Midlothian to make good deficits on call, and must waive any defences if Edinburgh-controlled LBL do not use its own resources to (in the first instance) make good deficits. The Guarantee should be redrafted to clarify the agreed intentions of the parties: only if LBL (acting reasonably) cannot make good the deficits over a normal recovery period (Pensions Regulator gives guidance here) should the Guarantors be liable.	Under the guarantee, the Council shareholders undertake to pay any sums owed to LPF in connection with LBL's participation in the fund. Furthermore, LPF "*shall not be obliged to require payment from [LBL] or other responsible person or to take any other action before enforcing the terms of this Guarantee and Indemnity*" This is an important provision which relates to the value of the guarantee in protecting LPF's right to payment when it falls due. LPF needs to be able to recover from each of the guarantors in a default scenario. If LBL had any resources available, it would be up to the guarantors to exercise their rights against LBL to recover such sums and it is arguable that they would be in a better position to do so (as LBL shareholders with the ability to influence the LBL board). The shareholders' reserve power referred to in LBL's articles of association allows them to direct the directors to take specific action, which could include payment of amounts owed. LPF cannot agree to further suspend contribution payments over an extended recovery period, as the merger effectively suspends LBL's cessation liability by allowing them to fund it on an on-going (rather than a gilts) basis. In this way, LPF is already taking-on risk, but it needs a robust guarantee as a condition to doing so. The guarantee is a backstop solution and a key feature of LBL's covenant analysis. It should be noted that the Pensions Regulator does not regulate the funding aspects of the Local Government Pension Scheme. It is likely that the Pensions Regulator guidance being referred to relates to recovery plans to mitigate any under-funding, but the guarantee kicks in if LBL defaults under that recovery plan and so further extensions are not appropriate.
As drafted the Guarantees can be called (in effect) by Edinburgh without Edinburgh itself contributing. We would not have any right of subrogation so as to claim back payments, including in scenarios where the business is sold.	If LPF were to enforce the guarantee, it would do so against all 4 Council shareholders at once, and they would be responsible for their proportionate share of the sum owed. Please also refer to our response on the arms' length clause for further comfort on this. As you suggest, if one guarantor pays out but another does not, the first guarantor will have no right to pursue LBL for recovery of the amount it has paid until LPF receives full payment of the sums due and again, this is an important protection that must be included for LPF to agree to the merger. As each Council shareholder has guaranteed different maximum limits, they will contribute proportionately. Under English law, this means that if one guarantor has paid more than its pro rata share of the overall liability, it should have a right to contribution from the other shareholders, to ensure they each contribute in the same proportion. We would expect the same treatment to apply in Scotland.

Midlothian comment on draft guarantee	LPF response
As drafted there is no protection against an expansion of a deficit by adoption of differing investment, salary growth or longevity assumptions; or of the superimposition of onerous early retirement terms, commutation factors or transfer values. In fact, it has been suggested that the guarantee structure will enable a more risky (equity oriented longer term) investment policy to be adopted. This risk factor should be disclosed to the guarantors formally since it increases the likelihood of a call. I do not think Midlothian Council were informed of this economic change to the risk strategy of the pension arrangements for LBL.	To confirm, the Lothian Buses sub-fund has been invested in the higher-risk equity-based investment strategy for many years. As it is now closed and maturing, LPF, after taking advice from the actuary and investment advisers, has now decided it is no longer tenable for LBL to remain in this strategy (benefitting from lower contribution rates and a riskier investment strategy) without a stronger covenant. Otherwise, the actuary would asses LBL's contribution rate by applying a more prudent funding approach and revised (higher) contribution rates will become payable with effect from April 2019. The Heads of Finance at each of the Council shareholders have been fully briefed on the implications of the actuarial valuation results which prompted the merger proposal, including the risk-level associated with the different strategies. LPF has consulted with all stakeholders to explain the benefits of the merger and to note the implications of maintaining the status quo. LPF's Statement of Investment Principles and Funding Strategy Statement are policy documents which are publicly available. Investment strategy reviews include discussions with LBL on the impact of strategy on LBL.
It is conceivable that Edinburgh's overall commercial position and economic interest could diverge due to associated properties or other related considerations being linked to a disposal of LBL. These factors could render the making good of the deficit palatable to Edinburgh while disadvantaging the Lothians shareholders. An arms-length clause could cover this scenario.	CEC is a party to the guarantee in two separate capacities: (i) as a shareholder of LBL; and (ii) as administering authority of LPF. CEC maintains separation between these two functions on a basis which is as arms' length as it can be. That is because in its capacity as administering authority of LPF, CEC is subject to separate statutory fiduciary duties to act in the best interests of the stakeholders of the pension funds (employers and members) and the monies of LPF are statutorily ring-fenced. LPF therefore operates from a separate governance structure from the rest of CEC; based in a separate physical location, with staff employed by a separate legal entity, distinct accounting processes and with its governing bodies and business practices acting independently mindful of their separate duties and obligations under the pensions regulations. We are therefore happy to amend the draft guarantee to include a clause making this clear in the guarantee document and suggest the following wording. *Each of the parties acknowledges and agrees that (i) the matters referred to in this Guarantee and Indemnity (including the obligations and terms set out herein) have been negotiated on an arm's length basis and (ii) any actions contemplated or performed in connection with this Guarantee and Indemnity or any other matters relating thereto will be performed solely for the benefit of the Authority acting in the interests of its member and employer stakeholders in accordance with its statutory duties under the Regulations and applicable law.*
It is unclear how the sub fund or sub member group will be separately monitored as it will have	It is correct to say that Midlothian will only be guaranteeing 5.5% of the LBL deficit and not the overall fund.

Midlothian comment on draft guarantee	LPF response
to be since Midlothian is presumably under the Admission Agreement being identified as guarantor purely of 5.5 per cent of the liabilities in respect of LBL pension contributions, and not of some proportion of the overall Lothian fund.	As described in the FSS, LPF will use its employer asset tracking system based on cash flows which it has operated since April 2014. This is a form of unitisation of investments, where each investment or disinvestment of monies involves the purchase or selling of units in the fund. By sub-dividing the assets into units, the fund can more easily and accurately track each individual employer's assets. Changes in the value of the underlying assets are reflected by changes in unit prices. Such unitisation provides an efficient way of accurately apportioning assets to individual employers by allowing for employer cash flows and investment returning achieved by the fund. In addition, it provides a mechanism for facilitating and managing a range of investment strategies within the single fund to meet the need of employers with different maturity profiles, funding levels or investment objectives. This means that the Council shareholders will not be exposed to the liabilities relating to other LPF scheme employers solely as a result of the merger.
Finally it is noted that the LBL fund appears to be recently in an acceptable state, but has been volatile, recording a £20m actuarial loss in y/e 31 12 16. As drafted Edinburgh could require £1m plus to rectify this sort of position if it led to a deficit on a technical provisions basis; and even if an agreed clause states that LBL pay up first, Edinburgh could assert that the cash flow requirements of the business precluded that course of action. Since LBL has c £120 m of net assets and the present stand-alone pension fund has £470m of net assets (2016 figures) the assumption of liability for an adverse trading variance giving rise to call on guarantors is a material possibility. It is a matter on which further professional advice for the minorities would be justified. Needless to say the Companies Act and precedent would provide little or no protection in our shareholder capacity.	As a shareholder, the Councils should be exercising their rights to influence the Board to use LBL resources to make good any deficit. It will be up to the board of LBL to determine whether the cash flow requirements of the business preclude a particular course of action, and not LPF.

FUNDING STRATEGY

STATEMENT

MARCH 2018

Contents

1. Introduction

This is the Funding Strategy Statement (FSS) of Lothian Pension Fund ("the Fund"). It is prepared and maintained by the City of Edinburgh Council, the Administering Authority for the Fund, in consultation with the Fund's Actuary and following a period of consultation with participating employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

This FSS is produced in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) revised statutory guidance "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme (LGPS) 2016", which affirms the FSS as being a key part of a pension fund's risk management framework.

This statement was agreed by the Pensions Committee on 26 March 2018 and is effective from 1 April 2018. It replaces all previous Funding Strategy Statements and policies on funding.

1.1 Maintenance

The Administering Authority will review the FSS every three years in conjunction with actuarial valuations or more frequently if considered appropriate

1.2 Availability

This document is available on the Fund's website (www.lpf.org.uk). Printed copies are available on request.

2. Purpose of the Funding Strategy Statement

CIPFA's "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016" states that the purpose of the FSS "is best defined by reference to the discussion paper issued by the Office of the Deputy Prime Minister (ODPM) on 23 July 2003, 'Local Government Pension Scheme – Strategy Proposals: Stocktake Discussion Paper – Funding Strategy Statement Proposals', namely:

- to establish "a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, ….; and
- takes a prudent longer-term view of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The FSS shall also ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013, are met.

The statement and appendices set out how the Administering Authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis. Specific clarity is provided as to the Fund's policies in respect of:

- employers being admitted to the Fund;
- employers leaving the Fund (cessations);
- bulk transfers; and
- the charging for services and recovery of costs incurred.

2.1 Regulatory Framework

Pension benefits accrued by members of Lothian Pension Fund are determined by statute.

The contributions paid by the members of the Fund are fixed in the Scheme Regulations. Employers pay the balance of the cost of delivering the benefits, however, in line with the requirements of the Public Service Pensions Act 2013, the Scheme Regulations incorporate a cost sharing mechanism to ensure sustainability of the Scheme over the long term.

The FSS focuses on the pace at which employers pay for the benefits i.e. the approach used to determine contribution rates. It forms part of a framework that includes:

- the Local Government Pension Scheme) (Scotland) Regulations 2014 (as amended), the Local Government Pension Scheme (Governance) (Scotland)

Regulations 2015 and the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010;

- the Pensions Committee, the Pensions Audit Sub-Committee and the Pension Board;
- the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Fund's Annual Report, including the Annual Governance Statement, the Governance Compliance Statement and the Statement of Investment Principles.

This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

3. Aims and Purpose of the Fund

3.1 Aims of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- seek returns on investment within reasonable risk parameters; and
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to scheduled and admitted bodies, whilst achieving and maintaining fund solvency and long-term cost efficiency. This should be assessed taking appropriate cognisance of the risk profile of the fund and employers and the risk appetite of the administering authority and employers alike.

3.2 Purpose of the Fund

The Fund provides benefits to members and their dependants. The purpose of the Fund is to:

- receive monies in respect of contributions, transfer payments and investment income and recover costs and charges, pay pension benefits, transfer values and administration costs, charges and expenses; and
- make investments to meet the future costs of pension promises made to members of the Scheme.

4. Responsibilities of the Key Parties

The sound and effective management of the Fund can only be achieved if all interested parties exercise their statutory responsibilities conscientiously. Although a number of these parties, including investment managers and external auditors, have a responsibility to the Fund, the following may be considered of particular relevance to the funding strategy:

4.1 The Administering Authority should:

- operate the Fund as per the Regulations;
- collect and account for employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Scheme regulations;
- invest surplus monies in accordance with the regulations;
- ensure that sufficient cash is available to meet liabilities as and when they fall due;
- pay relevant benefits from the Fund as set out in the Scheme regulations;
- manage the actuarial valuation process in consultation with the Fund's Actuary, including providing all required data and employer covenant analysis;
- prepare and maintain a Funding Strategy Statement and Statement; of Investment Principles after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding, and amend the Funding Strategy Statement/Statement of Investment Principles accordingly;
- take measures as set out in the Scheme regulations to safeguard the Fund against the consequences of employer default;
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer;
- manage any cessation valuation in consultation with the Fund's Actuary;
- prepare and maintain admission, cessation, bulk-transfer and charging policies. The admission, cessation and charging policies are included in this document,
- enable the Pension Board to review the valuation process as set out in their Constitution; and
- fulfil all other duties as specified in Lothian Pension Fund's Pensions Administration Strategy – available in the 'Publications' section of the Fund's website www.lpf.org.uk

4.2 The Individual Employers should:

- calculate an employee's contribution rate and deduct the correct contributions from members' salaries;
- pay employee and employer contributions to the Administering Authority on a timely basis and provide appropriate supporting documentation in a format and timescale specified by the Fund;
- develop and maintain a policy where discretion can be exercised within the regulatory framework (e.g. granting enhanced benefits) bearing in mind costs;
- make additional contributions, in accordance with agreed arrangements, for example, augmentation of scheme benefits and early retirement strain costs;

- notify the Administering Authority promptly of organisation changes for example, changes in ownership or structure, TUPE transfers which could affect future funding;
- notify the Administering Authority of a possible ending of its admission agreement/participation in the Fund within the terms of that agreement or otherwise as required by the Regulations (typically a 3 month notice period is required), including closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);
- pay any exit payments due on ceasing participation in the Fund in line with provisions set out in the Fund's Policy on employers leaving the Fund (see Appendix C);
- meet costs as specified in the Charging Policy (see Appendix D); and
- fulfil all other duties as specified in the Fund's Pensions Administration Strategy. This includes provision of all data required for effective administration and record-keeping, and payment of any charges levied by the Fund following poor performance by the employer.

4.3 The Fund Actuary should:

- prepare actuarial valuations to assess the solvency of the Fund and the required employers' contribution rates;
- engage with the Administering Authority in consultation processes;
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc.;
- provide advice and valuations on the on the exit of employers from the Fund;
- provide advice to the Administering Authority as required on bonds or other forms of security against the financial effect on the fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the regulations; and
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

5. General Funding and Solvency Issues

5.1 Funding Principles

The cost of the benefits is not known in advance. The approach to funding determines the pace at which employers pay for the benefits and the ways in which the Fund ensures that it will have enough money to pay the benefits due to its members.

5.2 Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at “such level as to ensure that the scheme’s liabilities can be met as they arise”.

It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if the rates of employer contributions are set to target a funding level (assets divided by liabilities) for the whole fund of 100% over appropriate time periods and using appropriate actuarial assumptions.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

The Fund’s Actuary is required to report on the solvency of the Funds and recommend future employer contribution rates every three years. In assessing the solvency and employer contribution rates, the Actuary must make a number of financial and demographic assumptions (see below). The solvency of the Funds and the contribution rates can be very sensitive to these assumptions.

In calculating solvency, the Actuary values the benefits using the assumptions described below. Assets are taken into account at their market value.

The Regulations specify the principles which must be used in the funding strategies. However, it is the responsibility of the Administering Authority, acting on the advice of the Fund’s Actuary, to determine the precise approach and the financial and demographic assumptions to be used in the actuarial valuation.

The principal issues facing the solvency of the Funds include the ability to finance liabilities as and when they arise, the rate or volatility in the rate of contribution paid by the employers, the pace at which deficits are recovered (or surpluses used up) and the returns on the Fund’s investments.

The Fund carries out regular employer covenant reviews to gather a range of key financial and non-financial information. This includes a request for details of funding sources and for annual financial statements to be provided. In addition, membership numbers are regularly reviewed to monitor membership maturity. The results of the covenant review are used to rank employers on risk level, with details being provided to the Fund’s Actuary to inform the actuarial valuation.

As required under Section 13(4)(c) of the Public Service Pensions Act, The Scottish Public Pensions Agency has appointed the Government Actuary's Department to report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scottish Local Government Pension Scheme, so far as relating to the Fund. Such reports must be made following each triennial valuation of the Fund.

When developing this Funding Strategy, the Administering Authority has had regard to the review under Section 13(4)(c).

5.3 Long term cost efficiency

The notes to the Public Service Pensions Act 2013 state "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time".

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, the review under Section 13(4)(c) may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

5.4 Financial Assumptions and Link to Investment Strategies

The key financial assumption in calculating the solvency and contribution rates is the rate of return which will be achieved on the Funds' investments. The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns (resulting from the investment strategy). To the extent that investment returns may be lower than expected, then higher contributions may be required from employers, and vice versa. Hence, the funding and investment strategy are inextricably linked.

The expected return is based on the yield on UK government bonds (gilts) at the time of the actuarial valuation. If appropriate, allowance is made for the fact that the investment strategy includes assets other than gilts which are expected, over the long term, to deliver a higher return for the Fund.

The discount rate(s) adopted in the actuarial valuation is derived by considering the expected rate of investment return which is anticipated to be achieved by the underlying investment strategy.

The Funds invest in assets other than gilts in order to reduce the cost to the employers in the long term, subject to the alignment to the expected duration and admission basis of the individual employer's membership. However, the investments are not guaranteed to deliver returns in excess of gilts. This means that the funding level can be volatile, particularly in the short term. In order to minimise the degree of short-term change in employer contribution rates, expected investment returns are considered over the long term.

The Pensions Committee is responsible for setting investment strategies after taking professional investment advice.

A formal review of the Funds' investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. This is typically after the results of the triennial Actuarial Valuation are known and the Pensions Committee is responsible for agreeing that the strategies are appropriate. Implementation of the investment strategies is delegated to the Executive Director of Resources of the City of Edinburgh Council, under the advice of the Investment Strategy Panel.

The Panel comprises the Chief Executive Officer and Chief Investment Officer of Lothian Pension Fund together with a minimum of two external, independent expert advisers. The Panel meets quarterly to monitor the risk, return and implementation of investment strategy, and to discuss current issues, including asset allocation. This involves an appraisal of the current investment market opportunities and risks and the distribution of the Funds' investments across different assets, countries, sectors and companies to ensure that overall risk is being managed appropriately.

Further information on the investment strategies can be found in the Funds' Statement of Investment Principles which is available on the Fund's website (www.lpf.org.uk).

5.5 Demographic Assumptions

The Actuary makes a number of demographic assumptions including mortality, salary growth, rates of retirement, commutation experience and withdrawal. They are intended to be best estimates of the future experience of the Funds.

The assumptions take into account the past experience of the employer and Funds, other Local Government Pension Schemes and/or the general population, as considered appropriate by the Actuary.

5.6 Contributions

Employee contributions are determined by the Local Government Pension Scheme (Scotland) Regulations 2014. A member's contribution rate is calculated by the employer on an annual basis, dependent on their actual pensionable pay at 31 March each year and allowing for any election made under Regulation 10 (50:50 option).

Employer contributions are calculated by the Fund Actuary. They are made up of two elements:

A the primary rate of the employers' contribution. This is the contribution rate required to meet the cost of the future accrual of benefits expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer, the actuarial method chosen and/or the employer's covenant, and,

B the secondary rate of the employers' contribution. This is an adjustment to the primary rate to arrive at the rate each employer is required to pay. If there is a surplus, there may be a contribution reduction, if there is a deficit there may be a contribution increase. For all employers, contributions to cover any deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll. The period over which any funding deficit or surplus is spread for each Fund is covered further in Sections 6, 7 and 8 below. Any deficit contributions should be paid in equal monthly instalments along with the primary rate contributions, or by prior arrangement as a one off lump sum at the start of the year.

For any employer, the rate they are required to pay is the sum of the primary and secondary rates.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. The contributions stated are minimum amounts – employers can pay more than this. The Actuary will take account of any higher amounts paid at subsequent valuations.

All employers are required to pay the estimated additional cost (strain cost) of **non-ill health early retirements**, to allow for the fact that the pension is paid earlier and for longer. This is calculated at the time of the early retirement. The Fund's general policy is that strain costs are payable as a one-off payment at the time of the early retirement, however at the Fund's discretion, alternative arrangements may be permitted if the early retirement occurs at the time of cessation, depending on the employer's circumstances.

The Administering Authority monitors the actual contributions received to ensure they are in line with those expected. As set out in the Fund's Pensions Administration Strategy, employers are expected to provide requisite detailed information on a monthly basis to assist this monitoring exercise and to substantiate the payments made.

6. Funding – Scottish Homes Pension Fund

Scottish Government acts as guarantor to the Scottish Homes Pension Fund. A bespoke funding strategy has been developed for the Scottish Homes Pension Fund. This has been agreed by the Administering Authority, the Fund's Actuary and the Scottish Government (previously known as the Scottish Executive).

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The funding strategy is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time, with a reducing allocation to equities over time reflecting the requirement of the Scottish Government to lock away any surpluses that may occur over time by accelerating the transfer into bonds.

7. Funding – Lothian Buses Pension Fund

The Lothian Buses Pension Fund closed to new members in 2008 and the liabilities are expected to mature over time.

The objectives of the funding strategy include:

- to ensure solvency of the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- reduce the risk of the investment strategy over time;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment

When determining employer contributions at the triennial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions. In doing so, the Fund will aim to achieve the objectives of the funding strategy.

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change. The Administering Authority in consultation with the Fund's Actuary decides how any reductions or increases to contribution rates are introduced.

8. Funding – Lothian Pension Fund

8.1 Objectives of the Lothian Pension Fund's Funding Strategy

The objectives of the funding strategy include:

- to ensure the long-term solvency of the overall Fund;
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

8.2 Investment Strategy

The Fund has put in place three investment strategies for differing employer risk profiles.

Primary Strategy

This strategy adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer.

This strategy applies to the following types of employers:

- Large employers with enduring membership which are open to new entrants (including but not limited to Councils and other statutory bodies);
- Transferee Admitted Bodies;
- Employers part of the small employer 'pool' and
- Employers admitted to the Fund following a transfer of staff from another Fund employer and the ceding employer has agreed the employer can be treated as Transferee Admitted Bodies for funding purposes.

Other than employers which are part of the small employer 'pool', Employers invested in the Primary Strategy will have individual contribution rates certified by the Actuary.

Lower Risk Strategy

This strategy adopts a lower-risk approach for employers which have a short expected duration in the Fund and invests in index-linked government bonds to reduce the degree of short-term change in funding level and employer contribution rates in the period prior to the employer leaving the Fund and hence manage risks for both the individual employer and for the Fund as a whole.

This strategy was first introduced with effect from 1 April 2015.

This strategy applies to the following types of employers:

- Employers who have left the Fund (excluding bodies which may be aligned);
- Employers which are closed to new entrants and:
    - Have fewer than five active members and/or
    - Average membership age of 55 or higher.

Such employers will have individual contribution rates certified by the Actuary.

Medium Risk Strategy

This strategy adopts a balanced investment strategy reflecting the maturing membership and liability profile of the relevant employers. It is intended to act as a transition between the Primary Strategy and the Lower Risk Strategy, for those employers which are closed to new entrants. Accordingly, investments will be targeted to represent 50% allocation from the Primary Strategy and the Lower Risk Strategy. This will serve to reduce the degree of change in employer contribution rates which would result from moving immediately from the Primary Strategy to the Lower Risk Strategy. This strategy was first introduced with effect from 1 April 2018.

This strategy applies to the following types of employers:

- Employers which are closed to new entrants but do not meet the criteria for Strategy 2.

Such employers will have individual contribution rates certified by the Actuary

Allocation to strategies

Relevant employers will move between strategies as appropriate following the 2017 valuation on 1 April 2018.

An employer will change to an alternative Strategy with immediate effect between valuations in the following situations:

- An employer part of the small employer pool closing to new entrants will move to Strategy 2 or 3 as appropriate;
- An employer part of Strategy 3 which falls below five active members will move to Strategy 2.

In these circumstances, the Actuary will provide revised employer contribution rates.

Where an employer has closed to new entrants, it will not be able to reverse this decision and offer membership to new staff without the agreement of the Administering Authority and where applicable, the body acting as guarantor.

The Fund may consider a request for an employer to be assigned to an alternative investment strategy to that which strict application of the criteria would indicate, but only in circumstances where a higher risk strategy is supported by an explicit guarantor and/or where the Fund would not consider such to represent a scenario of greater risk exposure to other employer(s). The Fund may also consider a request for a riskier investment strategy should provision of satisfactory security over assets be offered.

It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

8.3 Employer Asset Tracking

The Lothian Pension Fund is a multi-employer fund. Previously, individual employer asset shares have been calculated triennially at formal valuations by the Fund's Actuary using an analysis of surplus technique and tracked between valuations using a cash flow or roll forward approach. However, in order to enhance the transparency, accuracy and auditability of individual employer asset allocations and reduce any cross-subsidy between participating employers, from 1 April 2014 the Fund introduced an employer asset tracking system based on cash flows. This is a form of unitisation of investments, where each investment or disinvestment of monies involves the purchase or selling of units in the fund. By sub-dividing the assets into units, the fund can more easily and accurately track each individual employer's assets. Changes in the value of the underlying assets are reflected by changes in unit prices.

Such unitisation therefore provides an efficient way of accurately apportioning assets to individual employers by allowing for employer cash flows and investment returns achieved by the Fund. In addition, this provides a mechanism for facilitating and managing a range of investment strategies within the single Fund to meet the needs of employers with different maturity profiles, funding levels or investment objectives.

8.4 Grouping

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change and enhance affordability. The Administering Authority, in consultation with the Fund's Actuary decides how any reductions or increases to contribution rates are introduced, taking into account specific employer circumstances.

The **large employers** in the Fund are required to fund the benefits of their own employees; the Actuary calculates a different contribution rate specific to each large employer.

Individual contribution rates will also apply to:

- Transferee Admission Bodies;
- employers who have closed membership of the LGPS to new entrants;
- other small employers who do not qualify for inclusion in the pool due to the funding level criteria (see below); and
- those employers admitted to the Fund owing to the transfer of members from another Fund employer and the ceding employer has agreed to the treatment of the employer as a Transferee Admission Body for funding purposes (unless, by exception, the ceding employer and Administering Authority are content with the body being included within the smaller employer "pool", as described below).

Other **smaller employers** who are grouped together for the purposes of calculating contribution rates at the actuarial valuation. This grouping provides some protection against changes in the contribution rate of a small employer from one actuarial valuation to the next.

Criteria are set for the purpose of determining which employers should be part of the Pool in order to manage the risk for both the individual employer and for the Fund as a whole. The Administering Authority has ultimate discretion in determining whether or not an employer joins and remains in the Pool and may remove an employer from the Pool if its experience or characteristics are extreme or untypical compared to other employers in the Pool. To be included, an employer should:

- have fewer than 100 total members and/or;
- an average full time equivalent annual salary of less than £40,000;
- have a funding level of at least 80% at each of the current and previous actuarial valuations;
- be open to new entrants, including not being "deemed closed". Any employer who does not admit any new entrants within a reasonable period is deemed to be closed to new entrants. For the purposes of this statement, a reasonable period is an inter-valuation period (i.e. three years between formal valuations of the Fund). Any employer who elects to close to new entrants will be excluded from the Pool. Any employer classed as 'deemed closed' which takes on new staff who join the Scheme will revert to the Open Rate with immediate effect;
- have its membership of the Pool be supported by any guarantor or aligned body.

The Pool criteria and individual employer's participation in the Pool will be reviewed at each valuation. For example, if a small employer's funding level has recovered, it will re-join the Pool and pay the appropriate Pool contribution rate at the next valuation.

8.5 Contribution Stability

The policy of the Fund is to operate a Contribution Stability Mechanism on an ongoing basis, subject to regular reviews, in order to provide certainty of pension contributions to Fund employers for future years, together with ensuring appropriate assurance of funding level to the Fund. Contribution stability will not be offered to all employers – each employer's particular circumstances will be considered, in particular the strength of the covenant offered and the extent of membership commitment to the Fund. Employers are not obliged to participate in the Contribution Stability Mechanism, but if they wish to opt out, they must make an election at the outset. This election will cover the entire duration of the current Contribution Stability Mechanism (6 years from the 2014 actuarial valuation) as well as future reviews of the Contribution Stability Mechanism. Any decision to allow an employer to join the Contribution Stability Mechanism at a later date will be at the discretion of the Administering Authority.

An employer which chooses not to participate will instead pay the theoretical contribution rate as set by the Fund Actuary at the actuarial valuation.

Employers which are open to new entrants and have contribution rates calculated based on their individual circumstances will be offered contribution stability subject to

- satisfactory assessment of the employer covenant, and;
- agreement by their guarantor to inclusion of the employer in the contribution stability mechanism (where appropriate).

An employer's participation in the Contribution Stability Mechanism is expected to extend to the full duration of the mechanism. However, contribution stability will be subject to ongoing review by the Fund which reserves the right to remove an employer from the Contribution Stability Mechanism should particular circumstances deem it prudent to do so, for example assessment of employer covenant, financial or demographic experience. In addition, if an employer closes to new entrants they will be removed from the Contribution Stability Mechanism and a recalculation of their contribution rate may be required.

Contribution stability will not be afforded to the following employers:

- Employers which are closed to new entrants;
- Transferee Admission Bodies; and
- Community Admission Bodies which are part of the Pool.

Full information on the Contribution Stability Mechanism is available on the Fund's website.

The Fund has, in conjunction with the Actuary reviewed the Contribution Stability Mechanism introduced at the 2014 valuation. This review concluded that the Contribution Stability Mechanism remains appropriate for long-term secure employers at the 2017 actuarial valuation, however the valuation should set contributions only for the following three years (from 1 April 2018). However, to reflect financial prevailing circumstances at the 2017 actuarial valuation, contribution rates for stabilised employers from 1 April 2018 will either:

- remain frozen (if rates on the Contribution Stability Mechanism were due to reduce; or
- increase by a maximum of 0.5% per annum.

The Actuary recommended that a full review of the Contribution Stability Mechanism be undertaken before the next triennial valuation in 2020. Pensions Committee approved the recommendations made by the Actuary.

8.6 Deficit/Surplus Spreading

In deciding the period over which any funding deficit or surplus is spread, the Administering Authority considers a number of factors including the objective of minimising the degree of short term change in employer contribution rates and employers' ability to meet their commitments to the Fund.

The deficit recovery periods used for different employers range from 20 years for Councils, to the remaining contract period for Transferee Admission Bodies which can in some cases be a matter of months. The differences in deficit recovery periods reflect the financial strength of the employers and the perceived long-term commitment to the Fund.

The following table shows the employers in the Fund for which are required to fund the benefits of their own employees, setting out the key characteristics of each type of employer which influence the period over which any surplus/deficit has been spread.

Where an employer can offer security over assets or otherwise improve their covenant, the Fund may, at its discretion, allow a longer recovery period to be used.

	Employer	Deficit Recovery Period (Years)
Councils/Large Scheduled bodies	City of Edinburgh Council	20
	Midlothian Council	
	West Lothian Council	
	East Lothian Council	
	Scottish Fire & Rescue Service (Civilians)	
	Scottish Police Authority	
	Lothian Valuation Joint Board	
	Scottish Water	
	Lothian Buses	FWL [1]
Universities / Colleges	Heriot-Watt University	15
	Newbattle Abbey College	
	Queen Margaret University College	
	Napier University	
	Edinburgh College	
	West Lothian College	
	Scottish Rural University College	FWL [1]
	University of Edinburgh	
Other Large employers	Audit Scotland	15
	Barony Housing Association	
	Convention of Scottish Local Authorities	
	Visit Scotland	
	West Lothian Leisure	FWL[1]
	Edinburgh Leisure	
	EDI	
	CHAS	
	The Improvement Service	
	SESTRAN	
Transferee Admission Bodies		Shorter of FWL [1] or contract period
Other employers (including Small employer 'Pool')		FWL[1]

[1] Future Working Lifetime of current active members or duration in Fund if shorter

8.7 Admission Bodies – Affordability constraints

As noted in section 5.6 above, the Actuary certifies minimum contributions which each employer is required to pay. In circumstances where an employer's membership of the Fund is not mandated by Regulations and that employer is unable to meet the minimum certified contributions, then its membership will be terminated, with notice period of three months being applied by the Fund.

At each valuation, therefore, every employer will require to confirm its commitment to meet the certified minimum contributions, otherwise, following the notice period as specified above, the Administering Authority will terminate the admission agreement, and Appendix C: "Policy on employers leaving the Fund" will apply. Specifically, the Fund will arrange for a cessation valuation to be carried out to assess the level of the employer's liabilities. The Fund will then engage with the employer on repayment of any cessation debt.

8.8 Post Valuation Adjustments

When determining future employer contributions at the triennial actuarial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions referred to above. In doing so, the Fund will aim to minimise the degree of short-term change in employer contribution rates while still ensuring the long-term solvency of the overall Fund.

The contribution rates are subject to review and change if there are changes in employer circumstances between actuarial valuations, for example, if an employer has closed to new members or has left the Fund. In the latter case, any residual liability may impact upon the rate(s) payable by employer(s) remaining in the Fund. In all instances, any such changes would be determined by the Administering Authority and require certification by the Fund Actuary.

8.9 Employers Joining the Fund

Appendix A sets out in full the Fund's policy on employers joining the Fund.

Bodies applying to join the Fund will be provided with a copy of this Statement and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

8.10 Employers Leaving the Fund

Appendix C sets out in full the Fund's policy on employers leaving the Fund in any of the following circumstances:

- When the employing authority is wound up or liquidated;
- When the last active member leaves or retires from an employer;

- When the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- In the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed and;
- In the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy can no longer contribute to the Local Government Pension Scheme.

Where an employer has an active admission agreement, but no active members and no new members will join in the future, then the admission agreement will be terminated and actions detailed in Appendix C will apply, other than where specific provision exists in the admission agreement for such circumstances.

8.11 Bulk Transfers

The treatment of bulk transfers of pension rights to and from the Fund are detailed in Appendix B.

9. Key Risks and Controls

The Administering Authority has an active risk-management programme in place. The risk register is reviewed periodically with a quarterly summary provided to the Pensions Committee. The following extract from the risk register, with Impact and Likelihood for each risk scored on a scale of 0-10, highlights those risks which can be considered of particular relevance to the funding strategy:

Risk	Existing controls	Impact	Likelihood	Current Risk
Adverse Investment performance leading to pressure on employer contributions	• Regular actuarial valuations & review of funding strategy, including longevity assessment. • Regular asset liability studies. • Frequent performance assessment by Investment Strategy Panel. • Bespoke investment strategy offered to employers.	5	4	20
The collapse of an Employer body member, leading to pressure on other employers	• Improved and enhanced Admissions Policy including use of guarantees. • Regular contact with employers. • Education to improve understanding, including grant funding implications. • Employer covenants review. Membership and employer monitoring • Funding Strategy now consistent with cessation policy • Funding agreements in place for payment of cessation debt	4	8	32
Employers make HR decisions without considering the impact on the pension fund	• Monitoring via actuarial valuation. • Employer training programme. • Communications - employer bulletin and employer events programme • Individual employer contribution rates. • Pensions Administration Strategy. • Funding Strategy Statement. • Staff Training. • Membership monitoring • Take note/action when last active member leaves or retires.	4	4	16
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	• Regular actuarial valuations and review of funding strategy, including longevity assessment. • Pooling for small employers to reduce volatility. • Regular contact with employers. • Contribution stability in place • Monitoring of Transfer-Out volumes and processes. • Scheme cost monitoring by the Scheme Advisory Board • Scrutiny through data quality team.	5	7	35

Lothian PENSION FUND

Appendix A: Admission Policy

1. Background

The Local Government Pension Scheme (LGPS) (Scotland) Regulations contain powers for the City of Edinburgh Council (CEC) to admit bodies into the Lothian Pension Fund. Those bodies must meet certain conditions, generally relating to their purpose and aims, contained in the regulations before being considered for admission.

This document sets out the policy of CEC as Administering Authority of Lothian Pension Fund (‘the Fund’) in applying discretion to admit, on application, a new body into the fund for the purposes of allowing employees of that body access to the LGPS.

This policy will be reviewed as and when considered necessary.

2. General application of discretion to admit new bodies

The Pensions Committee of the City of Edinburgh Council (CEC), as the executive body responsible for the administering authority function, delegates power to approve or reject applications to the Executive Director of Resources.

The Executive Director of Resources will consider all applications from bodies who meet the conditions of the scheme regulations. In making his decision, due weight will be given to the merit of the body’s financial covenant.

Approved applications will be subject to the conclusion of an admission agreement containing the appropriate matters prescribed in scheme regulations. Appropriate legal advice will be obtained in drafting and concluding admission agreements.

The body will be provided with a copy of the current Funding Strategy Statement of the Fund and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

A bi-annual report will be submitted to the Pensions Committee providing details of the delegated decisions made during the year.

3. Policy in relation to Bodies admitted following the transfer of services from a Scheme Employer (TABs)

Such organisations will be admitted, subject to the conclusion of an admission agreement between CEC, the scheme employer (where different) and the TAB. The Scheme employer will also be required to act as a guarantor and undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or at the cessation of the contract.

4. Policy in relation to other admission bodies

The applying organisation must provide documentary evidence of their:

- aims and objectives;
- articles of association;
- latest annual accounts; and
- future income streams including the source and timing.

The organisation will be expected to find a guarantor who will undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or cessation of the admission agreement. The body must supply documentary evidence of the guarantee obtained and, where considered necessary by CEC, of the financial security of the guarantor.

Appendix B - Bulk Transfer Policy

1. Introduction

This is the policy of Lothian Pension Fund (“the Fund”) as regards the treatment of bulk transfers of pension rights to and from the Fund.

These procedures and policies apply to employers participating in the Main Fund and the Lothian Buses Pension Fund**.**

1.1 Regulatory Framework

The Local Government Pension Scheme (Scotland) Regulations 2014 outline the general framework for employees and employers participating in the Local Government Pension Scheme in Scotland.

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employees transferring rights.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

2. Principles

2.1 Overriding Principles

The purpose of bulk transfer negotiations is to determine the amount of service credits to be awarded and transfer payment to be paid when a number of members transfer their benefits from one pension scheme or Fund to another.

On transfers out from the scheme, it is the Fund’s general policy that the bulk transfer amount should not leave the Fund (and the specific employer concerned) with insufficient assets to meet the remaining members’ liabilities. Further, where possible, all bulk transfers should be “cost neutral” for the ceding employers, i.e. there should be no financial impact on them, positive or negative, based on the ongoing valuation basis.

On transfers in from another scheme, it is the Fund’s general policy that bulk transfers be treated in the same manner as a transfer out.

However, it should be noted that if a deficit arises as a result of a bulk transfer, either into the Fund or out of the Fund, the employer may, at the discretion of the Administering Authority, be required to repay this deficit as a lump sum or, depending on their financial circumstances, through their ongoing contribution rates.

On transfers from one Fund employer to another existing Fund employer, assets equal to 100% of the transferring liabilities will be notionally transferred, unless otherwise agreed.

On transfer from one Fund employer to a new Fund employer, the following principles will apply:

- A fully funded transfer, on the ongoing valuation basis, will be notionally transferred to the new employer, if the new employer is a TAB, unless otherwise agreed; and
- A share of deficit transfer, on the ongoing valuation basis, will be notionally transferred to the new employer for all other types of employer, unless otherwise agreed.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. Whilst employer contributions may be pooled in the interests of stability and administrative ease for the purpose of triennial funding valuations the individual funding position for each employer is tracked by the Actuary at each triennial valuation.

Any transfer of pension rights may have an effect on the valuation position of the employer and an individual contribution rate may be calculated depending on the effect of the transfer.

2.3 Principles for Determining Payment

The Fund will determine the transfer payment and service credits having taken actuarial advice.

The assumptions proposed / accepted by the Actuary are to be, at a minimum, as strong as those set as at the latest formal valuation of the Fund updated for financial conditions on the date of transfer.

For transfers out of the scheme, the transfer amount will be set equal to the value of benefits accrued to the transfer date for transferring members based on the agreed transfer basis, adjusted to take account of any underfunding in the transferring employer's share of the Fund such that the maximum transfer value is not greater than the reserves held for the transferring members. This approach is known as a 'share of fund' or 'share of deficit' approach.

If, as a result of the transfer out, the employing authority within LPF no longer has any active membership, then a cessation valuation may be triggered. If this is the case, the transfer value may be adjusted such that the reserves of the employer, following transfer, are equal to the value of the remaining deferred pensioner and pensioner benefits within the scheme on the appropriate cessation basis as outlined in the Fund's cessation policy.

For transfers in from a funded scheme, the actuary will be instructed to agree terms where the minimum transfer amount from the ceding scheme should be cost neutral to that scheme. This approach is consistent to the calculation of the transfer amount if there was a transfer out of LPF. If the transfer is from an unfunded scheme, the actuary will be instructed to ensure the transfer value is equal to the value of transferring benefits based on the ongoing valuation basis of LPF based on financial conditions at the date of transfer.

There is normally a lag between the date of the actual transfer of staff and the date of payment. During this period, on transfers out, the agreed transfer value will be adjusted by a factor determined by an estimate of the movement in the investments as determined by the asset allocation of the Fund (or sub-Fund if appropriate) and the respective market indices.

This method of rolling up the transfer payment is to be recommended for incoming bulk transfers as well.

3. Process

3.1 Responsibilities of ceding/receiving employers

An employer which is aware of a transfer from or into the Fund is required to:

- advise the Fund, in writing, of the transfer. This communication should indicate where members are transferring to/from and how many members will potentially transfer;
- provide information and data as requested by City of Edinburgh Council and the actuary to the Fund which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements), contact details for the ceding/receiving scheme, etc.; and
- assist in the administration of option forms to transferring members as and when required.

3.2 Responsibilities of Administering Authority

The Administering Authority will gather information as required, including, but not limited to, the following:

- details of the transfer – where are members transferring to/from, how many members are involved and (where a transfer out to a non-LGPS scheme) if the receiving scheme is broadly comparable to the LGPS;
- complete membership data for the transferring members;
- commission the Fund actuary to carry out bulk transfer negotiations where necessary;

- where applicable, liaise with the employer and ensure they are aware of their responsibilities, in particular for any residual deficit or risk associated with the transfer; and
- ensure that payments or receipts of transfer value payments are carried out on the agreed dates.

3.3 Responsibilities of the Actuary

Following commission of bulk transfer negotiations by the Administering Authority, the Fund Actuary will:

- on notification of the transfer, ensure that the data and information required is collated;
- propose / agree assumptions and transfer values based on the policies set out by Lothian Pension Fund;
- propose / agree service credits in line with relevant legislation and policies; and
- negotiate and agree the final transfer payment date and amount.

Appendix C: Policy on employers leaving the Fund

1. Introduction

This is the policy of Lothian Pension Fund ('the Fund') as regards the treatment of employers of the Fund.

This policy replaces all previous policies on employer termination and is effective from 1 April 2015.

1.1 Scope of Policy

This policy covers employers leaving the Fund in any of the following circumstances:

- when the employing authority is wound up or liquidated;
- when the last active member leaves or retires from an employer;
- when the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- in the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed; and
- in the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy determines that members can no longer contribute to the Local Government Pension Scheme;

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Scheme Regulations relevant to employers leaving the Fund.

2. Principles

2.1 Overriding Principles

If an employer leaves the Fund, or their admission agreement is otherwise terminated, the Administering Authority will instruct the Fund's Actuary to carry out a valuation of that employer's liabilities (a 'cessation valuation').

Payment of any deficit does not guarantee that the assets in the fund will be sufficient for the liabilities in the future: the actual cost of benefits will only be known after the last dependant dies and there is a risk that the amount estimated in the cessation valuation does not cover the actual cost of the liabilities. In this situation, the Fund would seek recourse from the body which acted as guarantor to the employer, or alternatively the body which the employer was aligned.

The basis used to carry out such a valuation will depend on the circumstances of the change. The Fund's general policy is that the valuation will be carried out on a more prudent basis than that used in the ongoing actuarial valuation. However the Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date.

The employer, successor body and/or guarantor may be required to pay additional contribution(s) or capital payments to the Fund.

In normal circumstances, the Actuary will use the following assumptions for the cessation valuation:

- A discount rate equivalent to the gilt yield at the date of the cessation, with no allowance for outperformance of investments;
- An increase in the liabilities by 5% reflecting anticipated additional future improvements to life expectancies (over and above the ongoing valuation assumption); and
- Other assumptions would be consistent with the most recent actuarial valuation.

However, where the employer leaving the Fund is a Transferee Admission Body or if an employer was admitted owing to the transfer from another Fund employer (and the ceding employer has agreed to the treatment of the employer as a Transferee Admission body for funding purposes), the ongoing basis will be used. On joining the Fund, Transferee Admission Bodies are set up on a fully funded basis with contribution rates calculated based on the duration of the contract in order to reduce the likelihood of a deficit arising on leaving.

If an employer becomes insolvent and it, or its guarantor, is unable to meet any deficit, additional contributions will be required from each remaining employer in the Fund, in proportion to their liabilities. This means that the majority of any deficit will fall on the large employers. However, where it has been established that there is a specific alignment to one or more other employers, then the pension liability will be assigned or apportioned accordingly to those other employer(s).

In the event of a Transferee Admission Body leaving the Fund and being unable to pay additional contributions to the Fund, the employer granting the contract will be liable for the additional contributions or capital payments.

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue guarantor, for payment where appropriate.

It is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

2.2 Principles for Determining Payment of Cessation Debt

The Administering Authority will determine the deficit/surplus attributable to the employer on cessation having taken actuarial advice.

If the employer is in surplus, there is no mechanism by which this surplus can be repaid by the Fund. If an employer is aware that it will be leaving the Fund for any reason in the near future, it should alert the Administering Authority as soon as it is aware and request a valuation as required under the Scheme regulations. If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. The Administering Authority will monitor potentially affected employers in order to reduce the risk that an irrecoverable surplus is left in the Fund. In particular, the Authority will carry out periodic reviews of Transferee Admission Bodies whose contract is due to end before the next triennial valuation.

If it is determined that there is a deficit and the employer will be required to make a payment to the Fund, the administering authority will advise the employer of the amount required. The Fund's general policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund. In exceptional circumstances, and where it considers that this does not pose a material risk to the solvency of the Fund, the Fund may consider:

- allowing payment of cessation debt over longer terms rather than insisting on payment as a one-off payment or over shorter terms previously agreed;
- agreeing repayment of debt less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and
- seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values.

The Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date. In this instance, interest at a rate advised by the Actuary will be applied to determine the appropriate payments to be made.

Adopting such principles would protect the interests of the Fund as a whole.

Appendix D Charging Policy

This appendix sets out Lothian Pension Fund's policy on meeting the cost of actuarial fees and other service costs which are recharged to employers. It covers the main circumstances where fees are payable, but is not exhaustive.

The Fund will obtain the consent of the employer or member before carrying out any work which is likely to lead to fees being recharged.

1. Costs recharged to Scheme members

The costs of general pension administration are not recharged to members of the pension fund. However costs associated with complex pieces of work, as well as costs of providing certain other confirmation may be recharged. This includes (but is not limited to) the following:

- costs associated with providing valuations under the Family Law (Scotland) Act 1985;
- costs of implementing pension sharing orders;
- costs of providing further cash equivalent transfer values where this information has already been provided once in the last twelve months; and
- costs of appointments with the Fund's independent medical advisers where appointments have been repeatedly missed without good reason, or where habitual requests for assessment are received without new medical evidence.

Details of the costs payable can be found on the Fund's website (www.lpf.org.uk). These costs will increase annually each April by CPI over the 12 months to the previous September.

2. Costs recharged to Scheme employers

Employers should always contact the Fund in the first instance to establish whether fees will be recharged for any administration process or obtaining professional advice, and to obtain an estimate of likely fees.

Actuarial charges will be met by Lothian Pension Fund where the work is common to all or most employers, or where the work is required by the Scheme regulations and the employer has no choice whether the work is carried out.

However, where work is carried out or advice obtained at the request of a single or small number of employers, is not required by other employers, and is not a regulatory requirement, then the charges for that work or advice are generally recharged to the employer(s) concerned.

The schedule below sets out these activities for which fees will be charged to the Fund and those that will be recharged to the commissioning employer.

3. Schedule

3.1 Actuarial Fees

Activities for which Lothian Pension Fund should be charged:

- all matters relating to the triennial actuarial valuation, except additional work done at the direct request of an individual employer;
- interim actuarial valuations if and when the Administering Authority require such valuations;
- actuarial advice regarding questions concerning the interpretation of Scheme Regulations and matters pertaining to the administration of Fund benefits;
- preparation for and attendance at the Fund meetings; and
- any other matters which affect, or are likely to affect all or a significant number of Fund employers.

Activities for which actuarial fees will be recharged to an employer:

- extra, non-standard triennial actuarial valuation work done for and at the direct request of an individual employer;
- a common actuarial service used by most employers is the provision of figures for IAS19/FRS17/FRS102 accounting disclosure purposes. As this information is for the benefit of individual employers and not the Fund itself, the relevant costs are recharged to the individual employers;
- interim valuations where these are not a requirement for all employers but are either: -
  - required by an employer's admission agreement or;
  - not required but specifically requested by the employer concerned;
- calculations etc. in respect of the admission of a new Fund employer;
- Best Value and other outsourcing calculations and consequent interim valuations;
- where an employer has been admitted to the Fund and is required to provide a bond or indemnity to meet any shortfall in funding in the event of the employer ceasing to participate in the Pension Fund, the cost of assessment and subsequent annual reassessment of the value of the bond or indemnity;
- assessing whether a potential/actual contractor's pension arrangement is "broadly comparable" to the Local Government Pension Scheme;
- any other interim valuations for an employer that is required through some action, or failure to act, by that employer;
- bulk transfer work in respect of transfers out of or into the Fund;
- cessation valuations; and
- any other charges specific to one employer, or specific to such a small number of employers that it would be unreasonable to spread the cost between the membership as a whole. Where a number of employers are involved, the charges will be proportioned in light of the circumstances of the case.

Lothian PENSION FUND

3.2 Other charges

In addition to recharging actuarial fees as specified above, certain requests which result in:

- additional administrative work and advice over and above the norm;
- complex calculations;
- specific work for high earners; and
- the requirement for the Fund to seek advice or commission work from other providers e.g. lawyers will be charged to employers on a full cost recovery basis where this work is specific to one employer or specific to such a small number of employers that it would be unreasonable to spread the cost across all employers. Where more than one employer is involved, charges will be proportioned depending on the circumstances of the case.

Activities for which fees will be recharged to an employer:

- disclosure of information relating to Senior Officers and Councillors for inclusion in Local Authority Accounts:
  - provision of Cash Equivalent Transfer Value calculations and appropriate pension benefit calculations;
  - charges applied per case;
- setting up an Admission Agreement with the Fund for new employers joining the Fund;
  - costs to cover legal fees incurred by the Fund in drafting and finalising the Admission Agreement;
  - See note 1 below;
- attendance at meetings and associated work in connection with Employer projects involving transfers of staff (e.g. outsourcing, mergers etc);
  - a charge will be made where the Fund considers the work undertaken to be in excess of normal advice to employers;
  - costs will be based on Fund Officers time plus VAT; and
- interest payable on a cessation valuation where the Fund allows payment to be spread over and agreed period; and interest will be charged at a rate advised by the Fund Actuary

Regulatory recharges

Where an employer has chosen to award compensation in the form of additional membership under Part III of the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, for ease of administration the Fund will pay the compensation pension to the member along with the funded pension. The compensation pension will be recharged to the employer on a monthly basis. However, should the awarding employer cease to exist, the compensation pension will cease. The funded pension would be unaffected.

Notes:

1. Any additional costs arising if specialist actuarial, legal etc advice is requested will be charged in full in addition to the figures quoted above.

2. The Fund will act in accordance with relevant procurement guidance in obtaining external professional services.

Risk Management, Update for 1 April 2019 – 30 June 2019

Report by Chris Lawson, Service Manager – Waste, Risk & Resilience

1 Purpose of Report

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2019/20 quarter 1 strategic risk management update, covering the period 1 April 2019 to 30 June 2019.

2 Background

Midlothian Council has done much to reduce spend in recent years while continuing to deliver key services to our local communities. The Council set a balanced budget for 2019/20 and carried out work to develop a medium term financial plan, with the purpose of putting the Council's finances on a more secure footing.

Transformational change has, and continues to be vitally important to the Council as it seeks to improve local outcomes against a backdrop of growing demand and reducing resource.

The continued financial outlook is challenging, with uncertainty associated with future years grant settlements and the economic impact of the UK's exit from the European Union scheduled for until 31 October 2019, pending any amendments by Parliament and the European Union.

Council Services are giving consideration to business critical functions/services reliant on goods or services from within the EU as the prospect of the UK leaving the EU without a transition deal on 31 October 2019 has continued through quarter 1. The Council have been working with strategic partners including the Scottish Government in preparation for a no deal scenario. In response the Council's EU Exit Working Group has been meeting regularly with the purpose of overseeing final Service and Council preparations for a no deal exit from the European Union.

2.1 Strategic Risk Profile update

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan seen as the tool to put the Council's finances on a more stable footing.

This quarter sees a reduction in the risk rating associated with the issue 'financial stability' following the measures taken by the Council to ensure Services operate within the budget set for 2019/20. Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target. The risk rating in relation to 'the change programme' has also been reduced to reflect the clearer longer term change programme requirements based around the medium term financial strategy.

The highest risks set out within the strategic risk profile at quarter 1 are associated with the 'Early Years expansion', the 'abuse claims project' and the 'Scottish abuse inquiry'.

In this quarters update the risk associated with balancing the budget in future years has been reduced, given the work to develop a medium term financial strategy.

The risk associate with cyber security has been revised reducing the likelihood of an incident, this is based around the risk mitigation measures taken but increase to the impact given the potential significant and far ranging implications associated with any incident.

2.3 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.

Top Issues	Likelihood	Impact	Score	Evaluation	
The Change Programme	5	4	20	High	
Financial Stability	3	4	12	Medium	

The Strategic Risks for the Council are summarised in tabled 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Early Years Expansion (1140 Hours)	4	5	20	HIgh	.
Scottish Abuse Inquiry	5	4	20	High	
Historic Abuse Claims Project	4	5	20	High	
The Longer Term Change Programme	4	4	16	High	
Information Security	3	5	15	Medium	
Cyber Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Balancing budget in future years	3	4	12	Medium	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Growing Council	3	4	12	Medium	
Care at Home	3	4	12	Medium	
UK decision to leave the EU	3	4	12	Medium	
Governance and standards	3	4	12	Medium	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Climate change	3	3	9	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Asset management	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

2.6 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

2.6.1 Financial Stability

The Council approved the first iteration of the medium term Financial Strategy (MTFS) 25 June 2019. Business Transformation Steering Group delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 and 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.

2.6.2 The Change Programme

The Council had identified a need to carry out a series of bottom up service reviews, this work was proposed to have an initial 3 phases of review in the report to Council, Land Services review is now completed with measures reflected in 2019/20 budget. Waste Services is complete. Roads Services is due to have an initial meeting mid-year. Sport and Leisure review is underway.

Monitoring the oversight of the Change Programme is delivered through dashboard reporting prepared by each Head of Service and reported (6 weekly) to the Business Transformation Board. This is in addition to continued quarterly financial reporting by Financial Services.

2.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

2.7.1 Balancing budget in future years

In order to address this risk the Council have developed a medium Term Financial Strategy with the purpose of creating greater oversight, clearer responsibility and accountability.

The Council approved the first iteration of the medium term Financial Strategy (MTFS) 25 June 2019. Business Transformation Steering Group delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 and 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.

2.7.2 Growing Council

Midlothian Council was identified in 2018 as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 - 2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.

The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy

This growth together with reductions in the grant settlement from the Scottish Government has created acute pressure on Council Budgets.

2.7.3 Scottish abuse inquiry and Abuse Claims

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.

2.7.4 Cyber Security

Over the past year the Council have been monitoring reports of cyber-attacks on public sector networks. In recent months attacks have been made on a number of public sector organisation, raising the potential for an attack to be directed at Midlothian Council.

2.7.5 Early Years Expansion (1140 Hours)

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140 from August 2020 the council has commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in capacity. These challenges are being considered in the wider context of the plan, in which the capacity and expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements.

The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy

2.7.7 The Longer Term Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Business Transformation Board;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy; and
- Operational savings encompassing financial discipline measures.

2.8 STRATEGIC OPPORTUNITIES

2.8.1 City Deal

South East Scotland Region City Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018.

2.8.2 Fastest Growing Council

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being ‘A Great Place to Grow’. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

2.8.3 Creating a world Class Education System

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. The newly built Newbattle high school opened its doors to pupils on 5 June 2018, with the formal opening by the Scottish Government, Education Minister, John Swinney on 7 November 2018. This ambitious project is designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.

Research and development on the Centre of Excellence continues a number of work streams in pursuit of further development of the Centre of Excellence model.

2.8.4 Shawfair

The Shawfair development with its new Rail link provides a major incentive for house builders, employers’ retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

2.8.5 Borders Rail

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor.
Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail ‘Blueprint’ funding group.

2.8.6 Easter Bush

Fast growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.

3 Report Implications

3.1 Resource

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

3.2 Risk

The Strategic Risk Profile seeks to articulate the significant issues, risks and opportunities facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

3.4 Impact on Performance and Outcomes

The purpose of the Council's risk management approach is to support a level of risk awareness, to inform decision making and support the Council to deliver on its key outcomes by highlighting and taking steps to mitigate potential disruption to delivery of services.

3.5 Adopting a Preventative Approach

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

3.6 Involving Communities and Other Stakeholders

Consultation has taken place with Senior Managers responsible for leading responses to key Strategic Issues, Risk and Opportunities.

3.7 Ensuring Equalities

There are no direct equalities issues arising from this report.

3.8 Supporting Sustainable Development

Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level Issues, Risks and Opportunities.

3.9 IT Issues

No additional issues other than those relating to the Strategic Risk Profile.

4 Recommendations

Audit Committee is recommended to:

Note the quarter 1 2019/20 Strategic Risk Profile report and consider the current response to the issues, risks and opportunities highlighted.

Date: 12 September 2019

Report Contact:
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Background Papers: **Appendix 1** Strategic Risks Profile Quarter 1 2019/20

Strategic Risk Profile

Quarter 1 2019/20

Midlothian

ISSUES .

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	**Risk cause** Pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings **Risk event** Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework. **Risk effect** Slow or delayed proposals/savings arising from service redesign. Requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's	1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. 2. Delivering Excellence Management Tools to support the application of the framework. 3. Action to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales. Section 95 Officer will rely on that evidence determining if change programme savings are deliverable . Financial Strategy. . Leadership from all Elected members Executive Team and Senior Leadership Group. . Appropriated governance in place across the Change Programme. . Links between Change Programme and Workforce Plans . Resilience planning. . Senior Leadership Group regularly considering Change Programme and budget position. . Capacity to deliver change. The MTFS replaces the change programme. 4. Health and Social Care transformation board monitoring the 12 transformation strands on a monthly basis.	5	4	

		Services; Head of Property and Facilities Management; Director of Resources	5. Council have set a balanced budget for 2019/2020 within which services expected to operate within. Timetable for quarterly financial reports in place.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.02	Bottom up Service Reviews - Phase 1	**Q1 19/20**: Bottom up Service review - remit of working group and proposed initial 3 phases of review programme set out in report to Council, Land Services review completed with measures reflected in 2019/20 budget proposals. Waste Services complete. Roads Services due to have initial meeting mid-year. Sport and Leisure review is underway.	Director of Resources	31-Mar-2020	
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 19/20**: The Council approved the first iteration of the medium term Financial Strategy 25 June 2019. BTSG delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.	Chief Executive	30-Sep-2019	

SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	**Risk cause** Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations **Risk event** Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps **Risk effect** A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves	Head of Finance and Integrated Service Support;	1. There is an approved Capital Strategy and Reserve Strategy in place 2. There is an approved budget for 2019/20 3. There are arrangements in place to monitor financial performance including quarterly reporting to Council and 6 weekly reporting to BTB through the change dashboards 4. First iteration of the Medium Term Financial Strategy approved at June Council. The budget projections included in the MTFS incorporate the risk causes identified. 5. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 6. Monitoring the oversight of the Change Programme through the Change Programme Dashboard prepared by each Head of Service	3	4	

	or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.		and reported (6 weekly) to the Business Transformation Board and the Business Transformation Steering Group. Change programme dashboards to be verified by finance team supported in addition to continued quarterly financial reporting by Financial Services. 7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 19/20**: The Council approved the first iteration of the medium term Financial Strategy 25 June 2019. BTSG delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.	Chief Executive	30-Sep-2019	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	**Q1 19/20**: Update reported to council on 7 May for the LES outlining progress to date and ongoing work and identifying the significant affordability challenge associated with the LES Update of the capital strategy to be presented to Council later in the year, which will include the updated learning estate strategy.	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Dec-2019	

RISKS .

SRP.RR.01 Balancing Budgets in future years/Impact of Budget Cuts/Financial Strength of Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	**Risk cause:** Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations **Risk event:** Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. **Risk effect:** Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Development of Medium Term Financial Strategy. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 19/20**:	Chief Executive	30-Sep-2019	

		The Council approved the first iteration of the medium term Financial Strategy 25 June 2019. BTSG delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.				

SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	**Risk cause** A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision **Risk event** Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation **Risk effect** Objectives of change not actually met Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in Short term savings instead of transformation	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Financial Strategy and Change Programme 2. Leadership from all elected members, Executive Team and Senior Leadership Group. 2. Appropriated governance in place across the Change Programme. 3. Links between Change Programme and Workforce Plans 4. Resilience planning. 5. Senior Leadership Group regularly considering Change Programme and budget position. 6. Capacity to deliver change.	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.02.04	Revenue Service Review	**Q1 19/20**: Preparatory work being carried out ahead of initial engagement for Service Review to be carried out in 2019-20.	Head of Adult and Social Care	31-Mar-2020	
SRP.RA-02.03	Develop medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	**Q1 19/20**: The Council approved the first iteration of the medium term Financial Strategy 25 June 2019. BTSG delegated next stage development of the medium term financial strategy to identify measures to address the remaining budget gaps for 2021/2022 22/23 and present further proposal on the 1 October 2019. The financial projections included in the MTFS incorporate key planning assumptions in respect of the majority of risk causes.	Chief Executive	30-Sep-2019	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	**Q1 19/20**: Update reported to council on 7 May for the LES outlining progress to date and ongoing work and identifying the significant affordability challenge associated with the LES Update of the capital strategy to be presented to Council later in the year, which will include the updated learning estate strategy.	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Dec-2019	

SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	**Risk cause** Current or new legislation applying to Midlothian Council **Risk event** Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements. **Risk effect** Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support;	1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Statutory Inspection. 6. Local Scrutiny Plan - Report to Council 8 May 2018.	3	3	

		A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources				

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	**Q1 19/20**: Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary	31-Mar-2020	

			Care and Older People's Services; Head of Property and Facilities Management; Director of Resources		
SRP.RA.03.0 3	Demographic Growth	**Q1 19/20**: The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Jul-2020	
SRP.RA-02.05	Review of the Learning Estate Strategy (LES) and refresh of the capital strategy to reflect the updated LES	**Q1 19/20**: Update reported to council on 7 May for the LES outlining progress to date and ongoing work and identifying the significant affordability challenge associated with the LES Update of the capital strategy to be presented to Council later in the year, which will include the updated learning estate strategy.	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Dec-2019	

SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	**Risk cause** Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head	**Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.** **Attendance / Wellbeing** 1. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 3. Maintaining the Healthy Working Lives Gold Award.	3	4	

	Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance **Risk event** Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change **Risk effect** Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge	of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies. **Performance** 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc. **Organisational Change** 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. 3. Agreed protocol for accessing the Redeployment Fund. **Conduct** 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format. **Communication** 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Workforce Strategy	**Q1 19/20**: Continuing on with the delivery of the workforce strategy actions. Internal Audit have reviewed the workforce strategy and assessed that though Council substantive assurance, work will continue through 2019/20 to deliver the recommendations arising from the audit.	Head of Adult and Social Care; Head of Children's Services; Head	31-Oct-2019	

			of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources		

SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	**Risk cause** General Data Protection Regulation is a new piece of legislation currently being formulated by the European Commission. It is expected to be agreed in the first part of 2016 with a two year lead in period.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report.	3	5	

	Risk event The Regulation implemented on 25 May 2018. **Risk effect** The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros which ever is greater.	Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People’s Services; Head of Property and Facilities Management; Director of Resources	6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan			

SRP.RR.07 Care at Home

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

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

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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	**Q1 19/20**: The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Jul-2020	

SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	**Q1 18/19**: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys. Capital spend works carried out during summer, on-going through quarter 2. Continuing to develop property asset management plans, priority spend on basis of independent surveys.	Head of Property and Facilities Management	31-Dec-2019	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	**Q1 19/20**: Roads Asset Strategy, work progressing to migrate to version 4 through 2018/19. Information to be taken to capital board on future need for next 5 years.	Director of Resources	31-Dec-2019	

SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	**Risk cause** The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents **Risk event** There are a wide range of potential events the Council may be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc. **Risk effect** Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries	Director of Resources, Service Manager - Waste Risk and Resilience	Potential sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	**Q1 19/20**: Contingency Improvement Plan drafted and due to be shared with newly formed Risk and Resilience Group ahead of reporting to CMT for approval. Exploratory work carried out to establish what benefits could be gained from using technology systems to support the development and interrogation of Business Continuity application during an incident.	Service Manager -Waste Risk and Resilience	31-Mar-2020	

SRP.RA.09.0 3	Rest Centre Provision	**Q1 19/20**: Rest Centre Management arrangements reported to CMT, Head of Adult and Social Care has led on the recruitment of 7 new Rest Centre Managers to address on-going response capability as part of the 'Care for People' work stream.	Head of Adult and Social Care	31-Oct-2019	

SRP.RR.10 Governance and Standards in Public Life

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	**Risk cause** Code of conduct for Members and employees actions falling short of International Standards. **Risk event** Failure in openness, accountability, clarity. **Risk effect** Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	<u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement.	3	4	

SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	**Risk cause** Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective. **Risk event** Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities. **Risk effect** Policies not monitored could result in non-compliance with legislation	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding. 5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Capital Strategy	2	3	

	Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.	of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources				

SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	**Risk cause** Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information **Risk event** Persons exploiting opportunities to commit fraud Waste and errors **Risk effect** Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness.	3	3	

	Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance	Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources				

SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	**Risk cause** Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act **Risk event** Council Services not responding to the Climate Change Act with sufficient pace. **Risk effect** Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.	Director of Education Communities and Economy;	1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018.	3	3	

SRP.RR.14.1 Scottish Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation

SRP.RR.14.1	**Risk Cause:** Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them. **Risk Event:** The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. **Risk Effect:** If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.	Head of Children's Services;	The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority. The Inquiry Team have established a Project Plan covering: 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. The Project Team have established a Project Plan covering: 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	**Q1 19/20**: A project team has been established. Project Plan has identified actions which are being progressed. Monthly meetings to progress project plan.	Head of Children's Services;	31-Mar-2020	

SRP.RR.14.2 Historic Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	**Risk Cause:** Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964) **Risk Event:** Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims. **Risk Effect:** There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims	Head of Children's Services	1. Agreed further update to Council in December 2018 to keep them abreast of the current situation and potential implications around staffing and future financial costs. 2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been ;manifestly unreasonable' This basically takes away all risk for pursuers so if the they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation. SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	**Q1 19/20**: Assess the ongoing financial impact of compensation/redress. Compensation/redress scheme has been developed and the funding of claims is understood an assessment on the potential financial impact should be carried out, supported by the Council's finance team.	Head of Children's Services;	31-Mar-2020	

SRP.RR.16 Growing Council

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

	Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. **Risk effect** Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.	Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Strategy Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth.			

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	**Q1 19/20**: The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy	Head of Education, Head of Property and Facilities Management, Head of Finance and Integrated Service Support	31-Jul-2020	

SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	**Risk cause** UK vote to leave the European Union **Risk event** UK leaving the European Union **Risk effect** The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	01 – EU Exit Working Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.A2	Preparations for potential no deal	**Q1 19/20**: The Council continues to monitor this developing situation and prepare accordingly. The Council will work with key strategic partners in preparing for the potential impacts associated with exiting the EU with or without a negotiated deal.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head	31-Oct-2019	

			of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources		

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	**Risk cause** Failing to identify and rectify non-compliance with Health and Safety regulations. **Risk event** Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements. **Risk effect** Serious injury of ill health impact on employees and or service users.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support;	01 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 02 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 03 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 04 – Comprehensive training programme in place to support those with responsibility for managing health and safety.	3	5	

	Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.	A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources				

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	**Risk cause** Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours. **Risk event** Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups. **Risk effect** Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools	Head of Education; Head of Property and Facilities Management;	1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.03	Demographic Growth	**Q1 19/20**: The Council has updated its Learning Estate Strategy (LES) with an interim report presented to Council on 7 May which set out the affordability	Head of Education, Head	31-Jul-2020	

		challenge of delivering the required infrastructure. The projects which go forward from the LES will be reflected in the next iteration of the Capital Strategy	of Property and Facilities Management, Head of Finance and Integrated Service Support		

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	**Risk Cause:** Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices **Risk Event:** The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering. **Risk Effect:** Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People’s Services; Head of Property and Facilities Management; Director of Resources	1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan	3	5	

OPPORTUNITIES .

SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Director of Education Communities and Economy;	1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools	5	4	

SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Director of Education Communities and Economy;	1. Monitored by Economic development. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Timely submission of bids for approval by the Blueprint Group 4. Close monitoring of approved funded projects. 5. Borders rail subgroup Chaired by Midlothian Council Chief Executive.	5	4	

SRP.OP.03 Easter Bush - Penicuik

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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A 1	A702 Trunk Road Improvements	**Q1 18/19**: City Deal business case for Easter Bush expansion includes A702 road scheme to improve long term strategic access. Through liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Director of Education Communities and Economy;	31-Mar-2020	

SRP.OP.04 City Deal

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

SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome. This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP)	5	5	

SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Head of Adult and Social Care; Head of Children's Services; Head of Commercial Operations; Head of Customer and Housing; Director of Education Communities and Economy; Head of Education; Chief Executive; Head of Finance and Integrated Service Support; A.Short (Joint Director Midlothian Health and Social Care Partnership); Head of Primary Care and Older People's Services; Head of Property and Facilities Management; Director of Resources	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	**Q1 19/20**: Research and development on the Centre of Excellence continues a number of work streams in pursuit of further development of Centre of Excellence model.	Head of Education;	31-Aug-2023	

Item 5.5

Fraud and irregularity update

2018/19

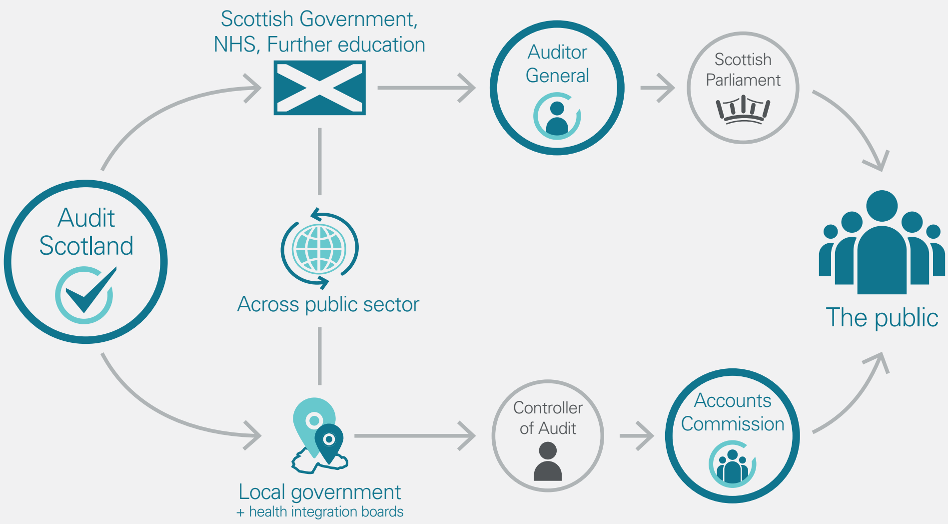
Prepared for public bodies and auditors
July 2019

AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Summary

Key messages

- **External auditors have reported a variety of fraud and irregular activities across a range of Scottish public bodies during 2018/19.**
- **During 2018/19, external auditors reported 17 cases of frauds and irregularities valued at almost £674,000. The value of reported fraud and irregularity is small compared to Scottish public sector expenditure.**
- **Common control weaknesses have contributed to the fraudulent and irregular activity reported during 2018/19.**

Recommendations

- Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action.
- Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report.

Background

1. This report aims to share information about cases where internal control weaknesses in public bodies have led to fraud and irregularities, to help prevent similar circumstances happening again. It is based on information reported to Audit Scotland about significant frauds and other irregularities in public bodies during 2018/19. The level of fraud and irregularity reported is small compared to Scottish public sector expenditure of £44 billion.

2. A key objective of public audit is to deter fraud. The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption explains that fraud can be prevented through the implementation of appropriate and robust internal control measures that safeguard assets. It follows that weaknesses in internal control increase the risk of fraud.

3. International Standards of Auditing (ISAs) include certain requirements relating to the auditor's consideration of fraud. Audit Scotland's Code of Audit Practice sets out additional responsibilities of public sector external auditors in respect to fraud, error and irregularities.

4. Appointed auditors in Scottish public sector bodies are required to consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected, and that material payments are made correctly.

5. Historically, auditors of local government bodies and non-departmental public bodies (NDPBs) have provided Audit Scotland with details of cases of fraud and other irregularities discovered in those bodies. During 2018/19, we extended this to the college sector.[1] The focus in reporting cases is on highlighting fraud and irregularities caused by weaknesses in internal control and then sharing the learning from these reported cases in order to prevent similar circumstances from occurring.

6. Public bodies are encouraged to consider whether the weaknesses in internal control that facilitated cases in this report may also exist in their own arrangements and take the required corrective action.

7. Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds highlighted in this report.

8. The cases in this report include instances where fraud is merely suspected. Such cases are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

About this report

9. This report has two parts:

- Part 1 (page 6) sets out some key factors that can lead to fraud.
- Part 2 (pages 8 to 15) sets out examples of the various different categories of fraud and irregularity reported during 2018/19 and the control weaknesses which have contributed to these cases.

10. The cases included in this report are based on reviewing documents and returns from external auditors. Our audit methodology is in the Appendix (page 16).

[1] NHS bodies report fraud and irregularities to NHS Scotland's Counter Fraud Service and central government bodies report cases to the Scottish Government.

Part 1
Background

The fraud triangle

11. The fraud triangle is a well-used model to help explain why individuals may commit fraud (Exhibit 1). It suggests that the following are key factors:

- the individual has the opportunity – this may be through weak internal controls such as a lack of segregation of duties
- the individual is under some pressure – this may be personal financial pressures, or through addictions
- the individual can rationalise and justify the fraudulent behaviours in their mind – this may be the belief that they will pay the funds back or that they have been working hard and are due to be compensated.

Fraud is the misappropriation of assets involving deception to obtain an unjust and illegal financial advantage

Exhibit 1
The fraud triangle

Source: Donald R. Cressey, Other People's Money (Montclair: Patterson Smith, 1973) p. 30.

12. Auditors and management should be aware of key signs in financial records that may indicate fraud. These include:

- an increase in stock or equipment going missing or being written off
- missing documentation to support transactions or contracts
- multiple payments and duplicate payments
- frequent customer complaints about an employee or service, eg the good or service received is less than was requested, or payments are required in cash
- excessive adjustments or 'corrections' through the ledger.

Management should consider whether the weaknesses in internal control that facilitated cases in this report exist in their own arrangements

13. There are also behavioural 'reg flags' that are often witnessed when an employee is committing fraudulent activities. Organisations should have systems in place to identify and report any of these behaviours if they appear. These include employees:

- living beyond their means
- getting into financial difficulties or having addictions
- not taking leave
- rewriting records
- being unwilling to share their duties
- developing inappropriate close relationships with customers and suppliers.

14. Auditors continue to engage with audited bodies in order to identify and report fraud and irregularities. The aim is to identify and share events leading to control weaknesses and losses in order to aid learning and hopefully prevent similar events occurring in other audited bodies.

15. Audit Scotland's counter-fraud hub is available on our website and includes details of all of our counter-fraud work, for example, on the National Fraud Initiative, as well as details of the partners we work with.

Part 2

Examples of fraud and irregularities reported in 2018/19

Key messages

- **Fraud and irregularities reported during 2018/19 fall into the following key categories:**
  - **Six cases of fraud and irregularity involving expenditure have been reported. All six cases, amounting to £82,000, were the result of weaknesses around changing bank details of suppliers.**
  - **Auditors reported four cases of fraud involving income totalling £36,500.**
  - **Two cases of fraud involving payroll have been reported totalling £10,000.**
  - **Three cases of fraud involving theft and totalling £45,000 have been reported.**
  - **Two cases of misuse of assets fraud totalling up to £500,000 have been reported.**
- **Common control weaknesses were identified across organisations where fraudulent or irregular activity was identified.**

Various types of fraud and irregularities were identified during 2018/19

16. The types of reported fraud and irregularities communicated by audit teams to Audit Scotland in 2018/19 include:

- expenditure frauds, where an organisation has incurred additional expenditure because of fraud
- income frauds, including the misappropriation of cash
- payroll overpayments or misappropriations
- theft of assets
- the misuse of assets for personal gain.

This report focusses on fraud caused by weaknesses in internal control

17. Common control weaknesses have contributed to the fraudulent and irregular activity reported by external auditors (Exhibit 2, page 9).

Exhibit 2
Common control weaknesses

Source: Audit Scotland

Expenditure

18. Expenditure frauds relate to cases where a body has incurred additional expenditure because of fraud, eg due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

Change of bank details

19. Third parties defrauded £82,000 from six public sector bodies by re-directing payments intended for legitimate suppliers.

Key features

The organisations received emails which appeared to be from valid suppliers. The legitimate email addresses had either been hacked or the emails originated from an address very similar to the legitimate email address.

Emails from the fraudulent email addresses requested that bank details were amended. Subsequently a payment was made to the amended bank account.

It was later identified, often when the genuine supplier queried non-receipt of funds, that the new bank details were false.

One organisation was able to recoup £12,000 by promptly contacting Police Scotland and the bank as soon as the fraud was uncovered.

Weakness: no independent verification of changes to bank details

Weakness in internal control

The frauds were possible as:

- no independent verification of the change was undertaken to confirm the change of bank account, eg a phone call to the supplier
- subtle differences from the usual email address were not spotted.

Source: Audit Scotland auditor returns

Income

20. Income frauds relate to cases where a body's income has been misappropriated, eg cash takings being re-directed, or invalid refunds processed.

School fundraising

21. Over £6,000 of cash collected at a school fundraising event was misappropriated by a third party.

Key features

A council organised a fundraising event with one of its suppliers. One of the supplier's employees collected the money but failed to pay the funds to the school.

The head teacher identified that the cash had not been received six months after the event and notified the council's counter-fraud team.

The perpetrator was reported to their employer and the police. £1,200 of the funds have so far been recovered.

Weakness in internal control

The fraud was facilitated by a failure to timeously follow up non-receipt of funds.

Source: Audit Scotland auditor returns

Weakness: failure to timeously follow up non-receipt of funds

Admission ticket sales

22. Perpetrators defrauded £12,000 from an NDPB through fraudulent ticket sales.

Key features

The perpetrators purchased several tickets for overseas events using stolen credit card details, and then re-sold the tickets. The fraud was not identified until the genuine card holders queried the transactions and requested refunds. A subsequent review identified an unusual increase in refunds for disputed card transactions.

The NDPB has now moved to an enhanced card payment system. The IP addresses used for the fraudulent ticket sales have also been blocked.

Weakness in internal control

The fraud was facilitated by a card payment system which did not include secondary authentication for payments.

Source: Audit Scotland auditor returns

Weakness: the card payment system did not include secondary authentication for payments

Fraudulent refunds

23. An employee in a council's environmental services department defrauded £12,500 from the council by failing to bank income and by processing false refunds.

Key features

Weakness: an absence of regular reviews of ledger entries and a lack of segregation of duties

The employee legitimately sold refuse sacks to residents, but subsequently processed a refund and retained the cash. The individual also identified council tax and housing rent accounts that were in credit, processed a refund for the overpayment, and again retained the cash.

No issues were initially detected as the cash recorded in the ledger agreed to the cash in the till.

The fraud was identified following a review of transactions by the sales ledger team, who identified that it was unusual to expect refunds for refuse sacks. Further investigation identified that refunds were being processed by the same officer for council tax and housing rents payments.

The council has now introduced a daily review of all refunds processed. Council tax and housing rent account credit balances are now being identified and highlighted to customers.

Weakness in internal control

The fraud was facilitated by the absence of regular reviews to highlight unusual items as well as inadequate segregation of duties.

Source: Audit Scotland auditor returns

Failure to bank income

24. A housing officer defrauded £6,000 from a council by failing to bank income.

Key features

Weakness: poor budget monitoring and reconciliation processes

The officer did not record cash income on income records. The main control was to reconcile the income records to the bank statement, and therefore the missing income was not timeously detected.

The fraud was identified when a finance officer discovered that expected income was not in the relevant bank account. Following investigation, it was established that this income had not been banked and that the issue went back several years.

The council has reviewed its system controls to enable weaknesses to be identified and addressed.

Weakness in internal control

The fraud was possible due to a failure in budget monitoring processes and the income reconciliation process relying upon income details being recorded in the income records.

Source: Audit Scotland auditor returns

Payroll

25. Payroll frauds relate to cases where an organisation's payroll has been misappropriated, eg employees working elsewhere while claiming to be unfit.

Working while claiming to be unfit for work

26. An occupational therapist defrauded £8,000 from a council by falsely claiming to be unfit for work.

Key features

The occupational therapist was on sick leave for ten months. The fraud was identified when colleagues advised the manager that the size of the employee's private business had expanded significantly during the period of absence. Covert surveillance by the council's counter-fraud team confirmed that the employee was working on a self-employed basis during their period of sickness absence from the council.

Recovery action is in progress. The employee has been dismissed and the case has been reported to the perpetrator's professional institute.

The council had controls in place to prevent this type of fraud, which included requiring employees to seek written permission if they wish to carry out other work whilst on sick leave and regular reviews for employees on long-term sickness absence.

However, despite having these controls in place, the employee was still able to commit the fraud because the employee withheld the fact that they were carrying out outside work and falsely exaggerated the symptoms of their illness at sickness absence reviews.

Source: Audit Scotland auditor returns

Diversion of salary payments

27. A college received a fraudulent request to change employee details for two employees from hacked email accounts. This led to a loss of £2,000.

Key features

The college's payroll team paid the salary of the two employees into the fraudsters' bank accounts instead of the employees' bank accounts. The fraud was uncovered when one of the employees alerted the payroll accounting officer about the non-payment of their salary. In one case, emailed payslips appear also to have been misdirected, revealing personal details.

Weakness in internal control

Payroll did not seek a confirmation from the staff, either in person or on the phone, prior to making a change to bank account details.

Source: Audit Scotland auditor returns

Weakness: failure to obtain confirmation of bank detail changes from employees

Theft

28. Thefts of assets by third parties can be considered fraud if they are facilitated by poor security arrangements, eg theft of equipment or stores.

Embezzlement of care home residents' funds

29. The owner of a council-funded care home defrauded £38,000 from residents.

Key features

The owner of a council-funded care home was not managing residents' funds through individual bank accounts, as required by the contract with the council, so that they could hide the fraudulent transactions.

A council employee responsible for managing the contract initially identified that residents were having financial difficulty and cash flow problems. A subsequent investigation of residents' funds identified unusual bank transfers with a lack of supporting information.

The business owner was reported to the Procurator Fiscal and is awaiting trial but has repaid the funds.

Weakness in internal control

The alleged fraud was facilitated by inadequate contract management arrangements.

Source: Audit Scotland auditor returns

Weakness: inadequate contract management arrangements

Theft of school laptops

30. An unknown third party allegedly stole laptops valued at £7,000 from a school.

Key features

The equipment was allegedly stolen from a secure storage area within the school. The theft was discovered when an employee went to retrieve the equipment prior to use. The matter has been reported to the police.

Weakness in internal control

An internal audit investigation identified physical control weaknesses including:

- key boxes not being locked
- annual asset returns not being completed
- computer equipment not being security marked.

Source: Audit Scotland auditor returns

Weakness: no physical checks of stock and poor security

Theft of prescription drugs

31. An employee stole prescribed drugs from a locked medicine cabinet in a council-run care home and replaced them with paracetamol.

Key features

Internal controls identified that the drugs had gone missing on a particular shift.

Following investigation, a member of staff admitted the theft and resigned. The individual was charged by Police Scotland and received a six-month suspended sentence.

Weakness in internal control

The theft was possible as the keys to the cabinet were used by a number of staff on the shift.

Source: Audit Scotland auditor returns

Weakness: inadequate security of prescription drugs

Misuse of assets

32. Misuse of assets relates to fraud where fraudsters use the assets of a public body for personal gain, eg the use of social housing by people who have no rights to occupy the accommodation

Misuse of vehicles

33. Up to £500,000 was lost to a public body when employees used the body's assets for their own personal gain.

Key features

Employees used the body's vehicles to conduct unauthorised activities for cash payments that required inappropriate use of the vehicles and employee time. The misuse of the vehicles for the drivers' personal gain was discovered when a member of the public called the body's call centre to express his concerns regarding the employees' activities. These concerns were also substantiated by a whistle-blower. Four employees have left their employment as result of these activities. The body is currently assessing opportunities for recovery of the lost revenue.

Weakness in internal control

An internal investigation identified the following weaknesses:

- too much flexibility given to the drivers in scheduling their work
- a lack of monitoring of the driver's activities and the vehicles movements.

Source: Audit Scotland auditor returns

Weakness: a lack of supervision of employees and employees having inappropriate flexibility in respect to work schedules

Tenancy fraud

34. A council tenant was sub-letting their home.

Key features

The fraud was identified following receipt of an allegation of illegal sub-letting. An investigation identified that the tenant was sub-letting the property without proper authority. The property was recovered by the council.

Source: Audit Scotland auditor returns

Appendix
Audit methodology

Audit Scotland's Code of Audit Practice sets out the responsibilities of audit bodies and external auditors in respect to fraud, error and irregularities. The Code states that:

> "Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
>
> International Standards on Auditing (ISAs) include certain requirements relating to the auditor's consideration of fraud. The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.
>
> Appointed auditors should consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected and that material payments are made correctly.
>
> Audit work would include reviewing, concluding and reporting on areas such as: whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.
>
> Appointed auditors are required to report information on cases of fraud and irregularities in accordance with guidance from Audit Scotland. Appointed auditors should also review information about frauds disseminated by Audit Scotland and consider whether any action is required in relation to their own audit appointments."

This report is informed by information provided by external auditors during 2018/19 in their fraud and irregularity returns to Audit Scotland.

External auditors are required to report frauds (or suspected frauds) where they are caused or facilitated by weaknesses in internal controls at local authorities or non-departmental public bodies. We extended this to the college sector in 2018/19.

Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significant due to the nature of the activity.

Auditors of local authorities are not required to report cases of fraud perpetrated by claimants, for example, housing benefit claimants, unless the fraud was facilitated by the collusion of local authority staff or otherwise by weaknesses in internal control.

The cases included in this report are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

NHS Scotland Counter Fraud Services (CFS) collates and investigates all cases of reported fraud and irregularity in NHS Scotland. CFS deals with the prevention, detection and investigation of fraud, embezzlement, theft, corruption and other irregularities against NHS Scotland.

The Scottish Government collates and ensures appropriate action is taken for all cases of reported fraud and irregularity in the Scottish Government and other central government bodies.

Fraud and irregularity update

2018/19

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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Proposed Change to Scheduled Meetings of the Audit Committee from December 2019 – December 2020

Report by Chair of the Audit Committee

1 Purpose of Report

This report invites the Audit Committee to consider, and recommend to Council to approve, the following amendments to the scheduled meetings of the Audit Committee from December 2019 – December 2020:

a) To rearrange the Audit Committee meeting scheduled for Tuesday 25 August 2020 to Monday 22 June 2020 at 11 am to consider the unaudited accounts 2019/20.

b) To change the meeting time for the following Audit Committee meetings from 10 am to 11 am to accommodate Informal Sessions prior to each meeting.

- 3 December 2019
- 28 January 2020
- 10 March 2020
- 26 May 2020
- 29 September 2020
- 8 December 2020

2 Background

2.1 At the Council Meeting on 2 October 2018, the Council approved the schedule of meeting dates for 2019 and 2020 recommended by the Short Life Working Group

2.2 At the Audit Committee meeting on 24 June 2019, the Audit Committee approved its Annual Report 2018/19 including areas of improvement. As an opportunity to address the latter, Informal Sessions have been arranged prior to each meeting.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

There are no risk implications arising from this report.

3.3 Single Midlothian Plan and Business Transformation
Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan
Not applicable

3.5 Impact on Performance and Outcomes
Not applicable.

3.6 Adopting a Preventative Approach
Not applicable.

3.7 Involving Communities and Other Stakeholders
Not applicable.

4.8 Ensuring Equalities
Not applicable.

3.9 Supporting Sustainable Development
Not applicable.

3.10 IT Issues
Not applicable.

4 Recommendation

The Audit Committee is asked to recommend to Council to approve the amendments to the schedule of meetings for the Audit Committee from December 2019 – December 2020 as follows:

a) To rearrange the Audit Committee meeting scheduled for Tuesday 25 August 2020 to Monday 22 June 2020 at 11 am to consider the unaudited accounts 2019/20.

b) To change the meeting time for all future scheduled Audit Committee meetings from 10 am to 11 am to accommodate Informal Sessions prior to each meeting.

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31 July 2019

Midlothian

Internal Audit Follow-Up of Completed Recommendations
Report by Chief Internal Auditor

1. Purpose of the Report

The purpose of this report is to provide an update to members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports in previous years to improve internal controls and governance.

2. Background

2.1 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

2.2 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.

2.3 The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

2.4 The Internal Audit Annual Plan 2019/20 includes Recommendation Follow-up Reviews being activity for two follow-up reviews.

3. Progress Report

3.1 The objective of this follow-up audit was to review a sample of recommendations that have been signed off as complete during the period 1 April 2018 and 31 March 2019 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk.

3.2 A sample of 60 audit recommendations were selected from the Pentana system which were shown at the 'completed' status and evidence obtained to support the satisfactory completion of each recommendation sampled. This included 5 high priority recommendations, 41 medium priority recommendations, and 14 low priority recommendations.

3.3 The recommendations from the following Internal Audit reports were selected as a sample for this review:

Audit Report	No. Recs in Sample	High Rated	Medium Rated	Low Rated
Accounts Payable	10	1	5	4
Complaints	18	4	11	3
Payroll – Review of Starters and Leavers	2	0	2	0
Purchase Cards	9	0	7	2
Social Housing Programme Phase 2	7	0	3	4
Trade Waste	12	0	11	1
Treasury Management	2	0	2	**0**
Total	**60**	**5**	**41**	**14**

3.4 We have identified that the majority of audit actions have been completed satisfactorily. However, we have identified that some actions have not been adequately completed. From the 60 recommendations tested, 51 (85%) were found to have been completed satisfactorily, and 9 (15%) were identified as requiring further work. All the High-rated audit actions have been implemented. Of the 9 audit actions requiring further work: 6 were Medium-rated and 3 were Low-rated; and 3 related to Accounts Payable (2017/18), 2 related to the Social Housing Programme Phase 2 (2018/19) and 4 related to Trade Waste (2017/18).

3.5 The Internal Audit Report on Follow-Up of Completed Audit Recommendations was reported to Corporate Management Team on 14 August 2019. CMT had a discussion on the actions which were showing as not complete and some of the reasons why they were not completed. It was highlighted that it was unacceptable to mark an audit action as complete without the relevant evidence to support this. It was agreed that the 9 actions showing incomplete should be completed and it was agreed that these would be completed by 30 August 2019 with robust evidence to show that these were actually complete.

3.6 Further Internal Audit follow-up of the 9 actions shown as incomplete on 14 August 2019 indicates that all now are completed with robust evidence to show that these were actually implemented and that the resulting controls were operating effectively.

3.7 The further Internal Audit follow-up activity also indicated that: One recommendation (Medium-rated; Accounts Payable) was updated in good faith at the time of original completion though a flaw in a report from the Integra system, used to identify and deactivate the accounts of inactive users, was identified during the Internal Audit follow-up process. An additional control has now been established until such time that the supplier's system change can be fulfilled; good progress was made by the new incumbent Waste Risk and Resilience Manager to complete the necessary actions to address previously identified control issues for Four recommendations (Three Medium-rated and one Low-rated: Trade Waste).

3.8 Internal Audit will carry out the second recommendation follow-up review within the Internal Audit Annual Plan 2019/20 in due course. The objective of the second review will be to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. The outcomes and any matters of concern will be reported to CMT and the Audit Committee in December 2019.

4. Report Implications

4.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

4.2 Risk

Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

4.3 Single Midlothian Plan

Themes addressed in this report:

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

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

4.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

4.6 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

4.7 Involving Communities and Other Stakeholders

The Internal Audit Report on Follow-Up of Completed Audit Recommendations has been presented to the Corporate Management Team (comprising Chief Executive, Directors, and Heads of Service) to outline the key messages of assurance and areas of improvement. This report is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana system and followed-up by Internal Audit. Any further matters of concern will be raised to CMT and the Audit Committee as appropriate.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5. Recommendations

The Audit Committee is asked to:

a) Acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks; and

b) Considers whether it is satisfied with the progress or whether any further action is required.

Date: **12 September 2019**
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Midlothian

Internal Audit Work to August 2019
Report by Chief Internal Auditor

1. Purpose of the Report

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

2. Progress Report

2.1 The Internal Audit Annual Plan 2019/20 was approved by the Audit Committee on 12 March 2019. Internal Audit has carried out the following work in the period from 1 April to 30 August 2019 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

2.2 The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2.3 Internal Audit issued final assurance reports on the following subjects:
- Attendance Management
- Asset Registers

2.4 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Current Internal Audit Assurance Work in Progress

2.5 Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Change and Transformation Programme	Testing underway
Business Planning, Budget Setting and Monitoring	Testing underway
Social Care Income Charging, Billing and Collection	Testing underway
EU Funded Programme Tyne Esk LEADER	Testing underway
Procurement and Management of Contracts	Planning underway

Internal Audit Consultancy and Other Work

2.6 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:

a) Provide guidance and advice to Managers on internal controls.
b) In its critical friend role provide an independent view and challenge at various forums including Business Transformation Board, Capital Planning and Asset Management Board, and Learning Estate Strategy Board.
c) Follow up review of previous audit recommendations – sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
d) Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant.
e) Attend and provide support for the Risk Management Group and the Serious and Organised Crime Group.
f) Undertake Data Analytics training with Scottish Borders Council as part of shared services.
g) Attend the SLACIAG Computer Audit Sub-Group.

Recommendations

2.6 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

2.7 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	1
Medium	4
Low	5
Sub-total reported this period	**10**
Previously reported	0
Total	**10**

Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	**10**

3. Report Implications

3.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

3.2 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

3.3 Single Midlothian Plan

Themes addressed in this report:

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

3.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners include the following areas as key priorities under the Single Midlothian Plan:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

3.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year assists the Council in improving its performance and outcomes.

3.6 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

3.7 Involving Communities and Other Stakeholders

This report has been presented to the Corporate Management Team (comprising Chief Executive, Directors, and Heads of Service) to outline the key messages of assurance and areas of improvement. Relevant Heads of Service and Service Managers have agreed the final Internal Audit reports as set out in the relevant Executive Summary within Appendix 1.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report.

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4. Recommendations

The Audit Committee is asked to:

a) Note the final assurance reports issued in the period from 1 April to 30 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and

b) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

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Report	Summary of key findings and recommendations	Recommendations H	Recommendations M	Recommendations L	Status
Subject: Asset Registers Date issued: 22 August 2019 Draft; 12 September 2019 Final Level of Assurance: accuracy of Services main asset registers, documentation retained, and insurance – Substantial; asset utilisation reporting, inventory recording, audit trail for asset disposal process - Limited	The purpose of this assurance audit was to carry out a review of the systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, Plant, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans & priorities. Midlothian Council has in place a number of separate asset registers to record different types of assets such as Property, IT Equipment, Fleet & Plant, and Infrastructure Assets. Services have developed processes to ensure that key asset information is appropriately recorded. Our audit identified that the most financially significant asset registers held by Services were generally accurate, and appropriate evidence was available for additions and disposals throughout the year in most Services. Internal Audit considers that the level of assurance we are able to give is Substantial in terms the overall accuracy of the Services main asset registers, documentation retained, and insurance. However, assurance is Limited in terms of reporting on utilisation, the registers used for recording lower value plant and equipment, and aspects around the audit trail and authorisation of asset disposal process for some Services. We made the following recommendations: • Consideration needs to be given to upgrading the Fleet and Plant asset register, for use by all relevant services with plant and fleet equipment. (Low) • Improve and consolidate road and footpath asset management data in Confirm system, and improve the referencing to road adoption / acquisition documentation. (Low) • Services should ensure that there is an adequate audit trail of the authorisation for the asset disposal, along with the reason for disposal and reason for the method of disposal. (Medium) • Asset utilisation reporting should be further developed by Services across the Council. (Medium) • Periodic asset inspections/checks need to be carried out by Services to check the accuracy of their asset registers. (Medium) • Construction and Design need to ensure that Insurance Officer is adequately informed of assets under construction and when the buildings are due to be occupied. (Medium)	0	4	2	Following the issue of draft report, discussions were held with the various Managers responsible for the asset registers, to agree the factual accuracy of the report and agree the implementation of the Internal Audit recommendations, noting that all Services that use the different types of assets have a role in asset management planning and utilisation. The timescales for implementation of the recommendations are linked to their risk rating, or in the case of the low-rated recommendations, within reasonable timescales reflecting the system changes required.

Report	Summary of key findings and recommendations	Recommendations H	Recommendations M	Recommendations L	Status
Subject: Attendance Management Date issued: 22 August 2019 Draft; 05 September 2019 Final Level of Assurance: • Policy and Procedures and Wellness@Midlothian – substantial (subject to minor policy amendments) • Processes (application of policy by Management, monitoring, reporting and documentation) - limited	The purpose of this assurance audit was to assess the controls in place to manage sickness absence across the Council, including compliance with policy and procedures, which underpin the effective use of resources. A Maximising Attendance at Work (MAW) policy is in place and this details how Managers should manage and monitor attendance and provide assistance to employees to enable a supported return to work. Recording of sickness absences, working patterns and calculation of the Statutory Sick Pay on the iTrent system (the HR and Payroll system used by Midlothian Council) is administered by the Employment and Reward (E&R) team. Managers are required to report all absences, and subsequent returns to work, to E&R via email using a sickness reporting template. The E&R team are responsible for updating the data on the system timeously. Internal Audit visited 10 areas across the Council to determine whether the MAW policy is being complied with, and tested a sample of 26 short and long term absences. The following good practice was found: • Managers are making use of all of the services available to support the wellbeing of employees such as occupational health and the Employee Assistance Programme; • Wellness@Midlothian builds on the Healthy Working Lives (Gold Award achieved in 2013 and maintained annually since then) and is a key strand of the Workforce Strategy; • A workshop in May 2019 reviewing the data on staff absenteeism identified common trends across systems and practices and highlighted specific areas for future work; • There is a Project which will further improve how sickness absences are recorded via self-service for Managers; and • There is a separate Project looking at Business Analytics and there is an intention to develop attendance management dashboards for Managers including the potential for graphical presentation of absence triggers. It should be noted that this is an enhancement of information that is currently available to Managers via MiTeam.	1	0	3	Management have agreed to implement the Internal Audit recommendations within the standard timescales linked to their risk rating. As part of the launch of iTrent Electric, communications and training will be offered to Managers. Reference will be made to the Maximising Attendance at Work policy at the mandatory induction training. Whilst these improvements will be led by HR, all Line Managers of employees have a role in effectively managing sickness absence in their Service areas.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Attendance Management (cont'd)	Although support and training has been provided to Managers, our review highlighted issues in 4 out of the 10 areas including lack of awareness of policy and templates, lack of clarity on trigger points for actions, and lack of employee contact in long-term absence. Data analytics was undertaken by Internal Audit between the Council's time recording system (Etarmis) (used by 28% of all staff who can predominantly utilise flexi working) and the iTrent system. It was found that for a number of cases, sickness absences had been recorded on Etarmis but had not been recorded on iTrent. This indicates that Managers may not be reporting sickness absences to E&R or may be authorising sickness absence updates to Etarmis which are incorrect. Generally an Employee triggers an Etarmis update, for authorisation by a Manager, whereas it is the Manager who prompts an update on iTrent. We consider that we are able to provide substantial assurance for Policy and Procedures and Wellness@Midlothian and limited assurance for Processes (application of policy by management, monitoring, reporting and documentation). We made the following recommendations: • Managers should implement and consistently apply the requirements of the Maximising Attendance at Work (MAW) policy, and submit sickness absences to Employment & Reward on a timely basis. To assist with this, further targeted training should be provided by HR. (High) • The success and measures of Wellness@Midlothian should be reported to CMT along with an update of new initiatives and actions undertaken. (Low) • The Maximising Attendance at Work policy should be updated to reflect GDPR and retention policy requirements. (Low) • The raw data reports used to generate the sickness absence day's performance indicator should be retained for 2 years. (Low)				