Notice of meeting and agenda

Midlothian Council

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

Date: **Tuesday, 07 November 2017**

Time: **11:00 - 14:00**

John Blair
Director of Resources

Contact:
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Further Information:

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

Recording Notice: Please note that this meeting will be recorded. The recording will be publicly available following the meeting, including publication via the internet. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

1 Welcome, Introductions and Apologies

Including apologies from Members who are unable to attend

2 Order of Business

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

3 Declarations of Interest

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

4 Deputations

No deputations have been received for consideration

5 Minutes of Previous Meeting

Submitted for approval as a correct record

5.1 Note of Meeting of Midlothian Council of 26 September 2017 **5 - 20**

Addendum to Minute of Meeting of Midlothian Council held on 26 September 2017

5.2 Note of Special Meeting of Midlothian Council of 10 October 2017 **21 - 30**

5.3 The following minutes have been circulated to Members for noting, information and consideration of any recommendations contained therein. Members are asked to so note and consider any recommendations.

Meeting	Date of Meeting
Cabinet	15 August 2017
Special Cabinet	21 August 2017
Planning Committee	22 August 2017
General Purposes Committee	22 August 2017
Local Review Body	29 August 2017
Audit Committee	20 June 2017
Midlothian Integration Joint Board	24 August 2017
Special Midlothian Integration Joint Board	14 September 2017

6 Questions to the Council Leader

The following questions have been received for consideration and response by the Council Leader

7 Motions

The following Motions have been received for consideration by the Council

8 Public Reports

8.10	Strategic Housing Investment Plan 2018-19 to 2022-23 - report by Head of Customer and Housing Services	**171 - 220**
8.11	Period Poverty Proposal - report by Directors, Resources and Education, Communities and Economy	**221 - 230**

9 Private Reports

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

9.1 Renewal of Retail Banking Services - report by Head of Finance and Integrated Service Support

9.2 Scottish Child Abuse Inquiry Update October 2017 - report by Head of Children's Services

9.3 2020 Vision for Early Years - report by Head of Education

Minute of Meeting

Item 5.1

Midlothian

Midlothian Council

Date	Time	Venue
26 September 2017	11am	Council Chambers, Midlothian House, Buccleuch Street, Dalkeith

Present:

Provost Montgomery	Depute Provost Russell
Councillor Milligan – Council Leader	Councillor Muirhead – Depute Council Leader
Councillor Alexander	Councillor Baird
Councillor Cassidy	Councillor Curran
Councillor Hackett	Councillor Hardie
Councillor Imrie	Councillor Johnstone
Councillor Lay-Douglas	Councillor McCall
Councillor Munro	Councillor Parry
Councillor Smaill	Councillor Winchester

Religious Representatives (Non-voting observers for Education Business):

Mr V. Bourne	

In attendance:

Note – Prior to the commencement of the meeting, the Provost asked the Council to recognise Eibhlin McHugh, Joint Director, Health and Social Care and Rev. Ruth Halley, Religious Representative for the Church of Scotland. Eibhlin McHugh will retire from the Council during October 2017 and the Rev. Ruth Halley has taken up an opportunity to preach in the Stirling Presbytery. The Provost paid tribute to both Eibhlin McHugh and the Rev. Ruth Halley and on behalf of Council thanked them both for their valuable contribution. This was followed by a round of applause for both.

1. Apologies

1.1 The Rev. Ruth Halley extended her apologies for this meeting.

2. Order of Business

2.1 The order of business was confirmed by the Clerk as that which was outlined in the agenda that had been circulated with the following amendments:

- The Provost agreed that item 8.5 – Learning Estate Strategy would be heard as urgent business due to the publication time of the report.
- The Provost agreed that item 9.4 – Seminar Note - Learning Estate Strategy would be heard as urgent business due to the publication time of the report.

3. Declarations of interest

3.1 The Provost requested that any Elected Member who had to declare an interest in a particular item to do so as the item arose.

4. Deputations

4.1 It was noted that no deputations had been received for consideration at this meeting.

5. Minutes of Previous Meetings

5.1 The minutes of the meeting of Midlothian Council which took place on 29 August 2017 were submitted for approval. The Council approved the minute as a correct record so moved by Councillor Milligan and seconded by Councillor Munro.

5.2 The following minutes were previously circulated to Members and the following responses were noted:

Meeting	Date of Meeting	Council response
Cabinet	13 June 2017	Noted
Special Cabinet	12 July 2017	Noted
Planning Committee	6 June 2017	Noted

General Purposes Committee	6 June 2017	Noted
Local Review Body	13 June 2017	Noted
Performance, Review and Scrutiny Committee	20 June 2017	Noted
Police and Fire and Rescue Board	30 May 2017	Noted
Midlothian Integration Joint Board	15 June 2017	Noted
Special Midlothian Integration Joint Board	12 July 2017	Noted

6. Questions to the Leader of the Council

6.1 No questions were submitted for consideration by the Council Leader.

7. Notices of Motions

Motion No.	Motion Title	Proposed by:	Seconded by:
7.1	**Royal Highland Fusiliers**	**Councillor Winchester**	**Councillor Lay-Douglas**

Motion:
Midlothian Council sends it best wishes to the Royal Highland Fusiliers 2nd battalion Royal Regiment of Scotland based at Glencorse Barracks in Penicuik, for their forthcoming deployment to Cyprus, Iraq and South Sudan and a safe return home for all personnel. We extend our wishes to the families left behind and offer our support whenever possible.

Summary of discussion
Prior to the commencement of the debate, an amendment moved by Councillor Montgomery and seconded by Councillor Imrie was tabled. The amendment read, *In addition Council reaffirms its support for the retention of Glencorse Barracks, which is an integral part of the Penicuik community. The MOD proposal to close the base in 2032 would be a serious loss to the town both socially and economically.* The Council then heard from Councillor Winchester who moved the original motion and the Council then heard from Councillor Lay-Douglas who seconded the original motion.

Following this the Council heard from the Provost who formally moved the amendment to the motion and from Councillor Imrie who seconded the amendment.

Following a brief debate which included a request from Councillor Parry to write to the local MP to re-iterate the importance of retaining a barracks at Glencorse, the Council voted on the motion and the amendment to the motion.

Four Councillors voted in favour of the motion moved by Councillor Winchester and fourteen Councillors voted in favour of the motion as amended by Councillor Montgomery which therefore became the decision of the Council

Decision

The Council agreed to accept the motion as amended and to write to the local MP in relation to the proposed closure of Glencorse Barracks.

Action

Democratic Services

Motion No.	Motion Title	Proposed by:	Seconded by:
7.2	**Operational Policing in Midlothian**	**Councillor Lay-Douglas**	**Councillor Munro**

Motion:

Midlothian Council sends thanks to Chief Inspector Kenneth Simpson for his recent invitation to Councillors to experience operational Policing in Midlothian on the 15th and 16th September.
This gave us the opportunity to recognize modern day policing, policing processes and how resources v demand are handled.
We attended the Police Area Control Room at Bilston to gain understanding of the 'call journey' with the public, had an opportunity to engage with officers on duty and had a tour of the custody facility at Dalkeith.
We would like to acknowledge the commitment and hard work in all areas of Policing and extend our sincere thanks and appreciation to all those who gave their time to us.

Summary of discussion

The Council heard from Councillor Lay-Douglas who moved the motion and spoke of the positive experience Councillors had during this shadow opportunity.

Councillor Munro was heard in formal support of the motion and echoed Councillor Lay-Douglas's comments in relation to the experience.

Following a further endorsement of the experience from Councillor Curran who gave his support to the motion, the Council resolved to approve the motion.

Decision
The Council agreed to approve the motion.

Motion No.	Motion Title	Proposed by:	Seconded by:
7.3	**Paperless Meetings**	**Councillor Baird**	**Councillor Alexander**

Motion:
Midlothian Council commits to paperless Council and Committee meetings be the end of 2017, where electronic equipment is used exclusively and where copies of meeting papers are printed only when absolutely necessary. *The cost of printing these meeting papers for Councillors in Midlothian is estimated to be in the region of £20,000 per annum from resources including paper, printer equipment and staff time. A strict policy against the unnecessary expense would be of great benefit to Midlothian Council.*

Summary of discussion
The Council heard from Councillor Baird who moved the motion following which Councillor Alexander was heard formally seconding the motion. Councillor Muirhead was then heard in opposition of the motion stating that he supported the principle but aired his concerns in relation to risk regarding Members having the information they need to support the decision making process. Councillor Winchester was heard in support of the motion stating that the motion included a provision for papers copies if necessary. Councillor Curran was then heard in agreement of the principle of paperless meetings and suggested that this should form part of a wider paperless strategy for the Council. Councillor Curran concluded that he was uncomfortable with the timeline stated in the motion and therefore would not be supporting the motion. Following further contributions from Councillors Cassidy, Milligan and Johnstone, Councillor Baird summed up. The Council then proceeded to the vote whereby seven Councillors voted against the motion and eleven Councillors voted in favour and therefore the motion was carried.

Decision
The Council agreed to the motion.

8. Reports

Agenda No.	Report Title	Presented by:
8.1	**Schedule of Meeting Dates 2018**	**Director, Resources**

Outline of report and summary of discussion
The Council heard from the Director, Resources who presented a report which sought approval from the Council in relation to a schedule of meeting dates for Council, Cabinet and Committee meetings for 2018. Councillor Parry requested that if any dates on the schedule needed to be changed or additional meetings are required that these changes are carried out in consultation with all the Group Leaders. Following this the Council agreed to accept the recommendations as laid out in the report.

Decision
The Council agreed to: (a) Approve the schedule of meeting dates for 2018 as shown within appendix 1 of the report.

Action
Democratic Services

Report No.	Report Title	Presented by:
8.2	**Financial Strategy 2018-19 to 2021-22**	**Head of Finance and Integrated Service Support**

Outline of report and summary of discussion
The Council heard from the Head of Finance and Integrated Service Support who presented a report which provided the Council with an update on the Financial Strategy encompassing the years 2018/19 to 2021/22 and included: • An update on future years Scottish Government Grant; • Updated budget projections for 2018/19 to 2021/22; • A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios years; • An update on the arrangements for the delegation of resources to the Midlothian Integration Joint Board; • An overview of the Change Programme aimed at addressing the projected budget shortfalls; • An update on Reserves. The Council heard from the Council Leader who expressed his concern in relation to the current financial position and the projections for the future. Further the Council Leader confirmed that he has arranged to meet with the Finance Minister on 2 October 2017 to put forward Midlothian's case as one of

the fastest growing local authorities in Scotland. Following on from this Councillor Milligan also confirmed he has spoken to the MSP for Midlothian who had agreed to make representation of Midlothian's case to the Scottish Government. In conclusion the Council Leader endorsed the recommendations contained in the report and confirmed he would be happy to take forward any other suggestions from Members to ensure inclusivity.

The Council then heard from Councillor Parry who expressed her concerns in relation to the recommendations set out in the report. In conclusion Councillor Parry moved that an urgent meeting be set up with the Group Leaders and once set up, recommendations (e), (f), (g) and (h) contained within the report are delegated to this meeting to agree on the timetable for meetings, publication and public consultation.

Councillor Smaill was then heard in confirming his position that the Council should work together to move forward with the financial position and further requested information from the Head of Finance and Integrated Service Support in relation to the recommendations made by the Council's external auditors. The Head of Finance and Integrated Service Support confirmed that the recommendations from the external auditor would come before the Audit Committee prior to presentation to the full Council.

Following further contributions from Councillor Smaill and Councillor Hackett, the Council heard from Councillor Milligan who summed up.

The Council then resolved to vote in relation to the motions presented to them. Six Councillors voted in favour of Councillor Parry's amendment to the recommendations contained within the report which was seconded by Councillor Johnstone and twelve Councillors voted in favour of the recommendations as set out in the report which therefore became the decision of the Council.

Decision

The Council agreed to:

a) Note the position in respect of the Scottish Government Grant Settlement as set out in section 2;

b) Note the current projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3 and endorse the key assumptions on which the budget projections are based;

c) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6;

d) Note the ongoing work to support the development the Midlothian Integrated Joint Board's own Financial Plans;

e) Note that there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges;

f) Note the impact of the proposed Change Programme and projected future years Council Tax increases and the impact on the Financial Strategy as set out in table 9;

g) Agree to call a special meeting of the Business Transformation Steering Group on 2 October 2017 and a special meeting of Midlothian Council on 10 October 2017 to consider the detailed Change Programme and remit to the Director Resources to finalise arrangements for these;

h) Note the governance arrangements and timetable set out in section 9, which incorporate the special meeting of Midlothian Council;

i) Note that after incorporating the emerging Change Programme the indications are that there would still be a budget gap of £0.543 million for 2018/19 rising to £8.312 million by 2021/21, though these are heavily dependent on the assumptions detailed in the report;

j) Agree to operate a Voluntary Severance Early Retirement scheme in the autumn of 2017 in accordance with the existing VSER Policy framework and delegate the detailed arrangements for this to The Chief Executive in consultation with The Leader of The Council.

k) Note the severity of the financial challenge and also the risks as set out in section 12.2.

l) Otherwise note the contents of the report.

Action
Head of Finance and Integrated Service Support/ Democratic Services

Report No.	Report Title	Presented by:
8.3	**Severe Weather 2017-18**	**Head of Commercial Operations**

Outline of report and summary of discussion
The Council heard from the Head of Commercial Operations who presented a report which provided an update for members regarding the winter plan. In addition, the report detailed the resources available to Road Services, to deal with the impacts of severe weather occurring in 2017/18. Further the report highlighted the changes compared with the service provided during the 2016 /17 winter period. Councillor Hackett queried the situation in relation to budget overspend or underspend and the Head of Commercial Operations confirmed that there was no additional provision for an overspend within the budget and if this situation arose a decision would be required by Councillors following recommendations by Officers.

Decision
The Council agreed: a) Note the implementation of a resilient network in accordance with

the recommendations from the Code of Practice; Well managed Highway Infrastructure; b) Note the changes to service delivery to align with the available budget; c) Adopt and publish the Winter Service Policy and Operational Plan for the 2017/18 winter season.

Action
Head of Commercial Operations

Report No.	Report Title	Presented by:
8.4	**Public Conveniences**	**Director, Resources**

Outline of report and summary of discussion
The Director, Resources presented a report which presented options to Council regarding proposals on how to reduce the annual budget for public conveniences by a minimum of £40,000 as approved by Council on 20 December 2016. Councillor Milligan moved that option 2 as set out in the report (i.e. to retain the five public conveniences across the county with reduced staffing) was approved with the amendment that further reports were brought to Council in relation to automated facilities. Councillor Russell was then heard in support of option 2 whilst exploring alternative options. Councillor Parry was heard in support of the comments made by Councillors Milligan and Russell. The Council then heard from Councillor Winchester who moved that option 4 was approved by the Council. This was seconded by Councillor Smaill. The Director, Resources confirmed that he would provide Council with a further report in the first quarter of the next calendar year. Following this Council voted in relation to the options that had been moved. Five Councillors voted in favour of option 4 and thirteen Councillors voted in favour of option 2 with further reports to be brought back in relation to automated facilities.

Decision
The Council agreed to: a) Note the options as set out in report; b) Option 2 as set out in the report, i.e. to keep the five public conveniences open with reduced staffing levels; and

c) Receive further reports in relation to the option of automated facilities.

Report No.	Report Title	Presented by:
8.5	**Learning Estate Strategy**	**Head of Education**

Outline of report and summary of discussion

The Council heard from the Head of Education who presented a report which presented the Learning Estate Strategy and at this point sought approval from the Council in relation to the short term strategy through to 2023.

The report was welcomed by the Depute Council Leader who confirmed his view that this iterative process was a positive way forward and has the ability to respond to changes within Midlothian communities. Further Councillor Muirhead confirmed that further work was required in relation to the financial plan that would support the strategy and confirmed his belief that it was important to have the strategy in place in the first instance. In conclusion Councillor Muirhead welcomed the impact the proposals would have for the Gorebridge communities.

The Council then heard from the Council Leader who was heard in amplification of the report and further spoke of the positive benefits to the Bonnyrigg area in relation to the proposed strategy. Further, Councillor Milligan emphasised the importance that the staff, parents and pupils were involved in the developing this strategy.

The Provost then confirmed that his apologies had been submitted in relation to the seminar in respect of the Learning Estate Strategy which took place on 21 September 2017.

Mr Bourne was then heard in support of the proposal that there should be a consultation in relation to the strategy for the denominational sector.

Following this the Council resolved to agree to the recommendations contained within the report.

Decision

The Council agreed to:

a) Acknowledges the essential requirement and benefits of preparing a long term strategy for the learning estate in Midlothian;

b) Agree the short term strategy through to 2023 outlined in the 17 actions set out in section 2.4 of the report in order to meet essential learning estate requirements over that period;

c) Ask officers to undertake further work on the financial implications of the short term strategy so that these can be considered as part of the

Council's Capital Strategy and General Service Capital Plan report expected to be presented to Council in November 2017; and d) Notes the indicative strategy for the medium and longer terms, which will be the subject of review and regular reporting to Council.

Action
Head of Education

Report No.	Report Title	Presented by:
8.6	**Midlothian Local Development Plan – Report of Examination**	**Head of Communities and Economy**

Outline of report and summary of discussion
The Council heard from the Head of Communities and Economy who presented a report which advised Members of the recommended modifications to the Proposed Midlothian Local Development Plan (MLDP) following receipt of the Report of Examination and outlines the next steps towards adopting the plan. Councillor Imrie was heard in support of the recommendations contained within the report and in doing so spoke of the challenge to the infrastructure within Midlothian in adopting these proposals – specifically in relation to General Practice provision and also in relation to physically getting people around Midlothian and suggested that there should be a strategy to support this area. Councillor Hardie was heard in support of Councillor Imrie's comments and further highlighted that to support the infrastructure within Midlothian the development of a rail link to Penicuik should continue to be included. Councillor Montgomery was then heard in support of Councillor Hardie's comments in respect of the rail link to Penicuik. The Head of Communities and Economy confirmed the basis for the exclusion of the rail link to Penicuik within the MLDP and confirmed that despite this further development of the proposals in relation to such a rail link could still take place. Following further contributions from Councillors Hackett, Parry and Milligan the Council resolved to approve the recommendations contained within the report and further would hear further reports in relation to a feasibility study of a rail link to Penicuik.

Decision
The Council agreed to: a) Approve the proposed modifications to the plan as indicated in appendix 1 to this report;

b) Require the Head of Communities and Economy to make the necessary arrangements to:

i. publish a notice of the Council's intention to adopt the Proposed Plan;
ii. make the list of proposed modifications and copies of the Proposed Plan available to inspect at the planning office, in all public libraries and on the internet; and
iii. notify interested parties who made representations to the Proposed Plan prior to the Examination advising the Proposed Plan has been published in the form the Council intends to adopt it and where and when it can be viewed.

c) Require the submission of the following documents to Scottish Ministers in accordance with statutory requirements:

i. a list of the modifications made following the receipt of the Examination Report;
ii. a statement setting out any recommended modifications that the authority has not made and the explanation for this;
iii. the Proposed Plan the Council wishes to adopt;
iv. the Report of Examination;
v. the advert of intention to adopt the plan; and vi. any environmental assessment carried out into the Proposed Plan as modified;

d) require the preparation of a further report to Council in due course to confirm the Ministers' direction in respect of adopting the plan and the procedure to constitute the Proposed Plan as the adopted Midlothian Local Development Plan; and

e) Further reports being brought forward in relation to a feasibility study in respect of a rail link to Penicuik.

Action
Head of Communities and Economy

Report No.	Report Title	Presented by:
8.7	**Participation Measure Update**	**Head of Education**

Outline of report and summary of discussion
The Council heard from the Head of Education who presented a report which informed Council that 93.6% of young adults aged 16 to 19 years have secured and sustained a positive destination. This is the highest recorded figure that Midlothian has ever achieved and is 4.9% higher than the previous year. Following positive remarks in relation to the attainment results contained within the report from Councillors Muirhead, Baird, Parry and Hackett the Council resolved to agree the recommendations contained within the report.

Decision

The Council agreed to: a) Congratulate our young adults on positively securing their future; b) Thank staff, partners and the third sector for their continued hard work and commitment; ensuring that young people continue to maintain their positive destinations; and c) Note the positive trend over time and the impact on positive destinations which has had life changing impacts for Midlothian's Young Adults

Report No.	Report Title	Presented by:
8.8	**Update on the Implementation of Self Directed Support in Midlothian**	**Head of Adult Services**

Outline of report and summary of discussion
The Council heard from the Head of Adult Services who presented a report which provided Members with an update on the progress made with implementation of Self Directed Support (SDS) in Midlothian. Following this the Council resolved to agree to the recommendations contained within the report.

Decision
The Council agreed to: a) Note the progress with regards to the implementation of SDS across both Adult and Children's Services; and b) Note the progress against Audit Scotland's report on SDS

Report No.	Report Title	Presented by:
8.9	**Recovery Hub – Mental Health and Substance Misuse**	**Head of Adult Services**

Outline of report and summary of discussion
The Council heard from the Head of Adult Services who presented a report which explained the benefits to be gained from establishing a Recovery Hub as a centre for the delivery of mental health and substance misuse services in Midlothian. Further, the report sought Council approval of the capital and revenue expenditure required to establish such a Hub. Whilst supporting the recommendations contained within the report, the Council Leader requested that further information be brought forward in relation to the Recovery Café and further what further progress can be made in relation to the

integration of the Council and NHS IT systems. To this end the Council Leader specifically requested that a further report be brought to Council in relation to the operation of the Recovery Café to which the Head of Adult Services agreed.

Councillors Johnstone and Winchester were then heard in support of the recommendations contained within the report.

Decision

The Council agreed to:

a) Approve in principle the development of a Recovery Hub;

b) Agree to the use of Dalkeith Social Work Centre as a Recovery Hub;

c) Agree to allocate £847,500 in the General Services Capital Plan in 2018-19 for the refurbishment works and IT infrastructure associated with the Recovery Hub;

d) Note the revenue implications of this project which will need to be built into future years' revenue budgets;

e) Note the resulting moves of voluntary organisations to more appropriate accommodation;

f) Note that the Orchard Centre will become surplus to operational requirements and mandate the Director of Resources to dispose of the building; and

g) Receiving a further report in relation to the operation of the Recovery Café.

Action

Head of Adult Services

9. Exclusion of Members of the Public

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

9.1 – Energy Projects Update – report by Head of Property and Facilities Management – Approved

9.2 – Independent Non Voting Member of the Audit Committee - report by Chief Executive – Approved

9.3 – Note of Seminar held on 12 September 2017 regarding the Midlothian Local Development Plan – Approved.

9.4 - Note of Seminar held on 21 September 2017 regarding the Learning Estate Strategy – Approved.

Minute of Meeting

Item 5.2

Midlothian

Special Meeting of Midlothian Council

Date	Time	Venue
10 October 2017	12noon	Council Chambers, Midlothian House, Buccleuch Street, Dalkeith

Present:

Provost Montgomery	Depute Provost Russell
Councillor Milligan – Council Leader	Councillor Muirhead – Depute Council Leader
Councillor Cassidy	Councillor Curran
Councillor Hackett	Councillor Imrie
Councillor Lay-Douglas	Councillor McCall
Councillor Munro	Councillor Parry
Councillor Smaill	Councillor Winchester

Religious Representatives (Non-voting observers for Education Business):

Victor Bourne	

In attendance:

1. Apologies

1.1 The Clerk confirmed that apologies had been received from Councillors Hardie, Baird, Johnstone and Alexander.

2. Order of Business

2.1 The Clerk confirmed that the order of business was as outlined in the agenda that had been circulated.

3. Declarations of interest

3.1 The Provost requested that any Elected Member who had to declare an interest in a particular item to do so as the item arose.

4. Minutes of Previous Meetings

4.1 No previous minutes were submitted to this special meeting of Midlothian Council for approval or noting

5. Reports

Report No.	Report Title	Presented by:
5.1	**Financial Strategy 2018-19 to 2021-22**	**Head of Finance and Integrated Service Support**

Outline of report and summary of discussion
The Council heard from the Head of Finance and Integrated Service Support who presented a report which provided Council with an update on the Financial Strategy encompassing the years 2018/19 to 2021/22. It included:- • An assessment of future years Scottish Government Grant; • Budget projections for 2018/19 to 2021/22; • A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios years; • Details of the arrangements for the delegation of resources to the Midlothian Integration Joint Board; • Details of the Change Programme aimed at addressing the projected budget shortfalls; • An update on Reserves. The Council heard from the Council Leader who confirmed that the proposals that were included in the reports related to the suggestions from Council Officers as to where potential changes could be made in relation to how the Council operates to meet the financial challenge. The Council Leader emphasised the severity of the position and confirmed that he had arranged to meet the Finance Minister on the 2 November to put forward the case for

Midlothian as the fastest growing local authority in Scotland and as such to receive an enhanced settlement from the Scottish Government. Councillor Milligan further emphasised the importance of the consultation exercise with Midlothian's communities and the Council staff. In conclusion the Leader moved the recommendations contained within the report.

The Council then heard from Councillor Winchester who moved the Conservative additional proposals in relation to the financial challenge which were circulated to members and included as appendix 1 to the minute. In conclusion Councillor Winchester confirmed that she had asked Officers to cost the proposals and moved that once this was done they were included in the consultation exercise.

Councillor Cassidy then sought clarification in relation to the consultation process which was provided by the Chief Executive who confirmed that the consultation would build on the Shaping our Future exercise. The Chief Executive further confirmed that work was under way to pull together a series of meetings with key stakeholders and partners in relation to the proposals.

Councillor McCall asked for confirmation in relation to how employees of the Council would be involved in the consultation process and further whether employees were able to speak to Councillors in relation to their own concerns. The Provost confirmed this view that staff should be able to approach Councillors. The Chief Executive further confirmed that staff have the support of their managers and senior managers and further confirmed that there was nothing to prevent staff from speaking to Councillors.

The Council then heard from Councillor Parry who emphasised the importance of gaining meaningful feedback in relation to the proposals from Midlothian's communities and further sought clarification in relation to the consultation process. In conclusion Councillor Parry sought confirmation as to when the budget would be set. The Head of Finance and Integrated Service Support confirmed that the governance timetable was included within the body of the report. The Chief Executive confirmed the aim to bring the outcome of the consultation for consideration by the Council at the full meeting in December 2017, however the Chief Executive further confirmed the importance of having an open process due to the nature of the challenge which would go beyond the budget setting process for the coming financial year. In conclusion, Councillor Parry expressed concern in relation to the impact of the cuts would have to the communities of Midlothian.

Councillor Muirhead was then heard confirming that if there were items within the proposals that were not agreeable then an alternative item with the same level of savings attached would need to be found to replace such items. Further Councillor Muirhead highlighted the savings that were already part of the transformation programme including the assumed savings as a result of the proposed closure of a number of community facilities and the potential impact to the budget of these proposals.

Following further contributions from Councillors Winchester, Smaill and Parry, the Council Leader summed up the recommendations that were being put forward including a request to the Chief Executive that there was a central place to record the feedback in relation to the proposals so as that all Councillors could be made aware of the responses. In conclusion the Leader suggested that the Council accept the recommendations in the report including the request to Officers to cost and assess the proposals from the Conservative

Group which would then be brought to the Business Transformation Steering Group for debate in the fullness of time.

The Provost then requested that, in the absence of any dissent to the Leader's proposal that the Council accept the recommendations including the Conservative Group's proposals for review which the Council then formally approved.

Decision

The Council agreed to:

a) Note the position in respect of the Scottish Government Grant Settlement as set out in section 2 of the report;

b) Note the current projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3 of the report and endorse the key assumptions on which the budget projections are based;

c) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6 of the report;

d) Note the ongoing work to support the development the Midlothian Integrated Joint Board's own Financial Plans;

e) Note the operational savings set out in appendix 2 of the report;

f) Note the impact of the proposed Change Programme and projected future years Council Tax increases and the impact on the Financial Strategy as set out in table 9 of the report;

g) Agree to proceed to engage with the community on the budget and change programme set out in appendix 1 of the report through Shaping our Future, the consultation strand of the Delivering Excellence framework;

h) Note that there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges;

i) Note the governance arrangements and timetable set out in section 9 of the report;

j) Note that after incorporating the emerging Change Programme the indications are that there would still be a budget gap of £0.383 million for 2018/19 rising to £8.043 million by 2021/21, though these are heavily dependent on the assumptions detailed in the report;

k) Note the severity of the financial challenge and also the risks as set out in section 12.2 of the report.

l) Note that a further report will be presented to Council in December 2017.

m) The Conservative Group proposals be costed and assessed by Officers before progressing to the Business Transformation Steering Group.

Action
Head of Finance and Integrated Service Support

Report No.	Report Title	Presented by:
5.2	**Workforce Strategy**	**Head of Finance and Integrated Service Support**

Outline of report and summary of discussion

The Council heard from the Head of Finance and Integrated Service Support who presented a report which provided Council with a draft of the first Council Workforce Strategy, the purpose of which is to ensure that Midlothian Council continues to have a workforce that is able to deliver positive outcomes for the people of Midlothian. The report set out an approach to supporting, developing and reshaping the workforce now and in the future in response to changes whether as a consequence of national or local issues.

The Council Leader moved two additional recommendations to those set out in the report as follows:

(f) No agency staff, unless absolutely essential to be used and immediately remove agency staff where possible; and
(g) Look to guarantee an invitation of support and training in areas of growth for staff who are displaced.

The Council then heard from Councillor Winchester who requested the Chief Executive review the sickness absence rate within the Council to which the Chief Executive confirmed that work was ongoing in relation to managing sickness absence across the Council.

Councillor Parry was then heard expressing concern in relation to the process and confirmed her view that it was vital that the Council understood the impact of the strategy from the workers perspective.

Councillor Smaill then sought information in relation to the Investing in our Workforce strategy which was responded to by the Head of Finance and Integrated Service Support and the Director, Resources with a commitment to report to Council in relation to the impact of the strategy.

Following a contribution from Councillor Hackett, the Council heard from Councillor Parry who moved that recommendation c in the report was updated to state:

'Maintain a commitment of avoiding compulsory redundancies'

This motion was seconded by Councillor McCall.

Following further contributions from the Head of Finance and Integrated Service Support and the Council Leader, the Council voted on the motions.

Three Councillors voted in favour of the SNP Amendment and eleven Councillors voted in favour of the Amendment put forward by the Administration which thereby became the decision of the Council.

Decision

The Council agreed to:

a) Note the draft corporate workforce strategy which will be finalised over the autumn of 2017 and which is anticipated to be presented to Council for final approval in December 2017.

b) Note that the workforce strategy will be supported by a detailed workforce plan and eight service specific workforce plans:

c) Maintain a commitment of avoiding compulsory redundancies, and approve the revision of the Policy for Organisation Change and Organisational Restructure Policy so as to ensure the Council fulfils its statutory obligations and is able to effectively manage it workforce requirements;

d) Endorse the implementation of an immediate recruitment freeze as detailed in section 2.3 of this report;

e) Note the commitment to consult the recognised Trade Unions on the development and implementation of the finalised workforce strategy;

f) Not employ agency staff, unless absolutely essential to be used and immediately remove agency staff where possible; and

g) Look to guarantee an interview with support and training in areas of growth for staff who are displaced.

Action

Head of Finance and Integrated Service Support

Special Council 10 October 2017 – Comments/Proposals by Scottish Conservative Group

Proposal	How to achieve this	Comments/Achievable Saving if implemented
(1) Review of Management Structure of Council	Chief Executive take on responsibility for areas such as – HR; Legal; IT Health and Social Care – concentrate solely on these areas with Customer and Housing Services being transferred to Resources (Customer Services to merge with Finance and Integrated Service Support; Housing Services to merge with Property and Facilities Management) Education, Communities and Economy – concentrate solely on Education with Communities and Economy being transferred to Resources	This proposal would reduce the number of Heads of Service by 2 posts and a further third and fourth tier management review should also provide additional savings
(2) Property and Facilities Management	Carry out an analysis of what is the best and most cost effective manner of providing this area whether "in-house" or whether outsourcing the direct labour organisation to local trade firms is more cost effective. This to include the current "in-house" catering services as national catering providers may be interested in securing the contract for areas such as school meals. (Page 112 of 218 makes provision for the sharing of the management of catering services with another Council but this does not go far enough). By outsourcing what is not a core service this may lead to a reduction in management costs. As part of the analysis, consider how much is currently apportioned for management costs per service provided. Page 109 of 218 suggests the creation of an ALEO (Arms Length External Organisation) if this was an option it should have been investigated and implemented some time ago	
(3) Property and Facilities Management	At presentation to newly Elected Councillors, the Head of Service listed 10 third tier posts, some appeared to have no responsibility for staff.	A review of this Service in conjunction with the proposals contained in (1) above to ascertain why 10 third tier posts are necessary
(4) Transformation Programme	The Integrated Service Support Project – to include all support services including staff who work directly for Councillors. With the Council looking at making such drastic reductions in the number of	

	support staff, Councillors cannot allow further reviews to not include staff who support them particularly since support posts in Integrated Service Support provide support to front line services such as Health and Social Care	
(5) Shared Services	Approach other "Lothian" Councils or other providers with a view to considering options such as sharing – Legal, HR, Payroll, Creditors, Contact Centre. There must be savings which can be made by merging these services even if the savings are in relation to office accommodation and lower charges levied in respect of the IT packages used by staff working in these areas	
(6) Office Accommodation	Radical review of absolute minimum office desks with a view to reducing the number of maintained buildings. With shared services and changes to work practices by staff working from home this should free up space. Consider how many staff travel, say more than, 15 miles each way to work each day – each trip they make they are at risk, Council would get more from them if they are less tired by not travelling each day, more hot desking opportunities, resource saving to the Council by the employee using their own accommodation, heating and lighting and resource saving to the employee who is not paying so much for travel	
(7) Leisure Services	Review the actual number of facilities and viability of continuing to operate all of them in the current financial climate. Engage communities in terms of what they want in their leisure facilities with a view to having fewer buildings but having facilities which are of greater interest and use to communities. Page 126 of 218 suggests transferring the running of small leisure centres to community partnerships to operate as unmanned "pure gym" style facilities	
(8) Section 75 Agreements	Increase the charges levied for Section 75 Agreements to ensure that fees levied to developers pay for more of the initial services the Council requires to provide to new developments, a proportion of the raise to go to Community Councils and other third sector organisations. This could cover areas where the Council is cutting services such as flower beds, Christmas lights etc	
(9) Attending a school outwith Midlothian	Whilst continuing to accept that parents have a choice as to which school to send their child to including a child being educated in a school where Gaelic is taught, Midlothian does not have any such	

	schools. Full costs of this should be borne by parents and not the Council	
(10) Reserves	Further investigations into the ability of the Council to spread the burden of transformation between reserves	

Savings Proposals Summary circulated to Elected Members **Comments/achievable saving if implemented**

(1) Senior Management Team (Page 45 of 218)		Saving shown in summary is not for 2018/19
(2) Communities and Economy (Page 45 of 218) (also see Page 50)	Transfer of Welfare Rights function to CAB	Has discussion taken place to-date to allow an estimated saving of 0.143m to be listed?
	Reduction in large and small grants – need a breakdown of proposal to save 0.600m (Note: this is not in 2018/19). Presumably some of these organisations provide services instead of the Council. If they are no longer able to function without grant money, the work they do will still have to be done presumably by the Council leading to an increase in expenditure in the future.	Note: Page 53 states a review of grants will lead to an increase in the team of staff overseeing this in the future – this is an increase in costs when the proposal is to reduce the actual amount of money paid out in large and small grants!
	Consider reduction in the number of Licensing Standards Officers from 2 to one post in line with other local authorities which cover a relatively small geographical area	
(3) Education (Page 45 of 218)	Reduction in learning assistant posts	what is the impact on the children who receive this support?
	Charging for instrumental tuition	is there not a charge associated with the cost of recovering these fees. All fees should be paid "up front" thereby reducing recovery costs
(4) Resources (Page 46)	Extend bin collection frequency – include food waste in this by extending to fortnightly in line with what other Councils area already doing ie West Lothian Council already does this. Brown bin could be 4 weekly	Charge for garden waste collection – how realistic is this given the already consideration issue of dumping of large household items on wasteland and parks

	Page 47 and Page 107– Remove all Car Allowances regardless of the category and removal of the car leasing scheme – will result in savings and also resource saving in terms of staff time to management this	
	Page 48 – From a total proposal of a reduction of 242 posts, this Directorate appears to be losing 167	How can services still be provided and what impact on the services will this have?
	Page 97 – Decriminalised Parking and increasing charges for car parks – What provision has been made for the introduction of decriminalised parking and what pressure will this put on resources for a service which is not a core local authority function. It is accepted this is not being introduced to generate income but this also cannot be introduced and consume resources which are already stretched and may be further as a result in the reduction in posts within this directorate.	Increasing car parking charges – will this not lead to increase in costs of processing payments and taking recovery action?
	Page 100 – Stop the Taxi Card Scheme	Has consideration been given to whether persons currently eligible for this scheme receive DLA which includes an element for travel?
	Page 102 – Sales Force Spend to Generate	What is the impact on current service delivery?
	Page 109 – Creation of an ALEO – Council should have considered this some time ago when other local authorities moved to this way of providing Services. Council should be looking at the most cost effective way of providing services which are non-core and this is unlikely to be the most cost effective	
	Page 128 – Life Guard Cover	if the cover can be reduced, why is the current level of cover in place given that risk assessments have been carried out which confirm a lower level of cover is acceptable?
	Page 131 of 218 – Transfer of halls to community groups	Not viable if the Council has to continue to provide legal, technical and financial support to the community enterprises – Council does not have the in-house resources to continue to provide this

Written Question to Leader of the Council

Report by John Blair, Director, Resources

1. Question to the Leader of the Council

In terms of Standing Order 4.3(vii), the following written question has been received from Councillor Winchester:-

Midlothian Council 23 May 2017 – Determine Scheme of Administration

With reference to the above matter (item 3.7 on the agenda) which was considered by Council on 23 May this year, I would be most obliged if you would confirm what, if anything has been done in relation to the full review of governance. I would further be obliged to receive a note of the timescale for completion of the full review and anticipated date it will be reported back to Council.

2. Recommendation

The Leader of the Council is invited to respond to the question.

30 October 2017

Report Contact: **Kyle Clark-Hay Tel: 0131 270 5796**
e:mail **Kyle.Clark-Hay@midlothian.gov.uk**

Scottish Conservatives

Midlothian Council Conservative Group

The Scottish Conservative Group hereby make the following Motion for consideration by the Council on 7 November 2017 –

Midlothian Council withdraws from membership of City of Edinburgh Council SESTRAN thereby making an annual saving of £10,645 which will go towards the budget deficit and thus protect vital services and jobs. The Council has to make cuts to budgets that will affect all of our residents. The withdrawal from SESTRAN and thereby saving £10,645 shall be implemented BEFORE any cuts to services and jobs are made.

Proposed by

[redacted] Councillor Janet Lay-Douglas

Seconded by:

[redacted] Councillor Andrew Hardie

Date: 30th October 2017

Scottish Conservatives

Midlothian Council Conservative Group

The Scottish Conservative Group hereby make the following Motion for consideration by the Council on 7 November 2017 –

Midlothian Council withdraws from membership of Fife Council SESPLAN thereby making an annual saving of £44,000 per annum and a total of £220,000 over the term of this council, which will go towards the budget deficit and thus protect vital services and jobs. The Council has to make cuts to budgets that will affect all of our residents. The withdrawal from SESPLAN and thereby saving £44,000 shall be implemented BEFORE any cuts to services and jobs are made.

Proposed by

[redacted] Councillor Kieran Munro

Seconded by:

[redacted] Councillor Pauline Winchester

Date: 30th October 2017

Scottish Conservatives

Midlothian Council Conservative Group

The Scottish Conservative Group hereby make the following Motion for consideration by the Council on 7 November 2017 –

Midlothian Council withdraws from membership of COSLA thereby making an annual saving of £64,945 and a saving of £325,000 over the term of the Council, which will go towards the budget deficit and thus protect vital services and jobs. The Council has to make cuts to budgets that will affect all of our residents. The withdrawal from COSLA and thereby saving £64,945 shall be implemented BEFORE any cuts to services and jobs are made.

Proposed by

[redacted] Councillor Andrew Hardie

Seconded by:

[redacted] Councillor Kieran Munro

Date: 30th October 2017

Motion to Midlothian Council

7th November 2017

Midlothian Council believes that the right to maternity and paternity leave for elected members is unclear under current legislation and guidance.

Furthermore, believes that a lack of such clarity and relevant policy can be a barrier to people engaging in local government and standing for local elections and recognises the positive contributions that parents make as elected members.

Council will therefore instruct the Director of Resources to work with elected members and to lobby COSLA to put in place policy guidance which takes forward positive steps to address this.

[redacted]

Cllr Kelly Parry

[redacted]

Cllr Debbi McCall

2018 Review of United Kingdom Parliament Constituencies in Scotland by the Boundary Commission for Scotland – '*Revised Proposals*'.

Report by Kenneth Lawrie, Chief Executive

1 Purpose of Report

1.1 The Boundary Commission for Scotland published its '*Revised Proposals*' for UK Parliamentary Constituencies in Scotland on 17 October 2017 for an eight week public consultation period lasting until 11 December 2017.

1.2 In respect of Midlothian the '*Revised Proposals*' are to change the proposed name of the constituency from '*Midlothian and Peebles County Constituency*' to '*Midlothian and Upper Tweeddale County Constituency*'. In addition an alteration is made to the eastern boundary which now adds Cardrona (and an additional 616 electors). (Full details are available in the Members' Library and online at http://www.bcomm-scotland.independent.gov.uk/ .)

1.3 The Council's response to the 'Revised Proposals' are therefore sought.

2 Background

2.1 The Proposals are for the 59 current constituencies covering Scotland to reduce to 53.

2.2 The Boundary Commission for Scotland published its '*Initial Proposals*' for UK Parliamentary Constituencies in Scotland on 20 October 2016 for a twelve week public consultation period lasting until 11 January 2017.

2.2 In Midlothian the '*Initial Proposals*' were for the current UK Midlothian County Parliamentary Constituency to be expanded southwards into the Scottish Borders Council area to include Ward 1 – Tweeddale West and part of Ward 2 Tweeddale East and to be named '*Midlothian and Peebles County Constituency*'.

2.3 As part of the consultation process a public meeting was held by the Boundary Commission in Edinburgh, on 7 December 2016, when representations were heard. No adverse comments were made in regard to the proposals for Midlothian although the Conservative Party spokesman advised that if concerns were expressed about Scottish Borders Wards 1 and 2 being included that consideration could perhaps be given to part or all of Ward 3 Galashiels being substituted as it contained areas such as Stow and Fountainhall which had been many years previously in the Midlothian Parliamentary Constituency.

2.4/

2.4 Midlothian Council considered the Commission's proposals at its meeting, on 8 November 2016, when the view was expressed that a response to the consultation be made and in this regard that comments be sought from elected members.

2.5 On 20 December 2016 it was reported to Midlothian Council that no further comments/submissions have been made by Elected Members and it was agreed that the Council's submission, reflecting the views expressed by Elected Members, be made by the Chief Executive in consultation with the Leader of the Council and the Labour Group Leader.

2.6 The formal submission was made and it stated that Midlothian Council had no specific comments to make on the proposals.

3 Report Implications

3.1 Resource

Not applicable

3.2 Risk

Not applicable.

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/

3.7 Involving Communities and Other Stakeholders

This is part of a statutory review procedure for which the Boundary Commission for Scotland places great emphasis in maintaining public confidence in the process. The first stage was a 12 week public consultation procedure which included public hearings at 5 locations around Scotland.

Consultation responses were published for public scrutiny and comment during Spring 2017 by the Commission and the currently published '*Revised Proposals*' out for consultation is in response to representations received.

3.8 Ensuring Equalities

This is being carried out by the Boundary Commission for Scotland in terms of the statutory procedures for the Review.

3.9 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.10 IT Issues

Not applicable.

4 Recommendation

Midlothian Council is invited to respond to the '*Revised Proposals*' of the Boundary Commission for Scotland in its 2018 Review of Parliamentary Constituencies.

24 October 2017

Report Contact: Allan R Brown, Elections Officer
Tel No: 0131 271 3255
allan.brown@midlothian.gov.uk

Background Papers:

- Boundary Commission for Scotland 2018 Review of UK Parliamentary Constituencies – Public Consultation - *Initial Proposals*
- Boundary Commission for Scotland 2018 Review of UK Parliamentary Constituencies – Public Consultation - *Revised Proposals*

The Edinburgh and South East Scotland City Region Deal

Report by Chief Executive

1.0 Purpose

1.1 This report provides a further update on the Edinburgh and South East Scotland City Region Deal, and specifically seeks approval for the proposed governance arrangements.

2.0 Background

2.1 Members may recall that at a Special Meeting of Council on 19 July 2017 they were informed of the Heads of Terms of the City Deal that had been offered by the Scottish and UK Governments to the six constituent Councils. Council agreed to:

"a) note today's notification of the Heads of Terms offer from the UK and Scottish Governments and;
b) accept and endorse, in principle, the Heads of Terms Agreement subject to any final revisions."

2.2 Following similar endorsement by the other five Councils (City of Edinburgh, East Lothian, Fife, Scottish Borders, and West Lothian) the Heads of Terms were formally signed on 20 July 2017. For ease of reference a copy of the Heads of Terms is attached at Appendix A.

2.3 In summary the Heads of Terms confirm that both Governments are committed to jointly investing up to £600m over the next 15 years which, when added to the expected contributions from regional partners, will represent over £1.1bn of investment. That investment will seek to provide for economic growth across the region, a key element of which will be the opportunity to address inclusion across the region by ensuring that all communities, including the more and most disadvantaged benefit from economic growth.

2.4 The Heads of Terms are relatively high level in nature, being the basis for more intensive and detailed work on the following items:

- preparation and approval of final business cases for all projects and programmes;
- development of a final city deal document and implementation plan; and
- establishment of clear and robust governance arrangements.

The Governments have subsequently set out the more extensive suite of supporting documents that will be required, including a Financial Plan, a Risk Management Strategy and a Communications/Stakeholder Management Plan.

2.5 Commitments in the Heads of Terms are given under five broad areas for investment, these being:-

- research, development, and innovation;
- employability, and skills;
- transport;
- culture; and
- housing.

Amongst the itemised commitments in the Heads of Terms, those of most relevance and benefit to Midlothian are:-

- Data storage and analysis technology investment at Easter Bush.
- Scaled up incubation space for bioscience businesses and specialist facilities at Easter Bush, delivering alignment with the Roslin Institute's research excellence in agritech and extensive industry partnerships.
- Investment in economic infrastructure including industrial and business premises to ensure maximum impact from the innovation investment.
- Investment in the delivery of an Integrated Regional Employability and Skills Programme.
- Improvements to the A720 City Bypass to provide for grade separation of the Sheriffhall Roundabout.

3.0 The Midlothian Context

3.1 The Heads of Terms provide only a high level summary of the scope and direction of the City Deal. At a more detailed level there are particular projects and initiatives being developed across the region, some specific to particular geographical locations, and others of a more region-wide nature. In respect of Midlothian the following are particularly relevant.

3.2 **Infrastructure**: the Heads of Terms commit to improvement of the A720 City Bypass with specific reference to the Sheriffhall junction. As part of the additional investment at Easter Bush to drive major innovation projects, associated infrastructure in the form of the A701 relief road and A702 spur road are included. These proposed roads are included in the soon to be adopted Midlothian Local Development Plan. In September 2017 the first contract for ground investigation work along the route was let, and a second contract to cover traffic/transportation/preliminary road design is due to awarded before the end of 2017: both contracts being fully developer funded. The full costs of the scheme are due to be funded by a combination of City Deal, developer contributions, and allocated Council monies. In order to secure the City Deal funding an outline business case will need to be prepared and submitted to Government.

3.3 **Centres of Excellence in Schools**: these are a key part of Midlothian's vision to create a world class education system. Based primarily within secondary schools, Centres of Excellence would offer opportunities for deeper learning through an enhanced curriculum, specialist teaching, dedicated resources and high quality vocational experiences. City Deal funding would be expected to contribute to a three phase programme. The first phase will be the establishment of a Centre of Excellence in Digital which will be based at the Newbattle Community High School. The second phase will be the building of a new facility linked to the Easter Bush (Midlothian Science Zone) to deliver a Centre of Excellence in STEM (science, technology, engineering, and maths) subjects. The third phase will be the building of a new secondary school within the newly developing Shawfair community, to include a Centre of Excellence in the Creative Industries by 2025.

3.4 **Skills Development**: this is a region-wide programme, but is of particular relevance to Midlothian due to its relatively low skill/low wage labour force when compared with the remainder of the City Deal region. Skills development is a core component of the City Deal to provide maximum impact and opportunity for those taking their first steps into employment and those seeking career progression in economic growth areas where skills shortages are likely to exist. A range of measures will be implemented comprising labour market analysis, integrated business support/employer offer, intensive family support service, integrated knowledge management, targeted skills development, talent banks, digital enablement, and concessionary travel.

3.5 **Housing**: although the Heads of Terms did not include the levels of new investment and provisions that the six partner Councils had been seeking, they did provide for greater region-wide collaboration on the key themes of infrastructure, affordable housing, housing delivery vehicles, strategic use of public sector land and property, and skills and innovation. There is expected to be City Deal support in the development of major new housing sites across the region, including Shawfair. A housing infrastructure fund of up to £50m of predominantly private sector loans will be provided to unlock housing in such strategic development sites.

4.0 Proposed City Deal Governance Arrangements

4.1 To ensure the proper implementation of the City Deal there needs to be a definitive governance arrangement that is adequately supported and resourced. During the preparation of the City Deal bid there has been a Council Leaders' Group, meeting effectively as an informal joint committee since June 2016, with input from representatives of the business and higher education sectors. In support of that Group has been a Chief Executives' Group of the six constituent councils.

4.2 Now that the City Deal Heads of Terms have been signed there is a need to establish more formal arrangements. The proposals are for:-

a) a Joint Committee which is the supreme body making the final decisions on all major matters concerning the City Deal;
b) a new cross-regional Business Leadership group to bring together voices from across the private sector to play a full role in the development and delivery of the City Deal; and
c) an Executive Board comprising the six regional local authority chief executives, and the six regional local authority directors with a remit for the economy, with a representative from the region's universities and colleges; its remit being to support the Joint Committee in the delivery of the City Deal Programme.

4.3 Details of the proposed arrangements for the Joint Committee comprise Appendix B to this report. The proposed remit provides the Joint Committee with decision making powers, but would require any decision to commit funds and resources to be undertaken by individual governing bodies rather than the Joint Committee. The proposals include non-council members, although the relevant legislation requires that the Joint Committee must consist of at least two-thirds councillors.

4.4 Throughout the period of the City Deal, and particularly in its early stages there will need to be a Programme Management Office to undertake essential work to support the Joint Committee and Executive Board. This would comprise a number of full-time officers, primarily seconded from the partner Councils. Each Council would therefore need to provide financial and/or staff contribution to the Programme Management Office.

4.5 To formalise the process it is proposed that a minute of agreement be prepared to set the arrangements for the role, remit, powers and operation of the Joint Committee. The details set out in at Appendix to this report would form the basis of the minute of agreement.

5.0 Report Implications

5.1 Resource

There are no specific financial resource implications arising from the establishment of the Joint Committee. However, the total governance structure includes a project management office which will require a contribution towards its running costs. The proposed arrangement will require a maximum contribution from Midlothian of £28,000. Additional costs, estimated at about £20,000 will be incurred in the preparation of the outline business case for the A701/A702 roads project. These costs, amounting up to £48,000 will be met from General Fund Reserve set aside to fund costs associated with transformation.

5.2 Risk

Without a definitive and properly resourced governance structure the implementation of the City Deal will risk being less effective through lack of co-ordination and direction.

5.3 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

5.4 Impact on Performance and Outcomes

Proper governance of City Deal will maximise achievement of outcomes.

5.5 Adopting a Preventative Approach

Not applicable to this report.

5.6 Involving Communities and Other Stakeholders

Not applicable to this report.

5.7 Ensuring Equalities

This report is not proposing any new policies or strategies and has therefore not been assessed for equalities.

5.8 Supporting Sustainable Development

This is a primary outcome of the City Deal.

5.9 IT Issues

None.

6.0 Summary

6.1 With the formal signing of the City Deal Heads of Terms on 20 July 2017 attention can now turn to its implementation. It is important to establish at an early date a definitive governance structure. It is equally important to ensure that there is sufficiently resourced programme management in place to support the Joint Committee; most particularly over the next 9 to 12 months when a substantial amount of work is required on the preparation of detailed documents to underpin the overall range of City Deal programmes and projects.

7.0 Recommendations

7.1 Council is recommended:-

a) to agree to establish a Joint Committee under Section 57 of the Local Government (Scotland) Act 1973 with City of Edinburgh, East Lothian, Fife, West Lothian and Scottish Borders Council, representatives from the higher and further education sector, and business to oversee the governance arrangements for the Edinburgh and South East Scotland City Region Deal;

b) to agree that the Leader of the Council be appointed to represent the Council on the Joint Committee;

c) to delegate authority to the Chief Executive, in consultation with the Leader of the Council, to negotiate and agree the minute of agreement establishing the Joint Committee, with reference to the principles set out in Appendix B to this report;

d) to note the costs of project business case preparation, and the financial contribution that will be required towards the project management office, and to delegate the Chief Executive to finalise the necessary arrangements.; and

e) to require further and regular update reports on the progress of the City Deal.

12 October 2017

Report Contact: Ian Johnson, Head of Communities and Economy
0131 271 3460
ian.johnson@midlothian.gov.uk

Background Papers: None

APPENDIX B

Item 8.2

Joint Committee Arrangements

Membership

There will be one representative from each council, except in the case where there are joint leaders, where two will be permitted. There will be three non-Council representatives (including a minimum of one business and one regional higher and further education representative from the Edinburgh and South East Scotland city region). Each representative organisation will be allocated one vote.

Period of Office

The period off office will be determined by each individual member authority, but must not extend beyond the next local government elections.

Meetings

There will be a minimum of six meetings per annum.

Convener and Vice-Convener

The chair and vice-chair will be rotated annually.

Quorum

The quorum will be three elected members and three councils, plus one non-council representative.

Remit

- Oversee the implementation of the Edinburgh and South East Scotland City Region Deal programme;
- Monitor the impact of the Edinburgh and South East Scotland City Region Deal Programme;
- Build and support inclusive growth focusing on the needs of the local area and strengthening the partnership between public, private and third sectors;
- Improve business involvement from the Edinburgh and South East Scotland city region in local decision making;
- Collaborate and work in partnership to assist in delivering regional planning and transport policy linking the Edinburgh and South East Scotland City Region Deal to SESTRAN and SESPlan; and
- work in partnership on other initiatives across the Edinburgh and South East Scotland city region with the explicit support of individual constituent members.

Standing Orders

The Joint Committee should adopt its own Standing Orders.

Meeting Arrangements

Any minute of agreement should include the arrangements for the location of meetings and which constituent council will administer the meeting.

Timescales

These arrangements will be reviewed by the members after the first six and twelve months. After partners enter the delivery stage, this will be reviewed periodically as deemed appropriate.

APPENDIX A

Item 8.2

EDINBURGH AND SOUTH EAST SCOTLAND CITY REGION DEAL

Heads of Terms

Our signing of this document confirms our joint commitment to achieve full implementation of the Edinburgh and South East Scotland City Region Deal.

....	....
Keith Brown MSP Cabinet Secretary for Economy, Jobs and Fair Work Scottish Government	Damian Green MP First Secretary of State UK Government
....	....
Cllr Willie Innes Leader of East Lothian Council	Cllr Adam McVey Leader of The City of Edinburgh Council
....	....
Cllr David Alexander Co-Leader of Fife Council	Cllr David Ross Co-Leader of Fife Council
....	....
Cllr Derek Milligan Leader of Midlothian Council	Cllr Shona Haslam Leader of Scottish Borders Council
....	
Cllr Kirsteen Sullivan Depute Leader of West Lothian Council	
....	....
Prof Charlie Jeffery Convener, ESES FE&HE Consortium University of Edinburgh	Sir John Elvidge Convener, ESES Business Consortium

EXECUTIVE SUMMARY

1. The Edinburgh and South East Scotland City Region comprises the six local authorities of City of Edinburgh, Fife, East Lothian, Midlothian, Scottish Borders and West Lothian. It is one of the most prosperous and productive UK regions and includes Scotland's iconic capital city, recognised worldwide for its culture, history and architecture.

2. The city region has a population of approximately 1.4 million people, more than a quarter of the Scottish population. Regional partners calculate that it contributes over £33 billion per year to the Scottish and UK economies.

3. A key driver for the investment in this deal is the opportunity to address inclusion across the region. Prosperity and success is not universal across the region: 21% of children are living in poverty; there is a lack of mid-market and affordable housing; and too many people are unable to move on from low wage/low skill jobs. The deal will address these issues, create new economic opportunities, and is expected to provide up to 21,000 new jobs. The region's new skills programme, alongside improved transport and housing provision, will ensure that businesses and communities across the region will benefit and will be given the chance to take advantage of these exciting new opportunities.

4. Since Spring 2016, the Scottish and UK Governments have been working with local partners to develop a transformational and inclusive city deal for the region that will:
   - Build on the region's strengths such as its high growth sectors that will provide the jobs of the future, its world class universities that are working with businesses on ground breaking R&D and innovation and Edinburgh's world class cultural offer.
   - Address key economic barriers with significant new investment in housing and transport.
   - Address issues which are constraining the region's economic potential and which match the strategic priorities for growth as outlined in the Scottish Government's Economic Strategy and the UK Government's emerging Industrial Strategy.

5. This heads of terms is a tripartite agreement between the Scottish Government, the UK Government and regional partners. **Both Governments are committed to jointly investing up to £600m over the next 15 years subject to:**
   - approval of final business cases for all projects and programmes;
   - development of a final city deal document and implementation plan;
   - establishment of clear and robust governance arrangements; and
   - the consent of all constituent local authorities and partners.

6. Regional partners have committed to contributing up to £501m to match fund the joint commitment from both governments. Overall this represents a deal worth over £1.1bn of investment.

7. This document represents a heads of terms agreement. Further detail on the implementation of specific commitments will follow in a finalised City Region Deal

document. This heads of terms document has been produced for the purposes of outlining the principles of the deal and does not form a legally binding contract.

THE COMMITMENTS

RESEARCH, DEVELOPMENT, AND INNOVATION PROGRAMME

8. Innovation is the lifeblood of the region's economy. The region is already home to world class research and development activity, much of which acts as an anchor for the development of new products and services through innovation in the private sector.

9. In Edinburgh city centre, approximately 2,400 people are employed in 570 technology led businesses, in close proximity to the University of Edinburgh. Growth has been impressive, with an increase of 58% and 48% in GVA and turnover respectively between 2010-14. Both Governments and local partners recognise the potential to further accelerate the development of key sectors (e.g. data science, robotics, financial services, fintech, agritech, creative and digital sectors) and to ensure the benefits of this growth are spread across the region.

10. As such the UK Government, Scottish Government and local partners have agreed a transformational Research, Development and Innovation programme (RD&I) for the region. This will drive further growth in the above sectors of the city region's economy and will support wider reform and improvement in public service provision.

Key commitments include

11. The UK Government and the Scottish Government will provide up to £350m of capital funding over a fifteen-year period to support the development of:

- **Data storage and analysis technology that will allow large datasets to be brought together, in a secure environment, from public and private sector organisations**. This data analysis repository will allow the development of new products and services within key sectors. It will be based at the UK's National Supercomputer Centre at Easter Bush and will be connected to a region-wide Internet of Things (IoT) network.

- **Five RD&I sectoral hubs** that will draw on the data repository and support RD&I activity in key sectors.

    - **The Bayes Centre for data**, a facility adjacent to the existing School of Informatics, which will provide shared working spaces for world-leading applied researchers, students, existing data science institutes and industry to drive data-driven Innovation.

    - **The Quartermile Old Royal Infirmary** will bring together researchers, businesses and key public sector organisations to drive RD&I in financial services, fintech, creative and media technology, tourism and public service provision

- **The Usher Institute** building within Edinburgh's BioQuarter will house a centre for utilising data at scale to support data-driven health research, medical informatics and population health sciences.

- **The National Robotarium** will be co-located on the Heriot-Watt University campus. It will offer access to leading-edge applied research in autonomous systems, sensor technologies, existing micro-assembly equipment. The Robotarium will also have access to the resources of both Heriot-Watt University and the University of Edinburgh.

- Scaled-up incubation space for bioscience businesses and specialist facilities at **Easter Bush**, delivering alignment with the Roslin Institute's research excellence in agritech and extensive industry partnerships.

- A **Food and Drink Innovation Campus located at Queen Margaret University** which will enhance and grow the nation's food and drink sector. This will stimulate economic growth based on both national and international markets.

- **An Edinburgh and South East Scotland programme of investment in economic infrastructure** to ensure that businesses and communities across the region are fully able to engage in the data-driven innovation opportunities, **including industrial and business premises, to ensure maximum impact from the innovation investment**. Local partners and the private sector will invest significant additional funding to deliver key regional economic priorities including new industrial and business premises at Tweedbank, in the Scottish Borders, and across Fife.

12. Complementing the Government investment, the private sector and local partners will invest £52m of capital funding to support the development of the RD&I hubs and a further £201m over a 10-year period, to provide a university-led innovation support programme that will:

- support companies to undertake RD&I activities in the RD&I sectoral hubs;
- support research and commercialisation of new products and services;
- create and deliver new Higher Education courses; and
- support the development of a new generation of entrepreneurs – working in key sectors.

EMPLOYABILITY AND SKILLS

13. The Scottish Government's recent Enterprise and Skills Review identified opportunities to strengthen regional delivery to achieve better outcomes.

14. **Key commitments include:**

- The Scottish Government will support the regional partners to stimulate active collaboration to deliver better outcomes for all of the region and particularly those people facing significant disadvantages to securing and sustaining meaningful, high quality employment.

- The Scottish Government will invest up to £25m (over eight years) in the regional partnership to deliver an Integrated Regional Employability and Skills Programme. This will reduce skills shortages and gaps, and deliver incremental system-wide improvements to boost the flow of individuals from disadvantaged groups (e.g. young care leavers, workless, and those in low paid or insecure jobs) into the good career opportunities that will be generated through the city region deal investment. This will deliver better impact from existing public, private and third sector investments.

TRANSPORT

15. This deal will deliver major investments to ensure that Scotland's capital and its region is served by world class transport infrastructure. The recently published SESplan cross-boundary study of the region has helped to show where transport investment will be most effectively targeted.

16. Partners will put in place a regional developer contributions framework which takes account of work being led by SESplan and the emerging findings of the jointly-produced cross-boundary study. These interventions and commitments, taken with the additional transport investment to enable the innovation and housing projects, will help ensure the region continues to grow and flourish.

17. **Key commitments include:**

- The Scottish Government will invest up to £120m to support improvements to the A720 City Bypass for the grade separation of Sheriffhall Roundabout.

- The Scottish Government will provide £20m investment to support public transport infrastructure improvements identified by the West Edinburgh Transport Appraisal, alongside investment from partners and the private sector.

- The Scottish Government commits to continuing to work collaboratively with the regional partners on identified regionally-led local transport investment priorities through the establishment of a Transport Appraisal Working group, with an agreed and mutually shared remit and proposed outcomes. Partners will have the opportunity to be involved in and influence the second Strategic Transport Projects Review.

CULTURE

18. Scotland's capital city has a world-class cultural offer which is vital in attracting around four million visitors a year who inject £1.3 billion to the region's economy. The new concert hall unlocked through this city deal will deliver £40m private sector investment and make a significant contribution to the ongoing success of Edinburgh's cultural offer.

19. **Key commitments include:**

- Both Governments will provide up to £10m each (a maximum of £20m) of capital funding to support the delivery of a new IMPACT concert hall that will reinforce Edinburgh's position as a pre-eminent Festival City.

HOUSING

20. As part of this deal, a regional housing programme recognises the very significant housing pressures across the region and the need to provide suitable housing to support sustainable economic growth.

21. The regional partners have committed, supported by the Scottish Government to deliver a 10-year ambitious programme of new housing across the region, delivering certainty to SMEs and maximising the economic benefit from the construction process through a substantial increase in off-site construction methods. This will be supported by existing training programmes through the Construction Scotland Innovation Centre.

22. This joint approach between local partners and Scottish Government will support the delivery of significant numbers of new homes across the region. Key to this scale of delivery is the unlocking of seven strategic sites. These are Winchburgh, Blindwells, Edinburgh's Waterfront, Calderwood, Shawfair, Tweedbank and Dunfermline.

23. The Scottish Government will support this delivery with the following key commitments:

- Build on the recently committed additional £125 million between 2018/19-2020/21 to support the regional partners' 10-year affordable housing programme, subject to successful progress on this initial phase. Work on the next phase of the programme and the associated funding profile beyond 2020/21 to achieve agreed outcomes will begin in 2018.

- Guarantee on a risk-sharing basis alongside West Lothian Council, up to £150m of infrastructure investment that will unlock up to 5,000 new homes in Winchburgh, West Lothian.

- Prioritise and work with local authorities on a site-by-site basis to support local authority borrowing and share the financing risk of infrastructure delivery required across these sites, learning from the Winchburgh approach.

- Provide housing infrastructure funding of up to £50m, of predominantly private sector loans, to be spent on projects that will unlock housing in strategic development sites across the region and which will build upon the regional strengths in off-site construction creating new economic and export opportunities.

- Provide a financing and funding package comprised of consent to on-lend up to £248m and an additional one-off £15m capital grant to enable the City of Edinburgh Council to establish a new regional housing company to deliver a minimum of 1,500 homes at mid-market rent and competitive market rent levels.

24. Both Governments will also work with regional partners to maximise the potential contribution of public sector land and property in the region to help unlock further new housing.

25. These interventions will be linked to inclusive growth objectives through the creation of new jobs in deprived areas with investment linked to training opportunities.

GOVERNANCE AND ASSURANCE

26. Strong and effective leadership and governance is paramount to both successful implementation and in providing assurance to governments, local authorities and wider regional partners. To date, the city region deal has been developed through joint working by the region's local authorities and two consortiums, one for the business community and one for Higher and Further Education establishments, led by the University of Edinburgh.

Key commitments include:

27. Local partners will demonstrate the value for money case for each project and programme before funding is made available. As such, all commitments in this document are subject to the approval of final business cases from the relevant Government, or from both Governments in the case of jointly funded projects.

28. Partners will establish a new model of regional governance that will encompass the best practice approaches identified within the regional partnerships work stream of Phase 2 of the Enterprise and Skills Review. Following the recommendations of the Enterprise and Skills Review the model will focus on the needs of the area and will include an integral role for the private and third sectors. The new regional governance will include effective engagement with Scottish Enterprise, Skills Development Scotland and incorporate senior business and industry leadership. In respect of the Scottish Borders, the announcement of the South of Scotland Enterprise Agency will require Scottish Borders Council, all agencies and Government to take an approach that ensures an effective fit between the governance for the City Region Deal and the statutory nature of the new Agency.

29. The Scottish Government is developing an Inclusive Growth monitoring framework which will incorporate clear indicators to measure progress towards the five high-level inclusive growth outcomes (Economic Performance and Productivity, Labour Market Access, Fair Work, People, and Place) and will expect the City Region Deal evaluation and monitoring reports to align with this.

30. Local partners will work with both the UK Government and the Scottish Government to develop a final City Region Deal document, detailed implementation plan with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK and/or Scottish Governments.

31. Local partners will work with both the UK Government and Scottish Government to agree a communications strategy and an operating protocol. Both documents will set out how communications about the City Region Deal and its associated activities are taken forward, in a way that meet the needs of the regional partners as well as the UK and Scottish Governments.

ENDS

EY Final Audit Report

Report by Chief Executive

1 Purpose of Report

The purpose of this report is to bring to Council's attention the Annual Audit Report to Members and the Controller of Audit for the Financial Year ended 31 March 2017, prepared by the External Auditors, EY, which is attached hereto.

2 Background

The report was considered in detail by the Audit Committee on 26 September 2017. The report provides detailed information on – financial management; financial sustainability; governance and transparency and; value for money.

The Audit Committee noted and approved the Report.

3 Report Implications

These remain unchanged from those highlighted in the report by EY.

4 Recommendations

Council is invited to note the terms of the Report.

Date 16 October 2017

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Midlothian Council

Year ended 31 March 2017
Annual Audit Report

12 October 2017

Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

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

Complaints

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

Executive summary – overview

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council (the Council) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Auditing Practices Board; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the Council and the Controller of Audit, and presented to both Council management and those charged with governance, identified at the Council as being the Audit Committee. It will be published on Audit Scotland's website.

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

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 21 March 2017. We summarise the responsibilities of the Council in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £5 million and a Tolerable Error of £2.5 million. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. Based on this reassessment, we increased our materiality amounts to £6 million and a Tolerable Error of £3 million. The threshold for reporting audit differences is £250,000, in accordance with the Code.

Status of the audit

We have completed our audit of the Council's financial statements for the year ended 31 March 2017. We have issued an unqualified opinion on the Council's financial statements for the year. The financial statements were approved by the Audit Committee on 26 September, but due to delays in processing presentational amendments, these were not formally signed until 11 October 2017.

Key contacts

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Acknowledgement

We would like to thank all members of the Council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the Council's financial statements

Preparation of financial statements

- The unaudited financial statements were prepared in accordance with statutory timescales. They required significant presentational and disclosure adjustments as a result of the audit. An increased focus is required and management should ensure that there is a robust review process to ensure the completeness and accuracy of the financial statements prior to being made available for audit and public inspection.
- There were two unadjusted audit differences reflecting the chosen accounting treatment of capitalisation of HRA contributions and recognition of Borders railway in year transactions. We concur with management's view that these are not material and we do not consider these require adjustment.

Significant risks

Risk of fraud in income and / or expenditure recognition

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Management override of controls

- We are have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- Management has included disclosure on the accounting judgements and estimates made, although we consider that there is scope for improvement in the supporting documentation underlying key accounting treatments.

Other inherent risks

Retirement benefits

- Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable and the required disclosures have been provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Valuation of property, plant and equipment

- We identified a number of errors in the Council's valuations in the current year. This was mainly due to a lack of robust review and scrutiny of valuations by the in-house team. The cumulative impact of these errors on the carrying value of property, plant and equipment was £7.8 million.
- While appropriate adjustments have been made to the financial statements, management should enhance the existing process to ensure timely consideration of the impact of market movements on valuations.
- The transition to a new asset register was completed for year end. We are satisfied that the new asset register is materially complete and accurate.

Other matters and reporting requirements

- The Expenditure and Funding Analysis has been presented in accordance with guidance and the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement restated accordingly. We consider the disclosures provided to be appropriate to the internal reporting of the Council.
- We identified an audit adjustment to reflect the provision relating to the Council's obligations to the Scottish Government under the Borders Railway agreement. This has been reflected as a prior year adjustment.
- We concluded our work on the opening balances as part of the requirements for initial audit engagements. Management re-presented prior year financial statement balances to reflect clarification of the accounting treatment of grant income. This resulted in a £22.6 million increase to net cost of services.
- We have concluded that the Council has complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the Council's arrangements

Financial management – area of audit focus

- Council services have failed to operate within established budgets. This was predominately due to a failure to achieve financial savings planned through the transformation programme and heath and social care demand pressures. Achievement of longer term financial sustainability is dependent on the Council not only identify savings but also ensuring that there is sufficient ongoing challenge and scrutiny to ensure savings proposals are delivered on in-year.
- Robust financial management arrangements are therefore critical for the Council, particularly in a period of a challenging financial environment. While we consider reporting arrangements have been enhanced during the period, these need to be further developed, especially in reporting progress on delivery of the transformational change programme.

We have made three recommendations in the action plan (points 5, 6 and 7), two of which are graded one, in respect of the Council's arrangements.

Financial sustainability – area of audit focus

- The Council faces significant financial challenges over the next five years. Management has forecast a budget funding gap of £44.9 million by 2021/22 and uncommitted general fund balance is currently at its lowest level for a number of years. Work is underway to identify potential options to deliver the required level of savings.
- Based on forecast overspends on the 2017/18 budget it is critical that these plans are developed and evaluated urgently and aligned to the Council's priorities as set out by members.

We have made two recommendations (points 8 and 9) , two of which are graded one, in respect of the Council's arrangements.

Governance and transparency – area of audit focus

- The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles.
- Management has undertaken a review of internal audit. Subsequent to the year end the Chief Internal Auditor post is vacant with temporary arrangements in place. There are opportunities to enhance the role and standing of the function within the organisation.

We have made four recommendations (points 10 to 12), one of which is graded one, in respect of the Council's arrangements.

Value for Money

- The Council monitors a suite of performance indicators through the Covalent system. This incorporates external benchmarking, which is embedded within the Council's performance monitoring arrangement.
- The Council recognises areas of performance that require focus and these are clearly reported within internal and publically available performance reports. Areas for improvement and of strategic importance are detailed within the Single Midlothian Plan.

We have not identified any recommendations in respect of the Council's arrangements. We will undertake more detailed work on performance as part of our 2018/19 audit.

Appendices

We set out in the appendices a number of required communications we provide in accordance with auditing and ethical standards. In particular, we have confirmed our continuing independence to act as auditor of the Council. Ongoing non-audit services totalling £49,000 in respect of the Midlothian Zero Waste project have been provided during the year.

We also provide a short accounting and regulatory update highlighting forthcoming changes and their potential impact on the Council.

1. Financial statements and accounting

1. Financial statements and accounting

The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

In respect of the financial statements, we issued an unqualified opinion on the truth and fairness of the state of affairs of the Council and its group at 31 March 2017 and of the deficit on provision of services for the year then ended, in accordance with applicable law and the 2016/17 Code of Practice. The detailed form and content of our audit report, plus the requirements underpinning the report are contained in the Audit Scotland guidance at:

http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017_5_local_authorities.pdf.

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973.

Materiality

We planned our procedures using a materiality of £5 million. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. Based on the revised year end reporting figures we deemed it appropriate to update our materiality to £6 million as a result. Our audit Tolerable Error for the audit was £3 million and the threshold for reporting audit differences is £250,000.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

We identified two unadjusted audit differences to the draft financial statements which management has chosen not to adjust. We ask that the audit committee and Council note this and that these will be included in the Letter of Representation. The aggregated impact of the unadjusted audit differences would be a £1 million increase to grant income in the comprehensive income and expenditure account. The closing net assets on the balance sheet are correct. We agree with management's assessment that the impact is not material overall to the financial statements.

There were a number of audit differences identified which were adjusted by management. Included within these was a requirement to represent capital grant income in the prior year which resulted in an adjustment to the prior year comparative figures. We provide details of the reasons behind these adjustments within the relevant section of the report.

The overall impact of adjusted audit differences was a £0.5 million decrease to deficit on net cost of services.

Full details can be found in Appendix E - Summary of Audit Differences.

Financial statements preparation

As part of our oversight of the Council's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared to support the audit.

The financial statement preparation process requires improvement. The unaudited financial statements contained a number of errors including those impacting on the primary financial statements. Details of these are included in Appendix E – Summary of Audit differences. Due to errors in year-end accounts working papers, the net cost of services, gross income and expenditure was understated by £42.8 million. A number of disclosure corrections were required to the financial statements. The financial statements were approved by the Audit Committee on 26 September, but due to delays in processing presentational amendments, these were not formally signed until 11 October 2017.

Accounting for the revaluation of property, plant and equipment

Property, plant and equipment represents over 85% of the Council's total assets. The majority of property, plant and equipment assets are subject to rolling revaluation, and therefore complete and accurate records supporting the revaluation are a critical part of the Council's accounting records. We identified specific issues with the quality of records to support revaluations conducted during the period. In particular, we found:

- transposition errors in the valuation working papers resulting in material errors to the asset valuations disclosed in the draft financial statements
- insufficient documentary evidence to support the rationale for valuation assumptions applied and valuations being applied which had not been undertaken by internal valuation specialists; some valuations were materially overstated in the draft financial statements.

The cumulative impact of these errors on the carrying value of property, plant and equipment was £7.8 million.

Overall, a lack of oversight and scrutiny of the valuations prior to audit resulted in a number of adjustments required to the draft financial statements. We recommend that there is a more robust process to review the accuracy and appropriateness of valuations performed and the quality of the output.

Action plan point – 1

During our audit testing we identified that the Council's property, plant and equipment balances included amounts held relating to HRA contributions to support planned essential infrastructure, principally school capacity. This expenditure does not represent capital expenditure until the infrastructure is developed as there is no commitment or payment to parties external to the Council. Management has chosen not to adjust the financial statements as they are of the view that it is not material to the reported financial result. We concur with management's view and have included an unadjusted misstatement within Appendix E – summary of audit differences.

From a budgetary perspective this impacts on the treatment of capital funding costs through HRA reserves. To address this matter for future periods, management are reviewing options available to ensure that capital costs are appropriately reflected while remaining consistent with financial strategy to support the HRA and general funds. This includes planned consultation with CIPFA on appropriate recognition within the financial statements.

Action plan point – 2

In preparing the financial statements, the Council makes key judgements including areas of judgement or uncertainty. During our audit we found that there was not always clearly documented consideration and review of critical assumptions applied.

Overall there is scope to improve the financial reporting process, and to streamline the format and content of financial statements. The financial statements, including the unaudited financial statements presented for public inspection are an important role in the Council's financial governance arrangements. It is therefore important that the Council establishes more effective oversight and scrutiny arrangements in this area.

Action plan point – 3

Our Audit Plan identified key areas of focus for our audit of the Council's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and/or exposure.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the risk of improper recognition of revenue in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. This is because there is no judgement in respect of the recognition of these income streams.

Results of audit procedures

In relation to income, predominantly fees and charges, and other operating expenses where we had identified a significant risk of material misstatement, we:

- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Reviewed transaction listings for individually material transactions as well as unusual items (debits to income, credits to expenditure etc.) to agree to supporting documentation and third party evidence.
- Tested a representative sample of transactions across the remaining untested income and expenditure population to ensure coverage of testing across all balances.
- Reviewed and tested revenue cut-off around the year end through reviewing manual journals posted to revenue and reviewing material credit notes raised after year end.
- Performed a search for material receipts received after year end and ensured these had been accounted for in the correct period.

Where we are performing procedures to address significant risks to the financial statements we do so to a lower level of materiality than for standard accounts. All procedures outlined above were completed with no material reported audit differences or other matters noted.

Other income and expenditure areas

The most significant area of revenues was taxation and non-specific grant income of £202.6 million. £134.2 million of this related to government grant income which we substantively tested to grant confirmation letters, or release of capital grants in year. The remainder is made up of £31.9 million of NDR redistributions and £36.4 million of council tax income. These were agreed either to funding correspondence, and / or through establishing detailed expectations of income and expenditure, agreeing underlying assumptions to supporting evidence, and comparison to actual income and expenditure recorded by the Council in the year.

For expenditure, £128 million relates to payroll costs. These have been subject to detailed analytical procedures and reconciliation to underlying payroll information. We have agreed PPP transaction costs to the contract and finance models. Depreciation and impairment charges have been subject to detailed audit testing, including reconciliation to the fixed asset register.

Risk of fraud in income and expenditure recognition – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

Significant risk – management override
What is the risk?
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Audit procedures performed and what did we find?
Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements We obtained a full list of journals posted to the general ledger during the year, and analysed them to identify any unusual journal types or amounts. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation. We tested the appropriateness of journals and other adjustments made in the preparation of the financial statements.
Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates. We identified and considered the existence of any accounting estimates and their susceptibility to bias. Management has disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. While we have reviewed and agreed these, in line with earlier comments, there is scope to improve the documentation by management of these key judgements.
Evaluate the business rationale for any significant unusual transactions. We did not identify any significant unusual transactions outside the normal course of business.
Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure that HRA reserves were not being utilised to meet general fund transactions. No issues were identified through our testing.

Risk of fraud through management override – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- Management have included disclosure on the accounting judgements and estimates made, although we consider that there is scope for better supporting documentation underlying key accounting treatments.

Other inherent risks – valuation of property, plant and equipment (PPE)
What is the risk?
The Council's property portfolio totals £0.6 billion as at 31 March 2016, with the major elements of this being in respect of Council Dwellings, Other Land and Buildings and Infrastructure assets. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assigned a higher inherent risk to valuation of property, plant and equipment.
Results of audit procedures

In response to our identified risk around property valuations, we performed the following procedures:

- Through analysis of the source data and through enquiries of management, the appropriateness as to the procedures used by management's specialist to establish whether the source date is complete.
- Assessment of the reasonableness of the assumptions and methods used in the valuation of land and buildings, including their compliance with the Accounting Code of Practice.
- Consideration of the appropriateness of the timing of when the specialist carried out the work.
- Confirmed the substance of the specialist's findings were properly reflected in the financial statements.

Testing of the revaluation exercise completed in the year identified a number of errors in the valuations reflected in the unaudited financial statements. Details of these are included above under the financial statements preparation section and have been included in Appendix E – Summary of Audit Differences. We are satisfied that these adjustments have been reflected appropriately in the updated financial statements.

The Council has a rolling five year programme of valuations. The Code of Practice on Local Authority Accounting requires that the Council carries assets on the balance sheet at fair value. The Council considers material changes in asset valuations through consideration of significant capital additions in the year as well as discussions with in-house valuers around potential asset impairments. This process does not consider the impact of market movements on fair value. While we are satisfied that the Council's valuations have been appropriately reflected within the financial statements, we recommend that management enhance the existing valuation process to ensure that there is a robust process for ensuring that asset valuations do not materially differ from current value over the rolling cycle of valuations.

Action plan point – 4

During 2016/17, the Council replaced the previous fixed asset application, Logotech, with a Capita based platform. It is important that asset valuations and balances transitioned completely and accurately to the new platform and that the application appropriately records property, plant and equipment.

We performed the following procedures over the new fixed asset register:

- Reviewed the reconciliation between the new and old asset registers and confirmed the completeness and accuracy of the data migration.
- Tested the new application to ensure that fixed asset transactions including: depreciation, additions, valuations and disposals were correctly reflected on the register.

We are satisfied that the new asset register is materially complete and accurate.

Other inherent risks, valuation of property, plant and equipment – what have we concluded?

- We identified errors in the Council's valuations due to a lack of robust review and scrutiny of valuations. The cumulative impact of these errors on the carrying value of PPE was £7.8 million. In addition, the existing process to consider the impact of market movements on valuations could be enhanced.
- Testing on the new asset register provided assurance that it is materially complete and accurate.

Other inherent risks – retirement benefits
What is the risk?
The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS). Accounting for the pension fund assets and liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Results of audit procedures
In planning our audit, we identified that pension liabilities at 31 March 2016 were £68.1 million. Following the result of the EU Referendum in June 2016, we saw significant changes in certain economic assumptions used in the valuation of pension liabilities leading to significant increases in reported net pension liabilities by entities with accounting year-ends after June 2016. At 31 March 2017, the Council's net pension liability had increased to £118 million, primarily as a result of changes in the discount rate used to value the pension obligations. Our audit procedures included: ► Analysis of the payroll and pensions source data and made inquiries as to the procedures used by management's specialist to establish whether the source date was relevant and reliable. ► Utilisation of EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2017. As part of this work, our specialists considered the work undertaken by PWC on behalf of the public audit agencies to provide assurance over the major actuarial firms involved in preparing IAS 19 valuation reports. Assumptions used by the actuary and adopted by the Council are considered to be within our acceptable range. ► Testing of the journal entries for the pension transactions to ensure that they were accurately processed and agreed the required disclosures in the financial statements to relevant information provided by the actuary.

Other inherent risks, retirement benefits – what have we concluded?

- Defined benefit pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable and the required disclosures have been provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Our Audit Plan identified other audit matters and aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

Other audit matters
Expenditure and funding analysis
In 2016/17 there were amendments to the Code of Practice on Local Authority Accounting as a result of the 'Telling the Story' review of the presentation of local authority financial statements. This no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead it requires that the service analysis is based on the organisational structure under which the authority operates, reflecting internal financial reporting structures. This change impacted the Consolidated Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS) and introduced the new expenditure and funding analysis (EFA), with full retrospective restatement of the CIES and MiRS. Our audit approach has focused on: ► Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the requirements. Management initially presented the EFA as the first statement within the financial statements. Since it does not form one of the four primary statements, we requested management to make the narrative clear that the EFA, while displayed prominently, is a note to the financial statements. ► Reviewing the analysis of how these figures are derived, the re-mapping of the ledger system to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported. ► Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.
Borders Railway
In 2015, the Council entered into an agreement with the Scottish Government, Scottish Borders Council, and the City of Edinburgh Council in relation to the funding of the Borders Railway development. The agreement requires the Council to contribute £11.7 million to the project, of which £3.2 million was an 'in-kind' contribution. Under the terms of the agreement, the Council has a legal commitment to make the remaining contribution of £8.5 million (index linked to £9.3 million as at 31 March 2017) to the Scottish Government. Under the terms of the agreement, the Council is liable for outstanding contributions. The agreement was entered into by the Council on the basis that contributions would be funded through third party section 75 developer contributions, and this is acknowledged in the agreement. The position has also been confirmed by the Council's Internal legal team. The Council has section 75 agreements in place with developers for £5.4 million and has also undertaken an analysis of future contributions that are expected to be utilised to meet the obligation. However, until a triggering event is reached, the Council does not have legal entitlement to this funding. In accounting terms, therefore, this cannot be utilised to offset the Council's contractual commitment to the Scottish Government. Management has updated the financial statements to reflect this obligation. As the liability crystallised in 2015 when the agreement was signed, this has been reflected as a prior year adjustment. The Council has since received developer contributions of £1 million which are payable to the Scottish Government (Transport Scotland). While we are satisfied that the amended financial statements state the closing liability correctly, we have raised an audit difference relating to the treatment of the cash receipt in year. Management do not consider this to be material to the financial statements and we concur.

Other audit matters – what have we concluded?

- The EFA has been presented in accordance with guidance and the MiRS and CIES restated accordingly. We consider the disclosures provided to be appropriate to the internal reporting of the Council.
- We identified an audit adjustment to reflect the liability relating to the Council's obligations to the Scottish Government under the Borders Railway agreement. This has been reflected as a prior year adjustment.

Other audit matters (continued)
Opening balances
International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements. In response, we have: ► Held discussions with the former external auditor in respect of previous significant audit issues, corporate governance and general risk assessment. ► Reviewed prior year financial statements, annual audit reports and other reports issued by the former external auditor. ► Substantively tested opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance. ► Undertaken a mix of testing on balances during 2016/17 which provides assurance on the judgements and estimates made as at 31 March 2016. Management represented the prior year financial statement balances to reflect clarification of the accounting treatment of grant income within the Code of Practice on Local Authority Accounting. The impact of the restatement was to incorporate £22.6 million into Net Cost of Services, previously included within grant income. We are satisfied that the prior year Comprehensive Income and Expenditure Statement has been appropriately updated. There are no other matters to raise with you as a result of our work.
Qualitative aspects of the financial statements
With the exception of the matters discussed specifically elsewhere in this report: ► We have reviewed the significant accounting policies, which are disclosed in the annual financial statements, and we consider these to be appropriate to the Council. ► There was no disagreement during the course of the audit over any accounting treatment or disclosure. ► There were no significant difficulties encountered in the audit.

Other audit matters – what have we concluded?
► We concluded our work on the opening balances as part of the requirements for initial audit engagements. Management represented the prior year financial statement balances to reflect clarification of the accounting treatment of grant income. This resulted in a £22.6 million increase to net cost of services

1. Financial statements and accounting

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the requirements of the Code.

Other reporting requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements on the Council in respect to the Annual Accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit. As required, we received the unaudited Annual Accounts by the 30 June. The Council considered the unaudited Annual Accounts on 27June 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

Management Commentary

The requirement for the Council to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the Scottish Government's statutory guidance within Local Government Finance Circular 5/2015.

We considered whether the management commentary provided a fair and balanced review of the Council's business; a description of the principal risks and uncertainties; financial and non-financial key performance indicators; a description of the Council's strategy and business model and the main trends and factors likely to affect future developments; performance and position of the Council's business and explanation of the amounts in the financial statements.

We made suggestions to provide additional detailed and specific analysis within the management commentary. Management updated the commentary appropriately to reflect key elements of our review.

Remuneration Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to nine staff totalling £0.5 million (*2015/16: 47 staff totalling £1.4 million*).

Annual Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*.

We set out the work undertaken in respect of the Council's annual governance statement as part of the Wider Scope – Governance & Transparency section of this Report.

Other reporting requirements – what have we concluded?

- We have concluded that the Council has complied with the requirements of the Regulations.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

2.1 Wider scope – Approach to Best Value

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. As your external auditor we also participate in the Local Area Network (LAN). The LAN brings together representatives from across different scrutiny bodies to agree a Shared Risk Assessment (SRA) for each local authority. The SRA informs the local scrutiny plan (LSP) ensuring that for any risks identified there is an appropriate scrutiny response.

The 2016/17 LSP reported that while there were no specific areas of scrutiny, outcomes of transformation and improvements to performance reporting were being monitored. The Scottish Housing Regulator were noted as monitoring progress in housing performance. The 2017/18 LSP confirmed no significant risks requiring specific scrutiny by the LAN had been identified. This formed the context for our audit and risk assessment.

Best Value auditing

Under the new approach to Best Value auditing in local government, the Controller of Audit will provide a Best Value Assurance Report (BVAR) for each council at least once in a five year period. The Council was not one of the six local authorities to be subject to a BVAR report in the first year of the new arrangements. We will be in discussion with management as the timetable for future local authority BVAR work becomes more certain.

The annual audit continues to focus on aspects of Best Value over our five year appointment. We have identified an indicative five year Best Value Plan in the table below. This will be subject to ongoing revision as priorities change or emerging risks arise.

The Accounts Commission has announced its strategic audit priorities and these are mapped across, at a high level, to the Best Value audit work planned as shown below.

A. The clarity of council priorities and quality of long-term planning to achieve these.

B. How effectively councils evaluate and implement options for significant changes in delivering services.

C. How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.

D. How effectively councils are involving citizens in decisions about services.

E. The quality of council public performance reporting to help citizens gauge improvement.

Indicative five year Best Value plan	2016/17	2017/18	2018/19	2019/20	2020/21	Mapping to Strategic Audit Priority
Planned BVAR			tbc	tbc	tbc	
Follow up of BVAR				tbc	tbc	
Audit coverage:						
Performance and outcomes		X				B
Improvement			X			-
Leadership, Governance and Scrutiny		X			X	A
Equal Opportunities			X			E
Partnership Working and Empowering Communities			X			C, D
Financial and service planning	X				X	A, C
Financial governance and resource management	X			X		-

2.2 Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial management

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- Is financial management effective?
- Are the budget setting and monitoring processes operating effectively?
- Is there sufficient financial capacity?

Area of audit focus

Our annual audit plan set out that financial management was a key audit focus area. This was based on:

- the Council forecasting a net overspend of over £1.7 million for 2016/17 due to demand on services exceeding expectation as well as slippages in the transformational savings programme.
- Recognition that in order to effectively manage these its financial challenges, the Council needed to ensure it had effective budgetary processes and robust internal controls that operate effectively.

Overview of 2016/17 financial statements

We provide an overview of key financial statements movements and balances in the table below, including our commentary on whether we consider these to represent a potential risk to the Council. Our detailed analysis over financial management and financial sustainability provides context to these assessments.

Focus on financial statements results	2016/17 £000	Restated 2015/16 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	**30,406**	7,032	The primary factor in the increased deficit position was due to impairment charged to HRA assets in year and increased depreciation charges as well as service cost pressures.	R
(Surplus) / deficit on General Fund and HRA	**2,132**	(6,847)	2016/17 represented a year of significant cost pressure on the authority across service areas, as well as failure to achieve £1.6 million of planned transformation savings . It is essential that the Council's operating model is financially viable.	R
Uncommitted general fund	**4,587**	16,804	There has been a significant reduction in the uncommitted general fund balance. This uncommitted reserve is below the Council's preferred level to provide a contingency in the context of the continuing challenging and uncertain financial outlook.	R
Earmarked reserves	**13,065**	7,821	The increase in Earmarked reserves reflects additional £3.97 million committed to balance the 2017/18 budget.	A
Net current (liabilities)/assets	**(6,275)**	4,515	Net current liabilities can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this is not a risk.	A
Total Usable Reserves	**67,211**	68,523	Relatively small decrease relates to a reduction in General Fund. Partly offset through build up of HRA and capital fund in supporting the Council's planned investment in assets.	A
Total Unusable Reserves	**198,407**	256,597	Reduction predominately reflects increase in pension liability which is subject to volatility. Reserves balance remains strong	A
Net increase / (decrease) in cash	**184**	**(3,627)**	Cash movement reflects additional long term finance received in year.	G

2016/17 financial outcomes

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) shows that the Council incurred gross expenditure on the provision of services of £351.9 million (*2015/16: £287.9million*), and incurred an accounting deficit of £59.5million (*2015/16: £91.8 million*) on those services.

The new Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Code and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £2.1 million (*2015/16: surplus of £6.8 million*). In February 2016, the Council approved its 2016/17 revenue budget and provisionally approved its 2017/18 budget. Key financial statement movements and balances are considered below.

2016/17 budget monitoring and outturn

The 2016/17 budget assumed a draw on reserves of £4.5 million. The projected outturn against budget was reported regularly to the Council during the year. The outturn report in June 2017 which supported the preparation of the unaudited annual financial statements is summarised in the table.

Service area	*Budget Net Expenditure £000	Outturn Net Expenditure £000	Over / (under) £000
Management	1,618	1,618	0
Children's services	15,451	15,431	(30)
Communities and Economy	4,301	4,378	77
Education	82,301	82,589	288
Adult Social Care	37,495	38,237	742
Customer and Housing Services	11,932	11,963	31
Commercial Services	16,348	15,850	(498)
Finance and integrated service support	12,263	12,365	102
Properties and Facilities Management	14,009	14,049	40
Lothian Valuation Joint Board	556	560	4
Central and Non-distributable costs	887	1,407	520
Investment income	(300)	(360)	(60)
Transformation savings	(1,611)	-	1,611
Allocations to HRA, Capital Account and others	(4,782)	(4,834)	(52)
Net Service Expenditure - Total	**197,061**	**200,123**	**3,062**

The closing net expenditure position was £3.1 million higher than budget. This was partially offset from higher than forecast Scottish Government grants income of £0.6 million, resulting in a final general fund utilisation of £2.5 million higher than budget.

The most significant factor which led to the budget shortfall in year was the failure to achieve budgeted transformation savings of £1.6 million. These included areas of integrated service support, procurement, education and customer services. Given the need to deliver much more significant savings in future, the inability to deliver savings at this level is a concern for the Council.

In-year budget monitoring reports were provided to the Council on a regular basis, which included forecast outturn. Financial performance reporting has been updated in the period to provide greater explanations for material variances and agreed actions. However, these should be enhanced to have greater focus on addressing issues in year rather than actions focusing on future years activity. Budget forecasts are regularly updated to reflect actual activity with clear explanations as to why changes have been made. Over the last two years, Council services have not met budget. It is critical that in the context of a tight financial operating environment, that the Council has robust financial monitoring arrangements to support the scrutiny and delivery of transformational savings and service expenditure in line with budget.

Action plan point – 5

Reporting on transformation programme

Monitoring reports also included in-year analysis against the transformation programme savings targets. The Council approved utilisation of £7.7 million of the General Fund Reserve to fund costs associated with the ongoing transformation programme. As at 31 March 2017, £3.1 million of this balance had been applied and £0.8 million committed for 2017/18. A residual balance of £3.8 million remains earmarked to support the delivery of future transformation.

The Council has a range of savings plans and transformational programmes in place, including savings identified through delivering excellence activity, transformation programme savings, service level savings, together with additional identified savings approved in year. While we are satisfied that these have been clearly communicated, there is an opportunity for management to consolidate these programmes to provide clearer reporting, oversight and scrutiny of these plans. This will mitigate the risk over the ineffective scrutiny and monitoring of the delivery of required savings and transformation.

Action plan point – 6

Housing Revenue Account

The HRA delivered a surplus of £4.8 million in 2016/17, increasing the HRA reserve to £29.8 million. This represented an underspend of £0.5 million against budget, mainly due to continuous capital investment in existing stock resulting in reduced spending on reactive repairs. There were no significant movements in any rent arrears, losses on void properties or the bad debt provision from the prior year.

2016/17 financial outcomes – capital expenditure

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
General services capital programme	**35,953**	**31,146**	**(4,807)**
The Council has significant levels of capital investment planned over the coming years, with over £128 million capital expenditure planned to 2021. Of this £31.2 million was incurred during the year primarily across school upgrades and roads. The level of expenditure was below original planned spend of £36 million, due to re-phasing of work to future years due to slippage in the capital programme.			

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
Housing capital programme	**22,449**	**23,907**	**1,458**
The HRA Capital plan covers the next five years to 2021/22. The plan covers a significant level of capital investment in new build housing, During 2016/17 the Council invested £15.8 million on improvement works. The Council received additional subsidiary from the Scottish Government of £4.3 million during the year for site purchases for Phase 2 and 3 of the social housing plan. As a result, the original budget was updated to reflect this with carry forward to 2017/18.			

Overall financing of the capital programme was supported by £32.6 million of capital receipts, grants from government and contributions from third parties and/or existing capital funds; £8.5 million of capital expenditure funded by revenue with the remaining £21.2 million funded by borrowing.

Capacity of finance and standing in the organisation

The Council's section 95 officer is the Head of Finance and Integrated Service Support. We considered the role and status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's *Statement on the role of the Chief Financial Officer in Local Government*. We have reviewed the Council's financial regulations and are satisfied that these are comprehensive and subject to regular update. They are available through the Council's website.

Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operation of key controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

During the course of our audit we have identified opportunities to improve the internal control environment. Account reconciliation controls could be enhanced to ensure greater scrutiny and oversight of account balances. Reconciliations take place between feeder systems, interfaces and financial ledger transactions. While we acknowledge that there are controls over journal entries, there is a risk that the absence of fuller reconciliations from the account balances and feeder systems could result in incorrect or fraudulent postings being undetected in a timely manner.

Action Plan point – 7

Financial management – what have we concluded?

- Council services have failed to operate within established budgets. This was predominately due to a failure to achieve financial savings planned through the transformation programme and demand pressures in health and social care. Achievement of longer term financial sustainability is dependent on the Council not only identifying savings but also ensuring that there is sufficient ongoing challenge and scrutiny to ensure savings proposals are delivered on in-year.
- Robust financial management arrangements are critical for the Council, particularly in a period of a challenging financial environment. While we consider reporting arrangements have been enhanced during the period, these need to be further developed, especially in reporting progress on delivery of the transformational change programme.

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability

The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11, demographic changes in particular in respect of aging populations plus a broad range of legislative and policy changes including, for example, integration of health and social care, community empowerment provision and education reform.

Scottish Government funding is distributed to councils using a formula based on factors such as population, deprivation and rurality. This means that not all councils have experienced the same level of reductions in funding. The Council has forecast grant funding reductions similar to that proposed in the draft 2017/18 settlement, with an average 3.25% per annum cash reduction at a national level. This has been partially offset by the impact of the relative growth in the Midlothian population.

Education and social work increasingly make up a greater majority of expenditure in local government. Within the Expenditure and Funding Analysis, in terms of the amount chargeable to the general fund and HRA, 65% of spend was in respect of these areas, within a range nationally of 60 – 80%.

Area of audit focus

We set out in our annual audit plan that financial sustainability was a key audit focus area. This was on the back of the Council's financial strategy paper for 2017/18 which set out significant budget gaps to be met.

- The effectiveness of the financial planning systems and identifying and addressing risks to financial sustainability across shorter and longer terms.
- Whether the Council can demonstrate the affordability and effectiveness of funding and investment decisions that it has made.
- The appropriateness of the arrangements to address identified funding gaps and whether the body can demonstrate that these arrangements are working.

Level of reserves

As shown in the table below, the Council's level of usable revenue reserves as a percentage of net expenditure on cost of services had increased over the last five years. A significant element of this has been the strategy to strengthen the HRA fund in order to finance the investment in new build council housing. General fund reserves had also been increased in recent years.

Analysis of reserves	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	%age change
Uncommitted general fund	6,402	11,964	12,843	16,804	4,587*	(28)
Earmarked general fund	7,681	8,547	8,472	7,821	13,064*	70
HRA fund	14,673	18,374	21,376	24,913	29,753	103
Repairs and renewals fund	2,275	2,553	3,073	3,607	3,100	36
Total Usable Revenue Reserves	**31,031**	**41,438**	**45,764**	**53,145**	**50,504**	
As a % of net expenditure on cost of services	**16%**	**16%**	**21%**	**26%**	**23%**	
Capital fund	7,531	10,658	14,853	15,378	16,707	121
Total Usable Reserves	**38,562**	**52,096**	**60,617**	**68,523**	**67,211**	

* £3.97 million of reserves committed as part of the 2017/18 budget have been classed as earmarked

The Council had established a significant uncommitted general fund balance. By 2016, the balance of £16.8 million represented over 8% of net expenditure. By 2017, this balance had fallen to £4.6 million, being 2% of net expenditure. While the use of earmarked balances should also be considered when reviewing the available flexibility to the Council in making budget decisions, the large decrease in available uncommitted reserves represents a significant risk to the Council.

Action plan point - 8

The significant capital and earmarked funds means that reserves in total for the Council are strong. A significant proportion of this fund has been allocated, and is being utilised, to support the significant capital investment currently being made by the Council in both housing and general fund services, thus reducing the amount of additional borrowing required.

Forward financial planning

The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, to provide councils with the ability to respond to the acknowledged demographic and fiscal pressures. The Council has a close alignment of its financial strategy with the period of its five year corporate planning.

The Council has normally set multi-year indicative budgets, regularly reviewing and revisiting financial forecasts. For example, in February 2015 for the three year period 2015/16 to 2016/17 i.e. including the current financial year. In February 2016 and February 2017 this was extended to consider a longer period to 2021/22. This represents good practice.

Financial pressures

The Council faces significant financial challenges over the next five years. As shown in the table below, the budget shortfall increases significantly over the coming years, from 6.6% of net cost of services to 19.6% by 2021/22.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Cost of Services	205.1	213.5	221.0	228.6
Council Tax	(45.6)	(46.2)	(46.9)	(47.5)
Scottish Government Grant	(146.0)	(142.7)	(139.4)	(136.3)
Forecast Budget Gap	**13.5**	**24.6**	**34.7**	**44.8**

The financial forecasts are continually reassessed by management. The forecasts currently assume a 1.5% pay rise assumption together with the cost of incremental pay progression, with the assumption that any increases above this level may attract additional government funding. This is a key assumption. Management's assessment is that a 1.5% increase on pay would add a further £7.5 million in cost pressures by 2021/22. Given recent public announcements by the Scottish Government, there will be a need to closely monitor these assumptions for any knock-on impact.

Income assumptions are based on a 3% annual Council tax increase which, coupled with the house building programme in the area, results in the majority of the increase in gross income. The Local Government finance settlement is assumed to show further reductions in 2018/19 through to 2021/22.

The Council continues to face significant challenges as a result of constrained funding combined with demographic and other cost pressures associated with Midlothian's current and projected growth. In addition, managing the impact of a number of government policy and legislative changes places additional demands and reinforces the urgent need to change the way the Council operates. The Council is already experiencing these pressures in 2017/18, with these pressures crystallising earlier than anticipated.

Closing the gap

The Corporate Management Team has been working through savings proposals to meet the forecast budget gaps. The identified areas of savings are still subject to detailed consideration as well as scrutiny and challenge and approval from elected members. The timeline thereafter is to allow for a public engagement exercise to validate proposals to allow for approval of the financial strategy in early 2018. At the current time, the budget proposals are still in the relatively early stages of development and require further analysis and consideration to determine if they are viable, deliverable and sustainable options. The table below summarises the current financial forecasts and identified savings plans.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Forecast budget gap	13.5	24.6	34.7	44.8
Transformation programme savings	(4.5)	(8.9)	(13.5)	(19.5)
Asset Management savings	(0)	(0.3)	(0.3)	(0.3)
Operational service savings	(0.6)	(1.5)	(1.8)	(2.2)
Prioritisation savings options	(6.4)	(8.4)	(9.0)	(9.1)
Fees and charges	(0.1)	(0.1)	(0.2)	(0.2)
Council tax	(1.3)	(2.6)	(3.9)	(5.2)
Remaining Budget Gap	**0.5**	**2.8**	**5.9**	**8.3**

Delivering Excellence – transformation

Under the Delivering Excellence framework, the Council has taken a strategic approach in developing its financial strategy. This includes a fundamental review of service delivery models to drive savings. The 'Future Service Delivery Models' identified three key approaches for how the Council works with its communities: preventive intervention; co-production; and capacity building and localising / modernising access to services were used as the basis of the transformation. These have subsequently been extended to cover: asset rationalisation; workforce profile and plans; commissioning and Arms Length External Organisations (ALEOs) and shared services.

The level of unidentified savings remains significant. Since 2010, £32 million of savings have been required in reshaping services under the transformation programme. £7 million of this being delivered in 2017/18. This has been achieved through a series of service reviews, reductions in headcount, consolidation of property and changing service procurement. However, management recognise that more fundamental change is required if the Council is to remain financially sustainable over the medium-term.

Delivering Excellence – transformation (continued)

During 2017/18, the Council reported further cost pressures emerging through the failure to implement transformational change quickly enough. There is a risk that in focusing on short-term financial pressures, the Council may not have the capacity or capability to delivery a service offering that is financially sustainable in the medium to longer-term. In 2017/18, the Council plans to utilise transformation funds to support a severance programme to support immediate removal of head count to meet immediate financial pressures.

Overall, we assessed that the Council fully recognises the need for medium-term financial planning. Significant and urgent work is required to ensure that the Council has robust, fully costed savings plans which align to the Council's key priorities. Furthermore, the Council requires to evaluate planned savings proposals which align to the priorities set out by members to ensure that there is effective consideration and management of the risk of implementing these changes.

Action plan point – 9

Long-term capital programme

In February 2017, the Council approved an updated Capital Programme for the five year period 2016/17 to 2021/22. This forecast capital spend of over £128 million over the period (2016/17 inclusive), including a borrowing requirement of £28.6 million.

In line with the capital plan, the Council continued to invest in general fund assets, with total expenditure of £31.2 million in 2016/17. The level of expenditure was below original planned spend of £36 million, due to re-phasing of work to future years due to slippage in the capital programme. Expenditure included:

- £22 million on school upgrades
- £3.1 million on roads, pavements and street lighting
- £1.7 million on replacing and upgrading the Council's fleet, and
- £0.9 million on centralised property upgrades.

This expenditure was funded by a combination of government grants, capital receipts, Section 75 developer contributions and borrowing. The Council is in the process of undertaking a comprehensive review of the General Service Capital plan alongside a Learning Estate Strategy which is currently being developed and which will set out the long-term plan for delivering denominational and non-denominational school capacity across Midlothian.

Housing capital programme

The HRA Capital plan covers the next five years to 2021/22. The plan covers a significant level of capital investment in new build housing. During 2016/17 the Council invested £15.8 million on improvement works. The Council received additional subsidiary from the Scottish Government of £4.3 million during the year for site purchases for Phase 2 and 3 of the social housing plan. As a result, the original budget was updated to reflect this with carry forward to 2017/18.

Funding requirements

The Council demonstrates a clear alignment between the capital planning programme and revenue budgeting across both general fund and HRA funds. Capital plan affordability is considered against capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and endorsed by the Scottish Government. Furthermore, the Council considers the affordability of financing costs across service areas when considering level of capital investment.

Other long-term liabilities

Retirement benefits

We reported earlier on the significant increase in liability assessed at the balance sheet in respect of the Council's obligations for pensions. Individual council obligations, and their corresponding affordability, reflects on a number of factors:

- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

In the financial overview report, the Council had one of the lowest ratio of pension liability to net revenue, at approximately 35%. This ratio has increased substantially to closer to 61%, although as similar movements will have affected all councils, the Council still has one of the lower ratios to net revenue.

PPP liabilities

The Council has entered into four PPP contractual arrangements with the outstanding PPP principal obligations recognised on the balance sheet. The outstanding principal on these contracts totals £53.7 million at 31 March 2017. In line with other long-term leasing obligations, the Council also makes annual payments in respect of interest, lifecycle capital costs and operating costs.

Integration of Health and Social Care

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The Midlothian Integration Joint Board (the MIJB) was legally established in 20 August 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the Council and NHS Lothian.

The Council committed £38.3 million of expenditure to the MIJB in 2016/17 and received direction from the MIJB in respect of use of these resources in the year. In the 2017/18 budget, the Council approved funding of £37.5 million to the IJB.

Edinburgh and South East Scotland City Region Deal

The Council is one of six local authorities within the Edinburgh and South East Scotland City Region Deal. The City Region Deal was approved in July 2017, with commitment from the Scottish and UK Governments to provide significant investment, along with additional investment from the councils as well as universities within the region. This provides opportunity for the Council to work with its partners to use this investment to improve economic performance in the region, deliver services more effectively and tackle inequality and deprivation.

Financial sustainability – what have we concluded?

- The Council faces significant financial challenges over the next five years. Management has forecast a budget funding shortfall of £44.9 million by 2021/22 and uncommitted general fund balance is currently at its lowest level for a number of years. Work is underway to identify potential options to deliver the required level of savings.
- Based on forecast overspends on 2017/18 budget, it is critical that these plans are developed and evaluated urgently and aligned to the Council's priorities as set out by members.

2.4 Governance & transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance arrangements

During our audit we reviewed the Council's overall governance arrangements. In line with responsibilities of the Council, this has considered the Council's arrangements as they relate to standards of conduct including for the prevention and detection of fraud and error.

During the latter part of 2016/17, the Council was led by a minority SNP administration. Following the May 2017 elections, which returned seven Scottish Labour Party, six Scottish National Party, and five Scottish Conservative and Unionist. The Labour party formed a minority administration.

The full Council of 18 members meets approximately every six weeks, with most of the Council's important decisions and policies made by the Council Cabinet. The Cabinet is made up of five elected members and is the principal decision-making committee of the Council. Cabinet membership also includes three religious representatives who are appointed, under statute, to be included in all matters relating to education.

The Council has a set of Standing Orders which regulate the way it goes about its business, supported by the Scheme of Administration which sets out the membership, powers and responsibilities for full council, all its committees, sub-committees, working groups, policy development and local area committees. The Financial Regulations contain the Council's arrangements for the proper administration of its financial affairs.

In line with good practice, documents are kept up to date to reflect any external or internal changes.

Member training

The Council offers training to elected members through the year. The content of training was broad and covered a range of subject matters corresponding to the breadth of responsibilities held by elected members.

Following the May 2017 elections, induction training was provided for new and returning members. This covered a range of topics including, members responsibilities, finance and governance. Induction training was also arranged for members of the audit committee. We supported the Council in providing this training however attendance at the training event was low and we understand that the general participation in training events has been mixed. To ensure effective scrutiny and governance it is important that members receive ongoing training and support. The Council plans to offer ongoing formal and informal training to members. It is important that members continue to contribute and fully participate in both identifying training needs and organised training events.

Action plan point - 10

Scrutiny arrangements

The key committees for member scrutiny of the Council's performance and delivery are through the audit committee and performance, review and scrutiny committee. The audit committee receives regular reports from both internal and external audit and we have observed that this is attended by appropriate members of the management team to enable scrutiny and challenge. The committee also plays a key role in the oversight of risk management arrangements at the Council, including regular monitoring of strategic risks. The audit committee has six elected members, currently two each from the three main political parties. An independent chair is also appointed.

The performance, review and scrutiny committee is responsible for reviewing performance against policy objectives and commenting on decisions and policies and their impact. The committee receives regular performance reports that detail progress against the key themes in the Single Midlothian Plan. The Standing Orders make clear that membership of this committee is open to the 13 members who are not members of the Cabinet. We consider this represents good practice in ensuring there are arrangements for appropriate scrutiny and challenge across political groups.

Focus on internal audit

The Council has an in-house internal audit function which is designed to provide members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. As part of our first year appointment, we considered aspects of internal audit's performance with reference to their compliance with Public Sector Internal Audit Standards (PSIAS). Our work in this area was assisted by Internal Audit's own self-assessment against PSIAS. The Council conducted a self evaluation of compliance with the Public Sector Internal Audit Standards. This evaluation demonstrated that the key elements of the Standards were complied with during the year, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted on.

In line with PSIAS, Internal Audit should have appropriate standing within the organisation to allow them to provide robust, independent scrutiny and challenge of management.

Internal Audit consists of a relatively small size of team which increases the inherent risk around the dependency and reliance on key individuals within the team. In particular, following the retirement of the co-internal audit manager in early 2017, the vacancy is currently being filled on a temporary basis. In light of these changes in the senior internal audit team, management undertook a review during 2016/17. Management is currently considering different service delivery models, including exploring partnership working options with other local authorities.

The delivery of the Council's transformation programme will bring a period of significant change as the Council works to deliver and enhance services for user, while responding to changing demographics and ongoing budgetary and funding constraints. In our view, at such times, it is important that internal audit has the resilience, capacity and skills to respond to changing demands and provide scrutiny and challenge to management, not only in respect of the day to day control environment, but also to support the delivery of the transformation programme. We recommend management consider the skills and capabilities required to reshape the service to both further support challenge and scrutiny and drive improvement across the Council, including through implementation in respect of the transformation programme.

Action plan point – 11

Focus on workforce planning

The Council's current payroll costs represent approximately £137 million or 39% of expenditure. Given the fiscal environment, together with ongoing service delivery pressures, management recognises that the forecast levels of savings required cannot be achieved without payroll cost reductions. It is therefore imperative that human capital is managed as efficiently and effectively as possible. Only through effective workforce planning, will both the Council's Corporate Plan be effectively delivered, the level of transformation achieved and financial sustainability be secured.

In supporting the development of the financial savings plans, Heads of Services have developed draft workforce plans. With the ongoing development of the additional transformational programme savings and service level savings, the Council is looking to develop an overarching Council workforce plan.

The workforce plan should detail workforce strategy, identifying the level of expected staff numbers, skills and capacity required to support the Council deliver it's strategic objectives, in the context of transformation and the challenging financial targets. Development of this needs to be a priority for the Council.

Action plan point – 12

Fraud and irregularity

In line with our responsibilities under the Code, we have considered the Council's high level arrangements as they relate to the prevention and detection of fraud and error. Overall we consider the Council's arrangements to be appropriate.

The Counter Fraud Policy and Strategy, Whistle-blowing Policy and Anti- bribery and Corruption Policy have been updated during the year to allow full compliance against the new CIPFA code of practice on "*Managing the Risk of Fraud and Corruption".*

National Fraud Initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. Local authorities were required to submit datasets in autumn 2016 and matches fro investigation and follow-up were released early in 2017.

We reviewed the Council's arrangements for participation in the NFI in support of preparation of a return to Audit Scotland. We were satisfied that the Council had appropriate arrangements to respond to the NFI and had initiated their response to the most recent exercise.

Standards of conduct

Through consideration of the Council's financial regulations, standing orders and scheme of administration, supplemented by consideration of the Code of Conduct for elected members, we are satisfied that the Council has established appropriate arrangements.

Governance and transparency – what have we concluded?

- The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles.
- Internal audit is well respected, however, there are opportunities to enhance the role and standing of the function within the organisation.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the Council has appropriate arrangements to demonstrate Best Value.

Performance and improvement

Framework for improvement

The Council delivers its priorities through the Community Planning Partnership (CPP) and the Single Midlothian Plan. The Council's transformation strategy and individual service plans outline how the Council will deliver its contribution to the Single Midlothian Plan.

The CPP undertook a review and engagement process in 2015/16 resulting in refreshed priorities for the three years 2016 to 2019. The key outcomes from this exercise was around the disparity in health and quality of life across the people of Midlothian. As a result the top three priorities for 2016-19 are:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

The Council uses the Covalent performance management software as their central performance management system. Covalent supports management and reporting of performance and includes functionality for setting and reviewing targets and thresholds to trigger intervention or action from the service.

Council performance is monitored quarterly across the Council predominantly through the performance, review and scrutiny committee. Performance information covers each of the eight services ensuring opportunity for scrutiny and challenge of the performance of all Council services. Each service performance report includes a summary highlighting the successes and challenges during the period of review. The reports also include detailed performance indicators and, where applicable, action plans. These reports also report progress the services are making towards the outcomes in the Single Midlothian Plan and individual service priorities.

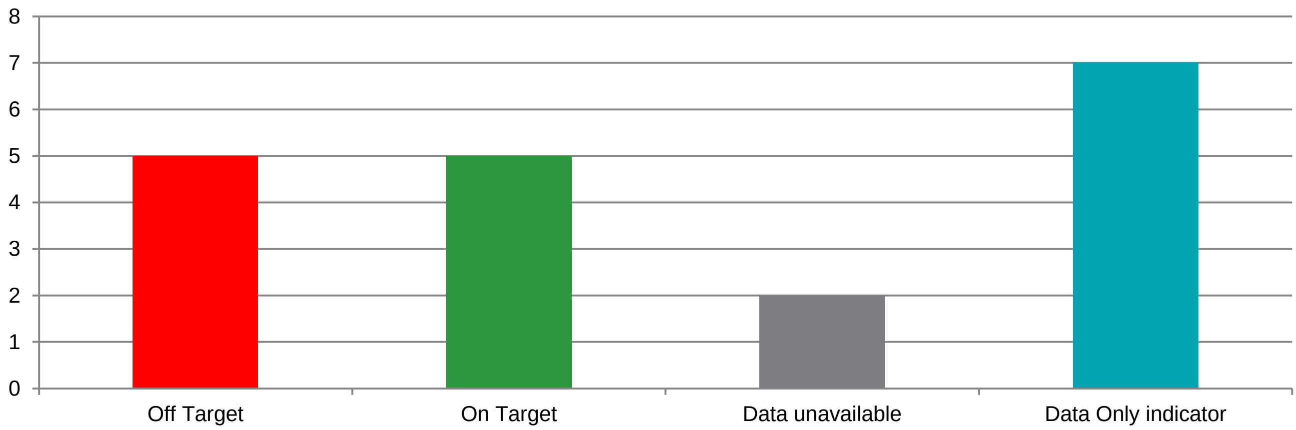
Performance monitoring

Balanced Scorecard

The Council also produces a balanced scorecard report which aims at providing a balanced perspective on the Council's performance over four key perspectives: customer/stakeholder; financial health; internal processes; and learning and growth. The Council has identified a number of key measures and indicators which are monitored on a continuous basis as part of service performance monitoring and collated to produce an overall balanced assessment of the Council's performance.

The table summarises the 2016/17 performance against the 19 Key Priority Indicators. Some of the data was not currently available due to the timing of the information.

Key Priority Indicators 2016/17



Source: Midlothian Council

Performance monitoring (continued)

The Single Midlothian Plan is approved annually by the Community Planning Partnership and sets out planned performance measures each year. Service performance indicators are built in these measures and subject to monitoring by the Senior Management Team and quarterly by the performance, review and scrutiny committee.

Statutory performance indicators

The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting. The 2015 Direction set out a streamlined and more flexible set of performance information for the 2016/17 financial year that the Commission required councils to collect and report in public. Councils are required to publish the required information from the financial year ending 31 March 2017 each year through to the financial year ending 31 March 2019, according the schedule below. The schedule within the 2015 Direction sets out the required information as:

Achievement of Best Value

SP 1: Each council will report a range of information setting out its performance in:

- improving local public services (including with partners)
- improving local outcomes (including with partners)
- engaging with communities and service users, and responding to their views and concerns
- achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources

Local Government Benchmarking Framework

SP 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)

The Council uses a range of indicators including internal targets, comparators with previous years as well as external benchmarking information in which to establish and monitor performance. This information is reported publically through quarterly service reports as well as through an annual performance report. This incorporates benchmarking information.

From inspection of performance reports throughout the year we found that there is good balance between detailed service level indicators along with high level holistic information. We found that external benchmarking is embedded within the Council's performance monitoring arrangements reflecting good practice. Management continue to refine performance measures to ensure there is clear alignment of service delivery and Council priorities. There are clearly areas that the Council has identified where performance needs to improve and action plans are established to address these.

Value for money– what have we concluded?

- The Council monitors a suite of performance indicators through the Covalent system. This incorporates external benchmarking, which is embedded within the Councils performance monitoring arrangement.
- The Council recognises areas of performance that require focus and these are clearly reported within internal and publically available performance reports. Areas for improvement and of strategic importance are detailed within the Single Midlothian Plan. We will undertake more detailed work on performance as part of our 2018/19 audit.

3. Other audit deliverables

3. Other audit deliverables

Under the terms of our appointment, we provide other assurance activities such as the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as information returns to Audit Scotland.

Other audit deliverables

Aspect of work	What we did and what we found	Expected completion / submission date	Completed / submitted on time
Annual Audit Plan	Reported to audit committee on 13 March 2017.	31 March 2017	Yes
Audit Scotland Fraud Return submission	We submitted fraud returns summarising any reporting to audit committee during the year.	26 May 2017	Yes
Submit NFI return to Audit Scotland	Reviewed the Council's arrangements and completed an information return – see conclusion elsewhere in this report	30 June 2017	No – submitted July 2017 due to EY staff illness
Submit Audit Scotland EU Funding questionnaire return	The purpose of this questionnaire was to support the development of an understanding of Scotland's reliance on EU structural funding arrangements and in particular the extent to which public bodies have been preparing themselves for the consequences of not having access to EU funds in the future. We identified that the Council received £0.7million of EU funds during 2016/17.	30 June 2017	Yes
Submit certified Education Maintenance Allowance return	We have audited the Council's EMA return in line with the guidance set out by Audit Scotland with no matters or exceptions to report.	31 July 2017	Yes
Submit certified Criminal Justice Social Work claim	Audit work has been undertaken with no significant findings arising.	29 September 2017	No – Financial statements finalised 11 October 2017. Audit procedures complete 12 October 2017
Whole of Government Accounts assurance statement to NAO	Audit work will be undertaken on updated WGA pack, following audit adjustments made to the financial statements.	29 September 2017	No – As above, finalised 12 October 2017
Certify Annual Accounts and submit Annual Audit Report	Pending formal approval of the financial statements	30 September 2017	No – As above, finalised 12 October 2017
Submit Best Value Data Return to Audit Scotland	Audit Scotland return summarising our work in respect of the wider scope audit.	2 October 2017	Yes
Submit certified Non-Domestic Rates return	Audit work has been undertaken with no significant findings arising.	6 October 2017	Yes
Submit certified Housing benefit subsidies claim to DWP	Work is in progress and we will discuss findings with the relevant officers prior to submission of our certification report.	30 November 2017	On target

Appendices

A – The Council's responsibilities
B – Required communications with the audit committee
C – Auditor independence
D – Accounting and regulatory update
E – Summary of audit differences
F – Action plan

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

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

B. Required communications

There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA 260 and other auditing standards. These are set out below.

Required communication - what is reported?	Our reporting to you
Terms of engagement Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Annual Audit Plan – 21 March 2017
Significant findings from the audit ▸ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Any significant difficulties encountered during the audit ▸ Any significant matters arising from the audit that were discussed with management ▸ Written representations we have requested ▸ Expected modifications to the audit report ▸ Any other matters significant to overseeing the financial reporting process ▸ Findings and issues around the opening balance on initial audits	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	This Annual Audit Report
Fraud ▸ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▸ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	This Annual Audit Report

Required communication - What is reported?	Our reporting to you
Significant deficiencies in internal controls identified during the audit ▸ Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report
Related parties Significant matters arising during the audit in connection with the Council's related parties including, where applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and/or regulations ▸ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events ▸ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information ▸ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report.
External confirmations ▸ Management's refusal for us to request confirmations ▸ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and / or regulations ▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Group Audits ▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components ▸ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.	Annual Audit Plan – 21 March 2017 This Annual Audit Report
Independence ▸ Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.	This Annual Audit Report – Appendix C

C. Independence

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

What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats.
- Safeguards adopted and their effectiveness.
- An overall assessment of threats and safeguards.
- Information on the firm's general policies and processes for maintaining objectivity and independence.
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 21 March 2017.

We complied with the APB Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your audit committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 26 September 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees initially agreed for the year ended 31 March 2017.

As disclosed in our audit plan, we had obtained agreement from Audit Scotland for the continues support we had been provided to the Council and City of Edinburgh Council on the Midlothian Zero Waste project. Financial close had been expected early in 2016. This was delayed. Non-audit fees generated in 2016/17 totalled £49,000.

Auditor remuneration per Annual Audit Plan	£140,080
Audit Scotland central costs	£85,740
Total fee per Annual Audit Plan	£225,810
Non-audit service fees	£49,000
Total fees	**£274,810**

There are a number of new accounting standards and interpretations which will impact on the local authority accounting code of practice in the next two or three years. The following table provides a high level summary of those that have the potential to have the most significant impact on you.

Area	Summary	Potential impact
IFRS 9 – Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year. This new standard will change: ► How financial assets are classified and measured ► How the impairment of financial assets are calculated ► Financial hedge accounting ► The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains uncertainty. The Council will, however, have to: ► Reclassify existing financial instrument assets ► Remeasure and recalculate potential impairments of those assets; and ► Prepare additional disclosure notes for material items
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ► Leases; ► Financial instruments; ► Insurance contracts; and ► for local authorities, Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	Again CIPFA have issued initial thoughts on the approach to adopting IFRS 15, although uncertainty remains until the Code is issued. For all material income sources from customers the Council will have to: ► Disaggregate revenue into appropriate categories ► Identify relevant performance obligations and allocate income to each ► Summarise significant judgements
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.

E. Summary of Audit Differences

There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease £000	Balance sheet (Decrease) / Increase £000
Summary of audit differences – prior period adjustments			
1	*Being prior year adjustment to recognise liability in relation to contributions payable to Scottish Government for Borders Railway*		
	Balance Sheet - Provisions		(8,194)
	Reserves – Capital adjustment account		8,194
2	*Representation of capital grant income from cost of services to taxation and non-specific grant income in the comprehensive income and expenditure statement*		
	CIES – service income	(18,729)	
	CIES – Taxation and specific grant income	18,729	
Summary of audit differences – current year adjustments			
1	*Being net adjustment to correct errors in the revaluation of land and buildings*		
	Balance sheet - Property, plant and equipment		(2,917)
	CIES – Expenditure – Depreciation & Impairment	383	
	Reserves - Capital adjustment account		(45)
	Reserves - Revaluation Reserve		2,579
2	*Being adjustment to correct accounting treatment for land transfers (note CIES costs charged to Capital Fund)*		
	Balance sheet - Property, plant and equipment		(4,897)
	CIES – Expenditure – Depreciation & Impairment	(35)	
	CIES – HRA Expenditure	(840)	
	Reserves - Capital Fund		5,778
3	*Being correction of error of overstatement of Council tax income and corresponding misstatement in Service Income.*		
	CIES – Service Income	(4,730)	
	CIES – Council Tax Income	4,730	
4	*Being reclassification of investments as available for sale financial assets in accordance with the Code*		
	Balance sheet – Long Term investments		(254)
	Balance sheet – Available for sale financial assets		254

Summary of audit differences – current year adjustments (continued)			
No.	**Account**	**Comprehensive income and expenditure statement (Increase) / Decrease £000**	**Balance sheet (Decrease) / Increase £000**
5	*Being debit balances within creditor accounts*		
	Balance sheet – Debtors		(1,108)
	Balance sheet - Creditors		1,108
6	*Being net adjustments to correct errors in accounts CIES working papers*		
	CIES Service Income	48,006	
	CIES Services Expenditure	(48,006)	

There were a number of differences identified during the course of our audit which management has chosen not to correct. Management do not consider these to be material to the financial statements and we concur with this view.

Summary of audit differences – unadjusted differences

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase £000
1	*Being adjustments to remove HRA contributions to support planned essential infrastructure within Grants received in advance and corresponding capitalised balance within PPE. This expenditure does not represent capital expenditure until the infrastructure is developed as there is no commitment or payment to parties external to the Council*		
	Balance Sheet - Property, plant and equipment – HRA assets		(2,170)
	Balance sheet – Grants received in advance		2,170
2	*Being adjustment to recognise section 75 developer contributions received in the year relating to Borders Railway contributions through CEIS. Note the closing liability position on the balance sheet is correct. However in year movement misstated due to understatement of brought forward provision.*		
	CIES – Grant Income	1,079	
	Balance sheet – *Opening Provisions*		(1,079)
	Balance sheet – in year movement in provision		1,079
3	*Being adjustment to correct overstatement of accruals and debtor balances at the year end.*		
	Balance sheet - debtors		(1,237)
	Balance sheet – creditors		1,237

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

Classification of recommendations

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	**PPE Valuations** During the course of our audit we identified a number of errors in the valuations conducted in year. This resulted in a number of adjustments to the draft financial statements.	We recommend that there is a more robust process to review the accuracy and appropriateness of valuations performed. *Grade 2*	Agreed and implemented
2	**HRA capital contributions** The Council capitalise HRA contributions made to fund planned essential infrastructure, principally school capacity. This expenditure does not represent capital expenditure at the point the Council charge it to HRA as there is no commitment or payment to parties external to the Council. The capitalisation of the costs supports the Council's existing capital financing arrangements and therefore any deviation would impact on this process.	Management, through consultation with CIPFA, should review options available to ensure that capital costs are appropriately reflected while remaining consistent with financial strategy to support the HRA and general funds. This may also require amendments to the financing strategy over HRA funds. *Grade 2*	Accepted. Review will be carried out to enable resolution for the 2017/18 financial statements.
3	**Financial reporting process** The draft financial statements contained a significant number of errors including those impacting on the primary financial statements. The financial statements, including the unaudited financial statements presented for public inspection are an important role in the Council's financial governance arrangements.	Management should ensure that there is effective oversight and scrutiny arrangements over the financial statement preparation process. *Grade 1*	Agreed and will be incorporated into the 2017/18 closure process.
4	**Valuation process** The Council considers material changes in asset valuations through consideration of significant capital additions in the year as well as discussions with in-house valuers around potential asset impairments. This process does not consider the impact of market movements on fair value. In line with Code requirements, the year end values of assets should be assessed to ensure they are not materially different from the carrying value recorded in the financial statements.	Management requires to consider and agree an appropriate process to ensure the valuation cycle is appropriate to take into account potential material movements in key assets, that the valuation remains appropriate as at the 31 March balance sheet. *Grade 2*	Agreed and will be incorporated into the 2017/18 closure process.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5	**Financial management – budget monitoring** Financial performance should be further enhanced to have greater focus on addressing issues in year rather than actions focusing on future years activity. Budget forecasts are regularly updated to reflect actual activity with clear explanations as to why changes have been made. It is critical that in the context of a tight financial operating environment, that the Council has robust financial monitoring arrangements to ensure that transformational savings are delivered and service expenditure is in line with budget.	We recommend that management review financial monitoring reports to ensure that they provide greater focus across in year cost pressures and savings targets *Grade 1*	Accepted. Review of explanations and in year actions to be programmed for Q2 2017/18
6	**Transformational savings** The Council has a range of savings plans and transformational programmes in place including savings identified through Delivering Excellence activity, Transformation Programme savings, service level savings as well as additional identified savings identified and approved in year. While we are satisfied that these have been clearly communicated, there is an opportunity for management to consolidate these programmes to provide clearer reporting, oversight and scrutiny of these plans.	Management should review savings programmes and change programmes to ensure there are clear, measurable financial targets in place to allow members to effectively monitor and scrutinise the progress being made in delivering these. *Grade 1*	Accepted. Refreshed change programme to be presented to Special Council on 10/10/17. Revised monitoring and scrutiny arrangement being developed. Council has already agreed to amend remit of BTSG to have oversight of full change programme.
7	**Account reconciliations** Reconciliations take place between feeder systems / interfaces and ledger transactions. However, there is no regular reconciliation between closing month end account balances and these feeder systems. The ledger is the Council's primary accounting record and should form the basis of the reconciliation to feeder systems such as payroll and council tax. As a result there is a risk that through fraud or error, accounting entries me be made to balance sheet codes without detection.	Management should enhance the account reconciliation process to ensure that part of this includes regularly reconciling feeder systems and applications to the ledger. *Grade 2*	All feeder systems are regularly reconciled to the general ledger and there is oversight that this is carried out. However a review of all the account reconciliation processes currently carried out will be undertaken to reassess the relevance of the current schedule of reconciliations and identify where improvements can be made and resourced which will strengthen the internal control regime

No.	Findings and risk	Recommendation / grading	Management response / Implementation timeframe
8	**Level of uncommitted general fund reserves** The Council has one of the lowest levels of uncommitted general fund reserves of all Scottish local authorities and this reflects a significant deterioration since 2016. While the Council exhibits good in-year financial management, as financial savings become harder to delivery, this low level of reserves reduces the Council's flexibility around budget decisions.	Management should consider whether the target level of uncommitted reserves remains appropriate in the context of approval of the forthcoming medium-term financial strategy. *Grade 1*	Accepted. Key element of Financial Strategy Report to Special Council indicates that preferable to set 2018/19 budget with a contribution to reserves of over £2 million.
9	**Financial sustainability** The Council faces significant financial challenges over the next five years. While initial savings proposals have been identified, these fall short of meeting the identified budget gap. Furthermore, the savings plans are still in the relatively early stage of development and require further analysis and consideration to determine if they are viable, deliverable and sustainable options.	Significant work is required to ensure that Council has robust, fully costed savings plans which align to the Council's key priorities as set by members. Furthermore, the Council should evaluate planned savings proposals to ensure that there is effective consideration and management of the risk of implementing these changes. *Grade 1*	Accepted. Key strand of work required to give assurances on 2018/19 plans.
10	**Member training** Following the May 2017 elections, induction training was provided for new and returning members. To ensure effective scrutiny and governance it is important that members receive ongoing training and support. The Council plans to offer ongoing formal and informal training to members.	The Council should ensure that there are arrangements in place to members continue to contribute and fully participate in both identifying training needs and organised training events. *Grade 2*	Accepted. An ongoing programme of Elected Member Development is currently being developed that will provide a blend of information sharing in relation to the Councillor's role; service information and specific skills that complement the Councillor Competency Framework as defined by the Improvement Service. We have also initiated the Member Training Records on the Committee Management and Information System to ensure that all learning interventions are recorded.

No.	Findings and risk	Recommendation / grading	Management response / Implementation timeframe
11	**Internal Audit** Given the anticipated level of transformational change at the Council, it is important that the Internal Audit function has the resilience and capacity to respond to changing demands and provide scrutiny and challenge to management not only as day to day control environment, but also to any proposed change of the internal control environment. In addition, in line with PSIAS, Internal Audit should have appropriate standing within the organisation to allow them to provide robust, independent scrutiny and challenge of Management. As part of a service review, management recognises the function requires improvement and is currently exploring options to address these.	We recommend that as part of the ongoing consideration for the appointment to the vacant manager position following the recent review that management has undertaken, management considers the skills and capabilities required from the function to ensure that its position and standing within the organisation is such that it can provide robust independent challenge to senior management. *Grade 1*	Accepted. Options to fill the vacant manager post will be informed by the future needs and direction of the service.
12	**Workforce planning** Heads of Services have developed draft workforce plans and work is underway to integrate these into an overarching workforce plan. The absence of a clearly defined workforce plan and strategy creates a risk that workforce decisions are taken in isolation or not clearly aligned to the Council's strategic objectives.	As part of the ongoing development of workforce plans we encourage management to ensure the plans incorporate a detailed workforce strategy, identifying the level of expected staff numbers, skills and capacity required to support the Council deliver it's strategic objectives. This will need to be developed in the context of the Council's financial position, to ensure that the workforce model will support the delivery of the challenging financial targets. *Grade 2*	Accepted. Draft of Workforce strategy to Special Council (10/10/17). Full plans to Council in December 2017.

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Financial Statements for the year ended 31 March 2017

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 audited Financial Statements for 2016/17 to Council and to provide a brief overview of the changes made during the audit process. The audited accounts have been circulated to members.

2 Background

In accordance with regulation 6(1) of the Local Authority Accounts (Scotland) regulations 1985 (as amended) the audited Financial Statements for the year ended 31 March 2017 are today laid before Council. The accounts were presented to Audit Committee on Tuesday 26th September.

2.1 Changes to Accounts through the Audit Process

There are no qualifications to the Financial Statements. Ernst & Young LLP, the Council's external auditors, presented their report on the 2016/17 Annual Accounts Audit to Audit Committee on 26th September 2017 and it is also included on today's agenda. The main findings during the audit were:

- An update to the value of the Council's Long Term Investments. At the time of producing the unaudited accounts the 2016 results of Lothian Buses were not public. This information came available during the audit process and using the share of net assets method the value of the Council's shareholding reduced from that presented in June by £0.254 million;
- A reduction in the value of Property, Plant and Equipment shown in the balance Sheet of £4.837 million for land that has been transferred from General Services to the Housing Revenue Account. Consequently there is a reduction in the value of the Capital Fund of £5.778 million and an increase in the Capital Adjustment Account of £0.881 million;
- A reduction to the value of the Council's Property, Plant and Equipment in the Balance Sheet of £2.917 million as a consequence of updated valuations for Newbattle High School, Paradykes and Stobhill land and buildings. This equates to a small reduction of 0.4% in the value of Property, Plant and Equipment from that included in the unaudited accounts;
- Presentational adjustments in the gross to net position in the Comprehensive Income and Expenditure Statement, in Scottish Government funding for the Council Tax Reduction Scheme and in

the presentation between Debtors and Creditors for Non Domestic Rates.

These adjustments have no impact on the General Fund Balance of £17.651 million or the Housing Revenue Account Reserve Balance of £29.754 million. As noted in the second bullet point above the Capital Fund Balance has reduced by £5.778 million and is now £16.707 million. Although this is a reduction in the Council's Useable Reserves as at 31 March 2017 the revised treatment will result in a corresponding reduction in Loan Charges charged to the General Fund over the coming years.

The Accounts show a prior year restatement to the Balance Sheet with the opening position for 2016/17 now reflecting the outstanding liability payable to the Scottish Government in respect of the Borders Railway agreement and a corresponding change to the Capital Adjustment Account. This has no impact on useable reserves or the contractual relationships the Council has or will have with developers though section 75 agreements or with the Scottish Government. The Council will continue to collect money from developers on some sites through section 75 agreements and an element of this will be passed on to the Scottish Government to discharge the outstanding liability.

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

It is recommended that Council endorse the contents of this report.

13th October 2017

Report Contact:
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Background Papers:

Financial Monitoring 2017/18 – General Fund Revenue

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

1 Purpose of Report

The purpose of this report is to provide Council with information on performance against revenue budget in 2017/18 and details of the material variances.

2 Background

2.1 Budget Performance

The projected budget performance figures shown in appendix 1 result in a net overspend of £2.135 million for the year which is 1.04% of the revised budget. This is an improvement of £0.158 million on the position reported to Council on 29th August 2017.

The main areas of variance are outlined below:

Pressures

- A provision for an additional contribution to the Midlothian Integration Joint Board reflecting demand led pressures in delegated Adult Social Care services, particularly the Community Care Resource Panel and in Home Care packages. They are currently projected to overspend by £0.801 million which is an improvement of £0.382 million from the quarter 1 position. Work continues through the Realistic Care Realistic Expectations work stream to drive cost reduction and it is anticipated that pressure on this budget will continue to reduce. However, spend in this area can be volatile given the fluidity of demand and the potential to have high value of individual packages of care;
- Additional running costs for Care Homes for Older people of £0.159 million which is an improvement of £0.107 million on quarter 1;
- Achievement of Council Transformation Targets for Integrated Service Support, Procurement savings, Customer Services and for tactical reductions in contracted hours has slipped and is projected to overspend by £0.754 million. The quarter 1 position was a projected overspend of £0.859 million so there is an improvement in this position and it is expected that there will be further improvement during the remainder of the financial year;
- In setting the 2017/18 budget Council agreed a package of operational and service cost reductions and income generation measures. There is currently projected to be £0.491 million of slippage into future financial years in delivering these. This may change over the course of the year;

- Demand led pressures in Children's Services of £0.300 million, particularly in non-residential commissioned services. The Children's Services budget has been reducing steadily in recent years due to transformational activity;
- Slippage in the opening of Pentland House which has put additional pressure on Bed and Breakfast budgets for Homeless clients. An overspend of £0.208 million is currently projected;
- The uptake and associated costs of the Good Time to be 2 initiative in Early Years coupled with increasing demographic demands gives rise to a projected overspend of £0.328 million;
- Schools are projected to underspend by £0.679 million. However, under the current Devolved School Management Scheme £1.007 million of budget within schools will be eligible to carry forward for use in 2018/19. Whilst these carry forwards will be shown in the General Fund Balance at 31st March 2018 they will be earmarked for use in 2018/19. The impact of this on the non-earmarked element of the General Fund Balance is a projected overspend of £0.328 million.

Favourable Movements

- Costs associated with PPP contracts are £0.302 million less than budgeted due to one-off rebates and lower than expected inflation;
- A continued growth of properties in Midlothian will generate an improvement on budget of £0.400 million for Council Tax Income;
- Distribution of elements of Scottish Government Grant that were not identified at Council level in the Local Government Finance Circular that was used to set the 2017/18 budget has resulted in a greater share coming to Midlothian than expected. This gives a favourable variance of £0.500 million.

Detailed information on material variances is contained in appendix 2 which identifies each variance, explains why it happened, outlines what action is being taken to control variances and details the impact of that action.

2.2 Delegation of resources to Midlothian Integration Joint Board

The approved budget provided for the allocation of £37.510 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. As reported to Council on 23 May 2017 this is supplemented by a one off allocation of £1.180 million as part of the year end flexibility arrangements. In addition there have been minor virements which increase the budget by £0.027 million and which results in a projected revised allocation to the Board of £38.717 million.

The projected outturn indicates expenditure of £39.592 million which represents an overspend in respect of services delegated by the Council of £0.875 million. Whilst the Integration Scheme sets out the mechanism for addressing an overspend position by the MIJB it is considered prudent, given that the MIJB has no reserves, to reflect in the monitoring the impact an additional contribution from the Council to meet the projected overspend.

2.3 Council Transformation Programme

Council approved utilisation of £7.718 million of General Fund Reserve to fund costs associated with the ongoing transformation programme.

At the report date £3.561 million of this has been applied with future commitments of £0.420 million identified for 2018/19. This leaves £3.737 million as uncommitted.

2.4 General Fund Reserve

The projected balance on the General Fund as at 31 March 2018 is as follows:

	£ million	£ million
Reserve as at 1 April 2017		17.651
Less earmarked reserves utilised in 2017/18		(5.084)
General Reserve at 1 April 2017		**12.567**
Planned movements in reserves		
Planned Utilisation	(3.970)	
Supplementary Estimate	(0.146)	
Council Transformation Programme Costs	(0.450)	
One-off costs of VSER	(0.100)	
Other	0.073	
		(4.593)
Overspend per appendix 1		(2.135)
Devolved School Management carry forward		1.007
General Fund Balance at 31 March 2018		**6.846**

An element of the General Fund is earmarked for specific purposes and this is shown below:

	£ million
General Fund Balance at 31 March 2018	**6.846**
Earmarked for specific purposes	
Budgets earmarked for Council Transformation	(3.737)
Devolved School Management	(1.007)
General Reserve at 31 March 2018	**2.102**

The uncommitted General Fund Reserve at 31 March 2018 is £2.102 million. The impact of projected financial performance for 2017/18 will be further considered in the context of the future financial challenge the Council faces in the next Financial Strategy report which will be presented to Council in December 2017.

A prudent level of uncommitted reserves is seen to be between 2% and 4% of net expenditure which equates to between approximately £4 million and £8 million. The General Reserve projected is below this level and there may be additional one-off costs associated with service transformation and workforce reduction which could further reduce the available reserve. There is also a risk that the reserve is required as a buffer to offset further slippage in the achievement of planned savings.

3 Report Implications

3.1 Resource

The projected performance against budget set out in this report presents the initial projections for the year. Work continues within the Directorates to reduce projected overspends and to progress the delivery of approved savings.

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 assessment of performance against budgets by services is underpinned by comprehensive financial management and budgetary control arrangements. These arrangements are central to the mitigation of financial risk.

Ensuring that adequate systems and controls are in place minimises the risk of significant variances arising, and where they do arise they help to ensure that they are identified and reported on and that appropriate remedial action is taken where possible. The primary purpose of this report is to provide an assessment of performance for the full year based on activity in the first quarter of the year. The material variances detailed in appendix 2 highlight that the financial management and budgetary control arrangements require continual review and enhancement if financial risk is to be effectively mitigated during the year.

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 decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

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

It is recommended that Council:

a) Note the contents of the report;
b) Note that along with the Chief Executive assurance is being sought from Heads of Service that remedial action is being taken to address the projected overspend set out in appendix 2;
c) Consider the financial position in the context of the next Financial Strategy report scheduled to be presented to Council on 19th December 2017.

25th October 2017

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Background Papers:

MIDLOTHIAN COUNCIL

Appendix 1

GENERAL FUND OVERVIEW 2017/18

Function	**Revised Budget £**	**Outturn £**	**(Underspend) / Overspend £**
Management	1,902,046	1,902,046	0
Education Communities and Economy			
Childrens Services	14,715,213	15,010,213	295,000
Communties and Economy	4,152,166	4,157,166	5,000
Education	86,917,265	87,553,265	636,000
Health and Social Care			
Midlothian Integrated Joint Board - Adult Social Care	38,717,448	39,592,448	875,000
Customer and Housing Services	11,378,692	11,509,692	131,000
Resources			
Commercial Services	15,630,716	15,718,716	88,000
Finance and Integrated Service Support	11,682,660	11,764,660	82,000
Properties and Facilities Management	13,658,288	13,863,288	205,000
Lothian Valuation Joint Board	555,551	561,551	6,000
Central Costs	1,863,387	1,863,387	0
Non Distributable Costs	1,338,436	1,338,436	0
GENERAL FUND SERVICES NET EXPENDITURE	202,511,868	204,834,868	2,323,000
Loan Charges	7,407,639	7,365,639	(42,000)
Investment Income	(300,475)	(300,475)	0
Council Transformation Programme savings target	(869,844)	(115,844)	754,000
Allocations to HRA, Capital Account etc.	(4,781,596)	(4,781,596)	0
	203,967,592	207,002,592	3,035,000
less Funding:			
Scottish Government Grant	149,692,000	150,192,000	(500,000)
Council Tax	45,004,000	45,404,000	(400,000)
Utilisation of Reserves	9,271,592	11,406,592	2,135,000

Appendix 2

Financial Monitoring 2017/18 – General Fund Revenue – Material Variances

Education, Communities and Economy

Children's Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Non-Residential services commissioned and provided for children with and without disabilities	Higher than anticipated levels of demand for Respite, Direct Payments and Taxi Services commissioned for children with disabilities. There is also a projected overspend on respite services commissioned for children without disabilities.	189	190	The causes and trends underlying this variance will be analysed and addressed in the 2018/19 budget setting process.
Residential and Day Education Placements	The forecast requirement for residential placements is higher than anticipated and provided for in the budget. Demand for new placements, particularly expensive secure accommodation, has been high for the first half of the financial year. Since the quarter 1 projection there has been one additional secure placement and one new residential placement.	49	110	This represents a 4% overspend on the Multi-Agency Resource Group budget of £3 million. The budget has been substantially reduced from £3.9 million in 2016/17 reflecting Council Transformation activity. The group continues to challenge new demand to keep costs under control and has recently been successful in its work to progress children in secure placements to allow them to move to other forms of care.
Gross Overspend		**238**	**300**	
Offset by:				
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Children's Services budget.	(1)	(5)	No impact on frontline service.
Net Overspend		**237**	**295**	

Communities and Economy

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Midlothian Local Development Plan	The estimate of the costs of the required public examination of the LDP by Scottish Government reporter was lower than the expected final outturn. The variable being the number and complexity of unresolved objections to the LDP.	38	43	One-off financial pressure associated with completing the 2014 Plan.
Charging for Section 75 Agreements	Charging for Section 75 Agreements was approved by Council when setting the 2017/18 budget. Processes to allow this to happen are still under development so the 2017/18 savings target will not be achieved in full.	20	30	Appointment of section 75 compliance officer in July 2017. Charging can only be implemented in new S75 agreements where the appropriate clause is included. It cannot apply retrospectively to existing agreements. Therefore income in 2017/18 will be minimal, possibly zero.
Landlord Registration Income	Landlord registrations are renewable on a 3 year cycle. Fewer registrations are due to be renewed in 2017/18 than budgeted.	19	19	
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Service budget.	15	18	
Gross Overspend		**92**	**110**	
Offset by:				
Vacancies and Performance Factor	The number of vacancies across the service exceeds the performance factor.	(64)	(105)	Vacancies taking longer to fill than projected at Q1.
Net Overspend		**28**	**5**	

Education

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Schools	Schools are currently projected to underspend by £0.679 million. However, in accordance with the current Devolved School Management rules and based on current projections schools would be able to carry forward budget of £1.007 million into 2018/19.	0	328	The impact of this on the General Fund Reserve will be 2-fold. Firstly, there will be a utilisation of the non-earmarked element of the reserve of £0.328m. Secondly there will be an increase in the earmarked element of the reserve of £1.007 million. A detailed review will take place between Q2 and Q3 of spend in this area with a view to reducing the impact on the non-earmarked element of the General Fund Reserve.
Early Years	Significant demographic growth and the popularity of the Good time to be 2 initiative has resulted in a rise in pupil uptake within Early Years.	0	328	Early Years budgets, particularly in light of the increase in pre-school entitled hours to 1140, are being reviewed. In addition contracts with external providers are being reviewed to ensure they match current needs.
Mini Service Reviews	In setting the 2017/18 budget Council approved savings of £150,000 which would flow from some service reviews within the Education Service. Due to other pressures implementation has slipped.	0	150	Other areas are being explored to deliver this saving in 2017/18 pending delivery of service reviews as planned and the quarter 3 position will reflect progress with this.
Lifelong Learning and Employability Income	There is a projected under recovery of income as a result of lower contract values awarded and a withdrawal of funding from the Big Lottery in 2017/18.	63	42	There will be a focus on reducing expenditure throughout the service in order to minimise the impact of reduced income values.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Education Service budget.	(80)	90	No impact on frontline service.
Gross (Underspend) / Overspend		**(17)**	**938**	
Offset by:				
PPP Contracts	Insurance costs are lower than provided for in the contract which leads to a refund from the contractor. Contractual refund of funding paid to cover reparation of malicious damage that was not utilised.	(182) (65)	(182) (65)	Windfall Income. This is the consequence an annual review for PPP2 (£83,000) and a 5-yearly review for PPP1 (£99,000). Assumptions regarding performance reductions will be checked and updated during the development of the 2018/19 budget.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
	The rate of inflation applied to contracts was lower than provided for in the budget.	(55)	(55)	Inflation assumptions will be reviewed during development of the 2018/19 budget.
Net (Underspend) / Overspend		**(319)**	**636**	

Health and Social Care

A provision for an additional allocation for services Delegated to Midlothian Integration Joint Board - Adult Social Care

Description of Variance	**Reason for Variance**	**Quarter 1 £000**	**Quarter 2 £000**	**Additional information / Action taken**
Community Care Resource Panel	Assessed needs are currently more than budgeted. The budget amounts to around £32m, is demand led and subject to demographic pressures. Individual packages of care are sometimes in excess of £100k per annum and as a consequence projections in this area can be volatile.	792	266	An overspend position at the end of the previous financial year alongside additional savings targets remain a challenge to meet. However the Realistic Care, Realistic Expectations work stream continues to monitor savings delivery. The work of the review team is beginning to have an impact on expenditure levels, with further savings scheduled to commence in the second half of the financial year. The aim is to reduce the existing level of commitments whilst still meeting critical and substantial need. This remains challenging against a background of increasing demands, particularly going forward in relation to young people with complex needs moving into Adult services. The implementation of two new policies, Fair Access to Care and Transport should ensure transparency and equity in this process of allocating resources.
Home Care / Midlothian Enhanced Rapid Response and Intervention Team (MERRIT)	Additional employee costs due to the volume of care packages being provided.	391	535	Due to the ongoing pressures within external services delivering care at home, the in-house Homecare and MERRIT services have been creating additional capacity which is resulting in an over spend on existing budgets. These costs are being offset by underspends within the external provider contract budgets. A key action has been to establish a new framework agreement resulting in additional providers being available within Midlothian and work has begun to transfer services to these providers. This is being supported by a wider review of care at home to create a new delivery model to support more efficient and effective service delivery.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Care Homes for Older People	Overspend on staffing costs to cover gaps in the rota at Newbyres (£169k).	266	159	The levels of sickness absence within Newbyres is driving the overspend and there are management actions now in place to address the situation. This is being implemented and monitored through a robust action plan, with HR support being provided to support staff return to work at the earliest opportunity. The Highbank service review is nearing completion and interviews for posts will commence at the end of October.
Non-achievement of management review saving	Delays in implementing a new management structure across Health and Social Care.	55	55	The new management structure has now been signed off and the consultation process with staff will commence in late October with a view to being implemented from January 2018.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Adult and Social Care budget.	40	75	No impact on frontline service.
Gross Overspend		**1,544**	**1,090**	
Offset by:				
Public Protection	Scottish Government funding provided specifically for Adult Support and Protection requirements. Some spend relevant to this funding is in the form of care packages and is met from the resource panel budget.	(159)	(136)	No impact on frontline service but the underspend offsets care and support costs related to protection issues.
Criminal Justice	An element of the Scottish Government funding is used to fund the management and administration of this service.	(65)	(55)	No impact on frontline service.
Cherry Road, Community Access Team, Shared Lives	Underspends on running costs offset by non-achievement of planned budget savings.	(60)	(24)	No impact on frontline service.
Net Overspend		**1,260**	**875**	

Customer and Housing Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Homelessness accommodation	Specialist treatment required in the conversion works to reuse Pentland House have led to delays in the project with completion in September 2017. The full saving on the Bed and Breakfast budget will therefore not be made.	208	208	The budget provided for an average 36 B and B places per week. Average occupancy is currently 69 places.
Gross Overspend		**208**	**208**	
Offset by:				
Revenues Service Vacancies	There have been a number of vacancies and also maternity savings resulting in a projected underspend within the revenues processing team.	(74)	(37)	No impact on frontline service.
Customer Services Vacancies	Vacant posts as a consequence of the Customer Services Review.	(54)	(19)	Posts have been filled quicker than anticipated at Q1.
Community Safety Staffing	Projected saving as a result of not backfilling maternity absence.	(27)	(33)	No impact on frontline service.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Customer and Housing Services budget.	(9)	12	No impact on frontline service.
Net Overspend		**44**	**131**	

Resources

Commercial Services

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Review of travel arrangements associated with the grey fleet.	A budget reduction of £150,000 in 2017/18 was approved. At this stage it is anticipated that savings will commence in 2018/19.	150	150	Work is underway to develop options and plans. The financial impact of these will be picked up in due course.
Commercial Operations Service Review	A budget reduction of £250,000 in 2017/18 was approved. The review is underway but will only part deliver planned savings in 2017/18.	60	48	It is anticipated that the full saving will be achieved in 2018/19.
Trade Waste Charges	A 10% price increase was approved for 2017/18 and was expected to generate an additional £30,000 of income. Subsequently the customer base reduced and this will result in less income being generated than expected.	18	18	The service continues to look to attract new customers.
Review the number of Football Pitches	A budget reduction of £10,000 in 2017/18 was approved. At this stage it is projected that the review will not yield any savings in 2017/18.	10	10	Review work is underway and the financial impact of this will be picked up in due course.
Review of financial contribution to Pentland Hills Regional Park	A budget reduction of £20,000 in 2017/18 was approved. The full impact of this saving will not achieved in 2017/18.	5	5	It is anticipated that the full saving will be achieved in 2018/19.
Gross Overspend		**243**	**231**	
Offset by:				
Waste Disposal Charges	Tonnages to date are lower than expected.	(78)	(113)	Volume of tonnage can be volatile.
Roads Services Income	Income generated from new developments and Temporary Traffic Regulation Orders is anticipated to exceed budget.	(30)	(30)	Budget will continue to be monitored and will be reviewed if sustainable in the longer term.
Net Overspend		**135**	**88**	

Finance and Integrated Service Support

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Employee Performance Factor	The performance factor for the service is £466,000. At this time predicted vacancies and other staffing variations will not fully offset this giving rise to an overspend.	135	137	Only essential vacancies are filled and work continues to explore opportunities to reduce this overspend.
Central Postages and printing costs	The volume of postages and printing exceeds budget.	60	22	A review of activity is underway with the aim of minimising volumes and reducing reliance on paper in accordance with EWiM principles.
External Legal Fees	Continuing costs associated with residual equal pay and other staffing related cases, the continued high incidence of children's permanence cases, a rise in the costs of curators fees associated with permanence cases and occasional complex one-off cases.	30	35	The residual legal issues relating to Equal Pay claims are intended to be brought in-house during 2017/18. Children's permanence cases have now been brought in-house although there will be a number of legacy cases to be completed by external solicitors. A registration scheme has been implemented to employ curators on a lower fee basis than previously charged.
Bank Charges	The shift towards electronic payments has led to increased transaction costs.	25	22	A review of bank charges is underway with the aim of negotiating lower rates with service providers.
Mi-Future	The costs for staff in SWITCH during the year are projected to exceed budget	0	19	6 months budget is moved to Switch with displaced employees. The Mi-Future team continues to work towards a satisfactory resolution for each employee in SWITCH and when compared to severance costs SWITCH remains a cost effective solution As at 30th September, there were 36 people in SWITCH on placements, some of whom are funded by services.
Gross Overspend		**250**	**235**	
Offset by:				
Digital Costs	The anticipated cost of equipment and support costs is lower than budgeted.	(109)	(105)	Future year budgets will be reviewed.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
Disclosure Scotland Fees	Anticipated costs in 2017/18 are lower than budgeted.	(28)	(3)	Future year budgets will be reviewed.
Archiving	Anticipated costs in 2017/18 are lower than budgeted.	(25)	(28)	Costs are expected to increase in future years as the facility is used more.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Finance and Integrated Service Support budget.	(34)	(17)	
Net Overspend		**54**	**82**	

Properties and Facilities Management

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional information / Action taken
EWiM planned building closures	Evolving plans for buildings that were planned to be sold or demolished through approved EWiM projects have resulted in anticipated revenue savings not materialising.	95	95	Ongoing costs associated with evolving plans will presented to Council in due course.
Properties and Facilities Management Service Review	A budget reduction of £60,000 in 2017/18 was approved. The review is underway but at this stage it is not anticipated that the full saving will accrue in 2017/18.	60	60	It is anticipated that the full saving will be achieved in 2018/19.
Public Toilet Provision	A budget reduction of £40,000 in 2017/18 was approved. At Q1 it was not anticipated that the full saving would be achieved in 2017/18.	40	0	Council on 26th September 2017 agreed to keep Public Toilets open but with reduced staffing levels and approved additional funding for this.
Closure of Penicuik Town Hall	A budget reduction of £30,000 in 2017/18 was approved. This has been delayed due to grant funding approvals for external refurbishment works.	30	30	
Review of Facilities Management Officers	A budget reduction of £40,000 in 2017/18 was approved by Council. This will be achieved in part in 2017/18.	20	20	It is anticipated that the full saving will be achieved in 2018/19.
Gross Overspend		**245**	**205**	

Other

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Additional Information / Action taken
Loan Charges	Slippage in the plan has resulted in a lower value of borrowing than planned for. In addition borrowing both on a short term and long term basis has been sourced at lower rates than expected at the time of setting the 2017/18 budget.	(146)	(42)	Movement between Q1 and Q2 is a consequence of the re-presentation of the Borders Rail liability agreed with the External Auditor as part of the 2017/18 accounts finalisation process.
Transformation Savings – Integrated Service Support	A Target of £1.122 million of savings was set for 2017/18 which consisted of slippage from previous years and also an additional target for 2017/18. A large part of this target is on course to be delivered in 2017/18 but not all of it.	345	272	The shortfall in delivery will be achieved in 2018/19.
Transformation Savings - Procurement	A target of £0.350 million for procurement savings was set for 2017/18 which reflected slippage in targeted savings for previous years. It is projected that £0.100 million of this will be achieved.	250	152	Continuing inflationary pressures are such that it is challenging to secure budget reductions as contracts are being re-tendered. Contract savings have been made or are planned for 2017/18 which impact on the Capital Account and the Housing Revenue Account.
Transformation Savings – Customer Services	A target of £0.295 million of savings was set for 2017/18 which reflected slippage in targeted savings from previous years and also an additional target for 2017/18. It is projected that £0.115 million will be achieved in 2017/18.	114	180	The shortfall in delivery will be delayed until 2018/19.
Transformation Savings – Tactical Reductions in contracted hours	The target of £0.150 million will not been achieved in 2017/18	150	150	Progress in taking forward a voluntary reduction in hours initiative and promoting flexible retirement options have been delayed.
Scottish Government Grant	The distribution of amounts withheld by the Scottish Government when the budget was set is in excess of Midlothian's expected share.	0	(500)	No additional costs are associated with the higher than anticipated distribution.
Council Tax Income	A continued growth in Band D equivalents results in a higher than budgeted Council Tax yield.	(250)	(400)	The continued growth in Band D equivalents will be factored into Council Tax income budgets for future years.

Midlothian

General Services Capital Plan 2017/18
Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with:-

- An update of the General Services Capital Plan to incorporate new projects approved since the previous report to Council on 29 August 2017 and recommend further additions to the Capital Plan for approval (Section 2);
- Information on rephasing of project expenditure & funding in 2017/18 (Section 3.1); and
- Information on the projected performance against budget for 2017/18 (Section 3.2/3.3).

2 New Projects

2.1 Approved Projects

Since the report to Council on 29 August 2017, the following projects have received approval by Council for inclusion in the General Services Capital Plan.

Council 29 August 2017

- **A701 Relief Road & A702 Spur Road**: Preparatory Works for the new A701 & A702 roads. £1.426 million budget fully funded by collected developer contributions. Phasing of expenditure and funding across 2017/18 and 2018/19;
- **Recovery Hub**: Establishment of a Recovery Hub as a centre for the delivery of mental health and substance misuse services in Midlothian. £0.848 million budget to be funded by prudential borrowing. Phasing of expenditure and funding across 2018/19 and 2019/20.

2.2 Projects presented for approval

The following new projects are being presented for inclusion in the General Services Capital Plan:-

- **Gorebridge Connected**: Community regeneration project as part of the Borders Railway Blueprint programme, including heritage enhancement works to Hunter Square along with a train station cafe & gallery. £1.188 million budget funded by £1.038 million funding from Scottish Government grant and £0.150 million developer contributions for Gorebridge Town Centre/Community Facilities. Phasing of project expenditure across 2017/18 and 2018/19. Approved subject to funding by the Borders Rail Blueprint Leaders Group on 30 June 2017. Funding now confirmed by Scottish Government with formal offer letter to follow;

- **Track to Train**: Refurbishment of existing building at Newtongrange train station into a new bistro/cafe. £0.360 million budget fully funded through Scottish Government Regeneration Capital Grant Fund. Phasing of project expenditure across 2017/18 and 2018/19. Approved by the Borders Rail Blueprint Leaders Group on 28 November 2016. Both this project and Gorebridge Connected align with our commitment to invest in priority communities;
- **Leisure Management System**: Implementation of the Legend leisure management system across Midlothian's leisure facilities including the Midlothian Snowsports Centre. £0.169 million budget to be funded by prudential borrowing. Phasing of project expenditure across 2017/18 and 2018/19. Approved by CMT on 31/05/2017 with preferred tenderer now selected and consultancy work now being undertaken and provision therefore required in the General Services Capital Plan;
- **Westerhaugh Bridge**: Essential structural works to allow Westerhaugh Bridge to remain open (located near to Dalmore by Auchendinny along the Penicuik to Bonnyrigg walkway). £0.030 million budget to be funded by prudential borrowing. Phasing of project expenditure fully in 2017/18. Approved by CMT on 09/08/2017.

3 2017/18 Budget

The Quarter 1 monitoring position for the General Services Capital Plan for 2017/18 was presented to Council on 29 August 2017 and, after accounting for known rephasing of projects, budgeted for expenditure of £28.448 million and funding of £17.452 million, therefore giving a budgeted in-year borrowing requirement of £10.996 million.

The inclusion of the projects outlined in Section 2 above revised the budgets for expenditure and income to £30.483 million and £19.351 million respectively, giving a revised budgeted in-year borrowing requirement of £11.132 million.

3.1 Adjustments to 2017/18 Budget

Expenditure and income forecasts for 2017/18 have been rephased based on the most recent information available. Material rephasing of project budgets are shown in Table 1 overleaf:-

Table 1: Rephasing of project expenditure budgets

Project	Description of amendment to budget	Previous Budget £000's	Revised Budget £000's	Budget Movement £000's
Road Upgrades	Rephasing of spend compared to previous planning assumption	1,306	1,901	+595
Street Lighting	Rephasing of spend compared to previous planning assumption	761	1,111	+350
Vehicles & Plant Replacement Programme	Rephasing of spend compared to previous planning assumption	2,552	2,867	+315
Footways & Footpaths Upgrades	Rephasing of spend compared to previous planning assumption	318	493	+175
Paradykes & Roslin Primary Schools	Revised cashflows through to conclusion of projects	8,776	8,485	-291
Other	Minor variances	404	511	+107
Total		**14,117**	**15,368**	**+1,251**

The rephasing of existing project budgets as outlined above revises the budgeted expenditure for 2017/18 from £30.483 million to £31.734 million for 2017/18 with a subsequent reduction in future years budgets.

<u>Funding</u>

In line with this, the budgeted level of funding available to finance the plan has also been adjusted from £19.351 million to £19.370 million.

<u>Borrowing</u>

Based on the rephased expenditure and funding levels outlined above, the rephased budgeted borrowing required has increased from £11.161 million to £12.364 million with a subsequent reduction in future years budgets.

3.2 Quarter 2 Projected Performance against Budget

<u>Expenditure</u>

Expenditure to 17 September 2017 is £8.622 million with a projected expenditure outturn of £31.756 million. At this stage it is anticipated that budgets for the projects detailed in Appendix 1 will be fully spent in the current year with the following exceptions:-

Table 2: Adjustment to expenditure budget of projects

Item	Description	Projected (Underspend)/ Overspend £000's
Grass Cutting Machinery	Additional net spend of £0.022 million offset through capital receipts from sale of existing machinery (capital receipts paid into the Capital Fund)	+22
Total		**+22**

It is therefore expected that there will be a net overspend against budget for the year of £0.022 million.

Funding

Funding received to 17 September 2017 is £5.607 million with a projected total funding available to finance the capital plan in 2017/18 of £19.370 million, in line with the rephased budget.

Borrowing

The rephased budgeted level of borrowing for 2017/18 was £12.364 million. Based on the revised expenditure and funding levels as outlined above, the projected estimate of the level of borrowing required to fund the investment identified in Appendix 1 is £12.386 million. The impact of this on the Council's borrowing costs is reflected in the Financial Monitoring 2017/18 – General Fund Revenue report elsewhere on today's agenda.

3.3 Overall Position 2017/18

Based on the above, the projected performance against budget for 2017/18 is shown in the table below:-

Item	2017/18 Budget At Q1 £000's	Rephased 2017/18 Budget At Q2 £000's	Actual To 17/09/17 £000's	2017/18 Projected Outturn £000's	2017/18 Variance £000's	2017/18 Carry Forward £000's
Expenditure	28,448	31,734	8,622	31,756	22	1,251
Funding	17,452	19,370	5,607	19,370	0	19
Borrowing Required	10,996	12,364	3,015	12,386	0	

4. Capital Fund

The capital fund balance at 31 March 2017 was £16.707 million, with a projected balance at 31 March 2018 of £24.514 million. £12.000 million of this is currently earmarked to fund City Deal projects. Further details on year-end adjustments to the Capital Fund are contained in the

'*Financial Statements for year ended 31 March 2017*' report elsewhere on today's agenda

5. Report Implications

5.1 Resource

The borrowing required to finance the planned investment in 2017/18 is projected to be £12.386 million. The loan charges associated with this borrowing are reported to Council in the '*Financial Monitoring 2017/18 – General Fund Revenue*' report presented elsewhere on today's agenda.

5.2 Risk

The inherent risk in the Capital Plan is that projects will cost more than estimated thus resulting in additional borrowing. The monitoring procedures ensure that significant variations are reported at an early stage so that remedial action can be taken to mitigate this risk.

There is also a risk that the wrong projects are prioritised, however there is an additional risk that the revenue budget cannot afford the level of borrowing currently reflected.

5.3 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

5.4 Impact on Performance and Outcome

There are no issues arising directly from this report.

5.5 Adopting a Preventative Approach

There are no issues arising directly from this report

5.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

5.7 Ensuring Equalities

There are no equalities issues arising directly from this report.

5.8 Supporting Sustainable Development

There are no sustainability issues arising directly from this report.

5.9 IT Issues

There are no IT implications arising from this report.

6 Recommendations

Council is asked to:

a) Approve the following projects as outlined in Section 2.2 to be added to the General Services Capital Plan: (a) Legend Leisure Management System and (b) Westerhaugh Bridge; (c) Track to Train and (d) Gorebridge Connected.

b) Note the General Services Capital Plan Quarter 2 monitoring position for 2017/18;

Date 24 October 2017

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Background Papers:
Appendix 1 – Detailed General Services Capital Plan Expenditure 2017/18

Appendix 1

Detailed General Services Capital Plan Expenditure 2017/18

GENERAL SERVICES CAPITAL PLAN Q2 MONITORING	Rephased 2017/18 Budget Q1 £000's	Rephased 2017/18 Budget Q2 £000's	2017/18 Actual to P6 £000's	2017/18 Forecast Outturn Q2 £000's	2017/18 Variance Q2 £000's	2017/18 Carry Forward Q2 £000's
RESOURCES						
Customer Services						
Front Office - Device & Interactive Asset Upgrades	312	312	26	312	0	0
Back Office - Anti Virus Upgrades	0	0	0	0	0	0
Back Office - Server Replacement	0	0	0	0	0	0
Back Office - UPS Devices	0	0	0	0	0	0
Network Enterprise - Network Connection	0	0	0	0	0	0
Network Enterprise - Network Assets (Power & Data)	182	182	22	182	0	0
IGS - Compliance - Data Encryption	0	0	0	0	0	0
IGS - Compliance - PCI	39	39	0	39	0	0
Disaster Recovery	0	0	0	0	0	0
Service Desk - ITMIS Service Improvement	80	80	0	80	0	0
Committee Management System	3	3	0	3	0	0
Paperless Meetings	16	16	0	16	0	0
Business Application Upgrades inc. mobile working	139	139	0	139	0	0
Interactive White Board Replacement	474	474	153	474	0	0
SWAN Programme	517	517	186	517	0	0
New GoreGlen & Bilston Digital Assets	67	67	0	67	0	0
Newbattle Centre for Excellence in Digital Industries	297	297	0	297	0	0
Digital Services Asset Management Plan	0	0	0	0	0	0
Commercial Operations						
Street Lighting Upgrades	761	1,111	94	1,111	0	-350
Street Lighting LED Upgrade (Salix Funded)	0	0	0	0	0	0
Footway & Footpath Network Upgrades	318	493	24	493	0	-175
Road Upgrades	1,306	1,901	362	1,901	0	-595
Millerhill Access Road / Site Services	0	0	0	0	0	0
Zero Waste Capital Contribution	0	0	0	0	0	0
Cycling, Walking & Safer Streets Projects	79	79	202	79	0	0
Footpath Lighting: Bonnyrigg Bypass to Gorton Road	83	83	0	83	0	0
B6482 Newbattle/Easthouses Road Cycleway	54	54	0	54	0	0
A6094: Bonnyrigg Bypass Cycleway & Toucan Crossing / Ro	49	49	0	49	0	0
Ironmills Park Steps	21	21	7	21	0	0
Emily Bing	0	0	0	0	0	0
New recycling facility - Penicuik	244	244	-4	244	0	0
Food Waste Collection	0	0	0	0	0	0
Vehicle & Plant Replacement Programme	2,552	2,867	2	2,867	0	-315
Electric Vehicles - Powerpoint Installation	58	64	64	64	0	0
Grass Cutting Machinery	78	120	142	142	22	-42
Geogrid - Barleyknowe Lane	43	43	3	43	0	0
Loanhead Memorial Park	0	0	0	0	0	0
20mph Limits	0	0	0	0	0	0
Vogrie Car Parking Barriers	17	17	0	17	0	0
CCTV Upgrades	0	0	0	0	0	0
Webcasting Council, Cabinet & Committee Meetings	0	0	0	0	0	0
Mayfield Park Amenities	0	0	0	0	0	0
King George V Park Outdoor Fitness Equipment	4	4	0	4	0	0
Gore Glen Bing	1	1	1	1	0	
Easthouses Lily Stand	5	5	-1	5	0	0
Outdoor Play Equipment - Rosewell	32	32	0	32	0	0
Outdoor Play Equipment - Gorebridge	84	84	0	84	0	0
Westerhaugh Bridge	0	30	0	30	0	0
Property & Facilities						
Stobhill Depot Upgrade	568	568	0	568	0	0
New Depot: EWiM Phase III	122	188	110	188	0	-66
Straiton Bing Site Investigation	2	2	0	2	0	0
Property Upgrades inc. Lighting/Lightning	1,723	1,723	166	1,723	0	0
Midlothian House 3rd Floor Reconfiguration	79	122	0	122	0	-43
Purchase of 7 Eskdaill Court, Dalkeith	243	243	242	243	0	0
Purchase of 49 Abbey Road, Dalkeith	215	215	203	215	0	0
Purchase of 31 Jarnac Court, Dalkeith	1	1	117	1	0	0
Hillend Freestyle Jump Slope Upgrade	208	208	0	208	0	0
Purchase 9/11 White Hart Street	98	98	13	98	0	0
Primary 1-3 Free School Meals	0	0	0	0	0	0
Leisure Management System (Legend)	0	102	0	102	0	0
Rosewell Hub	0	0	0	0	0	0
TOTAL RESOURCES	**11,172**	**12,896**	**2,133**	**12,919**	**22**	**-1,586**

EDUCATION, COMMUNITY AND ECONOMY	Rephased 2017/18 Budget Q1 £000's	Rephased 2017/18 Budget Q2 £000's	2017/18 Actual to P6 £000's	2017/18 Forecast Outturn Q2 £000's	2017/18 Variance Q2 £000's	2017/18 Carry Forward Q2 £000's
Early Years						
Woodburn Family Learning Centre	0	0	-52	0	0	0
Gorebridge Development Trust (EYG Funded)	115	115	0	115	0	0
Gorebridge Development Trust	91	91	0	91	0	0
Gorebridge Development Trust (EYG Funded)	66	66	0	66	0	0
Early Years Pilot - Mayfield Family Outreach Centre	13	13	0	13	0	0
Further Early Years Provisions inc. 1140 hours	0	0	0	0	0	0
Primary						
New Bilston Primary	239	239	51	239	0	0
New Gorebridge North Primary	236	236	0	236	0	0
Cornbank Primary Extension	0	0	0	0	0	0
St Andrews Primary Extension	0	0	0	0	0	0
Newtongrange Primary Extension	0	0	0	0	0	0
Paradykes & Roslin Primaries Preparatory Works	0	0	5,926	0	0	0
Paradykes Primary Replacement	7,403	7,215	0	7,215	0	188
Roslin Primary Replacement	1,373	1,270	0	1,270	0	103
Former Hopefield Primary School	300	300	0	300	0	0
Inspiring Learning Spaces	98	98	55	98	0	0
New Danderhall Primary hub	100	100	0	100	0	0
Cuiken & Sacred Heart Primaries - Design Team	130	130	0	130	0	0
Cuiken Primary School Extension	0	0	0	0	0	0
Sacred Heart Primary School Extension	0	0	0	0	0	0
Secondary						
Lasswade High School inc. 2nd MUGA	435	435	47	435	0	0
Newbattle High School Preparatory Works	476	476	76	476	0	0
Newbattle High School - Future Extension	0	0	0	0	0	0
Beeslack Community High School Pitch	17	17	-25	17	0	0
General				0		
Online Payments for Schools (Parent Pay)	39	39	0	39	0	0
Bright Sparks	0	0	0	0	0	0
PPP1 Land Acquisition	27	27	0	27	0	0
Saltersgate Alterations Phase II	160	124	285	124	0	0
Saltersgate Alterations Phase III - Internal Alterations	100	100	0	100	0	0
Saltersgate Alterations Phase III - Playground Improvements	171	171	0	171	0	0
Modular Units - Various	1,279	1,279	0	1,279	0	0
Children and Families						
Planning & Development						
Environmental Improvements	209	209	12	209	0	0
Borders Rail - Economic Development Projects	125	81	0	81	0	44
Property Asset Management System	0	0	1	0	0	0
East High Street Public Realm & Burns Monument	20	20	1	20	0	0
Shawfair Town Centre Land Purchase	3,650	3,650	0	3,650	0	0
Track to Train	0	234	0	234	0	0
Gorebridge Connected	0	772	0	772	0	0
A701 & A702 Works	0	927	59	927	0	0
TOTAL EDUCATION, COMMUNITY AND ECONOMY	**16,873**	**18,436**	**6,436**	**18,436**	**0**	**335**
HEALTH AND SOCIAL CARE						
Adult & Social Care						
Assistive Technology	100	100	36	100	0	0
Travelling Peoples Site Upgrade	17	17	0	17	0	0
Homecare	80	80	8	80	0	0
Recovery Hub	0	0	0	0	0	0
Customer & Housing Services						
TOTAL HEALTH AND SOCIAL CARE	**197**	**197**	**44**	**197**	**0**	**0**
COUNCIL TRANSFORMATION						
Purchase to Pay	15	15	7	15	0	0
EDRMS	0	0	0	0	0	0
EWiM	0	0	0	0	0	0
EWiM Phase 2	0	0	2	0	0	0
Online Housing Applications	27	27	0	27	0	0
Corporate Telephony Services Upgrade	9	9	0	9	0	0
EWiM - Buccleuch House Ground Floor	33	33	0	33	0	0
Website Upgrade	121	121	1	121	0	0
City Deal	0	0	0	0	0	0
TOTAL COUNCIL TRANSFORMATION	**205**	**205**	**9.860**	**205**	**0**	**0**
GENERAL SERVICES CAPITAL PLAN TOTAL	**28,448**	**31,734**	**8,622**	**31,757**	**22**	**-1,251**

Housing Revenue Account
Revenue Budget and Capital Plan 2017/18

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

1 Purpose of Report

The purpose of this report is to provide Council with a summary of expenditure and income to 29th September 2017 for the Capital Plan and a projected outturn for both the Housing Revenue Account (HRA) and Capital Plan for 2017/18.

2 Background

2.1 Capital Plan 2017/18

The Capital Plan Budget has been revised to reflect the current rephasing of the New Social Housing projects between years as shown in Appendix 1 and there are no material variances to be reported at this stage.

2.2 Revenue Account 2017/18

The underspend reported to Council on the 29th August 17 was £0.973 million. This has increased by £0.308 million to £1.281 million, as shown in Appendix 2, due to:-

- A reduction in the HRA insurance provision for claims and insurance recoveries for fire damage to properties of £0.106 million;
- Debt charges have decreased by £0.205 million due to slippage of Capital Plan expenditure for Phase 2 of New Social Housing as mentioned in section 2.1 of this report.

The HRA reserve balance is projected to be £34.665 million at 31st March 2018. The longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments to 2031/32. However a more comprehensive review of the model is underway and will be reported to Council in December.

3 Report Implications

3.1 Resource

There are no direct resource implications arising from this report.

3.2 Risk

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents.

The full implementation of Universal Credit this financial year has seen an increase in the level of rent arrears and whilst assumptions have been made in the financial model, based on other Local Authorities experience, there is a risk that arrears may be higher than anticipated resulting in a greater decrease in the level of reserves. This will continue to be monitored closely and any financial implications identified will be assessed and reported accordingly.

Whilst the HRA reserve balance is projected to be £34.665 million at 31 March 2018, the longer term financial projections demonstrate that the majority of this will be required to finance existing investment commitments.

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

This report links to the Corporate Priority 1a. "Provide quality, affordable housing including increasing homelessness accommodation".

3.5 Adopting a Preventative Approach

There are no issues arising directly from this report.

3.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

3.7 Ensuring Equalities

There are no equality issues 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 issues arising directly from this report.

4 Summary

The summarised projected financial performance for 2017/18 is:

- Capital Expenditure of £16.834 million;
- A net underspend of £1.281 million on the Revenue Account;
- The HRA reserve at 31st March 2018 is projected of £34.665 million.

5 Recommendations

Council is recommended to note the contents of this report.

Date 10th October 2017

Report Contact:
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Background Papers: HRA Capital Plan and Revenue Budget

MIDLOTHIAN COUNCIL

HOUSING REVENUE ACCOUNT CAPITAL PLAN 2017/18

	Revised Budget	Actuals to Date	Projected Outturn	Variation (Under)/Over
	£'000	£'000	£'000	£'000
FUNDING				
Net Receipts from Sales	2,076	984	2,076	0
Grants				
-Incentivising New Build	1,025	825	1,025	0
-Mortgage to Rent	114	0	114	0
-Buy Backs Funding	320	0	320	0
Council Tax on Second Homes	150	0	150	0
Developer Contributions	1,000	0	1,000	0
Borrowing Required	12,149	2,173	12,149	0
TOTAL AVAILABLE FUNDING	16,834	3,982	16,834	0

APPROVED EXPENDITURE	**£'000**	**£'000**	**£'000**	**£'000**
New Build Houses Phase 1	125	(74)	125	0
New Build Houses Phase 2	6,786	1,749	6,786	0
New Build Houses Phase 3	1,875	226	1,875	0
Buy Backs	960	239	960	0
Aids & Adaptations	400	178	400	0
Homelessness - Mortgage to Rent	224	0	224	0
Homelessness - Pentland House Refurbishment	384	108	384	0
Scottish Housing Quality Standard				
-Kitchen Replacement	200	2	200	0
-Upgrade Central Heating Systems	800	254	800	0
-Sanitary Ware Replacement Programme	179	66	179	0
-SHQS Repairs	4,901	1,234	4,901	0
Total Expenditure	16,834	3,982	16,834	0

MIDLOTHIAN COUNCIL

HOUSING REVENUE ACCOUNT 2017/18 — Appendix 2

	Revised Budget	Projected Outturn	Variation (Under)/Over
Average No of Houses	**6,992**	**6,917**	**(75)**
	£000's	**£000's**	**£000's**
Repairs and Maintenance			
General Repairs	6,307	5,800	(507)
Decant/Compensation	41	47	6
Grounds Maintenance	604	602	(2)
	6,952	**6,449**	**(503)**
Administration and Management	4,934	4,888	(46)
Loan Charges	9,478	9,024	(454)
Other Expenses	2,887	2,530	(357)
TOTAL EXPENDITURE	**24,251**	**22,891**	**(1,360)**
Rents			
Houses	26,712	26,399	313
Garages	556	556	0
Others	614	848	(234)
TOTAL RENTS	**27,882**	**27,803**	**79**
NET EXPENDITURE/(INCOME)	**(3,631)**	**(4,912)**	**(1,281)**
BALANCE BROUGHT FORWARD	**(29,753)**	**(29,753)**	**0**
BALANCE CARRIED FORWARD	**(33,384)**	**(34,665)**	**(1,281)**

Midlothian

Item 8.8

Midlothian Council
Tuesday 07 November 2017

Treasury Management Mid-Year Review Report 2017/18

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

1 Purpose of Report

The purpose of this report is to inform members of the Treasury Management activity undertaken during the first half of 2017/18, the forecast activity for the second half of 2017/18, and update the Prudential Indicators for 2017/18.

2 Background

Council, on 07 February 2017, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2017/18.

3 Economic update for first half of 2017/18

The key points from economic activity in the first half of 2017/18 are as follows:-

- Borrowing rates remain at historically low levels, with long term Public Works Loan Board (PWLB) rates fluctuating between the 2.25% to 2.60% mark throughout the first 6 months of the financial year;
- The Monetary Policy Committee (MPC), on 14th September 2017, surprised markets with a more aggressive tone in terms of its words around warning that the Bank of England Base Rate will need to rise. It looks very likely that the MPC will increase bank rate to 0.50% in November, or, if not, in February 2018. It remains unclear whether this will be a one-off increase to reverse the cut to 0.25% following the referendum vote on Brexit, or the start of a slow, but regular, increase in Base Rate;
- The expectation is that both new fixed term and variable rate investment opportunities and temporary loan rates will mirror any increases in Base Rate;
- Consumer Price Inflation remains above the Bank of England's target of 2.00% (2.90% in August 2017), with forecasts continuing to show a peak of just over 3.00% by the end of 2017 before a gradual drop back to the 2.00% target by 2019.

An economic update for the first part of the 2017/18 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2.

4. Treasury Activity during first half of 2017/18

The main points arising from treasury activity in the year to 11 October 2017 were:-

- Long-term borrowing of £20.000 million was sourced:-
    - £10.000 million maturity loan from PWLB drawn 06 April 2017 at an interest rate of 2.27% for a 48 year tenor. This loan has taken advantage of the Council's certainty rate discount of 0.20% from the standard PWLB rates; and
    - £10.000 million equal instalment of principal loan from Deutsche Pfandbriefbank drawn on 29 June 2017 at an interest rate of 2.63% for a 28.0 year tenor. This loan was a 'forward borrowing' loan with the original loan execution taking place on 24 February 2016, with the interest rate fixed at this point and benchmarked to the historically low borrowing environment with minimal cost of carry and hedged against interest rate movements between execution and drawdown;
- Long term borrowing of £10.058 million matured, this being a £10.000 million PWLB Maturity, £0.043 million Salix and £0.015 million PWLB Annuities;
- A £10.000 million deposit was placed with Bank of Scotland on 21 April 2017 for a 4 month period to 18 August 2017, at 0.48%;
- The average interest rate earned on external investments was 0.60%, exceeding the benchmark rate of 0.34%.

The Council's loan and investment portfolio as at 11 October 2017 is shown in tables 1 and 2 below (position at 31 March 2017 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2017 and 11 October 2017

Loan Type	**31 March 2017**		**11 October 2017**	
	Principal Outstanding £000's	**Weighted Average Rate**	**Principal Outstanding £000's**	**Weighted Average Rate %**
PWLB Annuity	739	8.90%	724	8.90%
PWLB Maturity	197,224	3.77%	197,224	3.72%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	0	n/a	10,000	2.63%
Temporary Market Loans	39,000	0.36%	30,000	0.14%
Other Loans	339	0.00%	308	0.00%
Total Loans	**257,302**	**3.32%**	**258,256**	**3.23%**
Underlying Borrowing Requirement*	**278,783**		**281,824**	
Internal Borrowing	**21,481**		**23,568**	

* *The Underlying Borrowing Requirement is the Capital Financing Requirement excluding the "Public Private Finance" (PPP) Contract Liabilities*

Table 2: Council's Investment Portfolio at 31 March 2017 and 11 October 2017

Investment Type	31 March 2017		11 October 2017	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate %
Money Market Funds	8,581	0.25%	23,719	0.20%
Bank Notice Accounts	49,985	0.79%	49,985	0.69%
Bank Certificates of Deposit	15,000	0.72%	15,000	0.72%
Bank Fixed Term Deposits	10,000	0.94%	0	n/a
Total Investments	**83,566**	**0.75%**	**88,704**	**0.56%**

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5. Expected Treasury Activity during second half of 2017/18

Borrowing

It is expected that no further long-term borrowing will be undertaken in the latter half of 2017/18, as the Council's increase in capital financing requirement for the financial year 2017/18 has already been funded.

However, given both:-

a) the historically low interest rate environment; and
b) the capital expenditure forecasts for 2017/18 (presented to Council elsewhere on today's agenda and summarised in Section 6 below) and 2018/19 and beyond as previously reported to Council;

consideration will be given to borrowing now (for capital expenditure in 2018/19 or beyond) to secure historically low PWLB rates offers value compared with forward interest rate projections. Equally, consideration will continue to be given as to whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

Appendix 3 provides forecasts for interest rates from the Council's Treasury Management advisor, Capita.

As with all long-term borrowing decisions, an option appraisal will be undertaken prior to executing any loan transaction, to ensure that any loans taken offer best value to the Council.

Investments

As noted in Section 3 and detailed in Appendix 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line, or below, with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

£15.000 million of the Council's investments are held in fixed term deposits which mature in late March 2018 and £49.985 million in bank notice accounts (with the notice period equating to broadly 6 months). Given the current low interest rate environment, it is proposed that Council officers, in conjunction with Capita Asset Services, continue to review the range of investment options available to the Council within its stated investment policy in order to select only the most creditworthy counterparties to ensure the security of Council funds, and from that list select the range of investment products that offer best value to the Council's investment portfolio.

Expected Loan & Investment Portfolio at 31 March 2018

Taking all of the above into account, the expected loan and investment portfolio at 31 March 2018 is shown in Tables 7 and 8 below:-

Table 7: Council's forecast Loan Portfolio at 31 March 2018

Loan Type	**31 March 2018**	
	Principal Outstanding £000's	**Weighted Average Rate**
PWLB Annuity	708	8.90%
PWLB Maturity	197,224	3.72%
LOBO	20,000	4.51%
Market Loans	9,821	2.63%
Temporary Market Loans	39,000	0.50%
Other Loans	277	0.00%
Total Loans	**267,030**	**3.28%**
Underlying Borrowing Requirement	**293,872**	
Internal Borrowing	**26,842**	

Table 8: Council's forecast Investment Portfolio at 31 March 2018

Investment Type	**31 March 2018**	
	Principal Outstanding £000's	**Weighted Average Rate**
Money Market Funds	5,000	0.45%
Bank Notice Accounts	49,985	0.94%
Bank Fixed Term Deposits	15,000	0.75%
Total Investments	**69,985**	**0.86%**

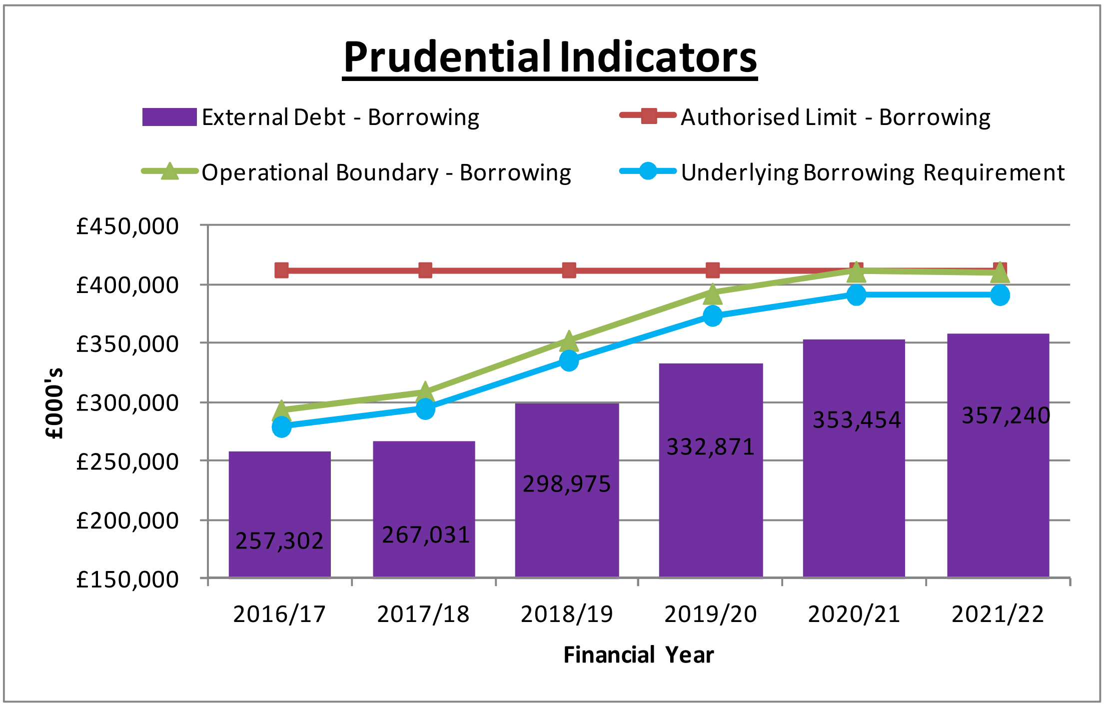
6. Prudential Indicators 2017/18

The following prudential indicators have been refreshed from those reported to Council on 08 March 2016 in the original Treasury Management and Annual Investment Strategy Statement 2017/18, based on the actual outturn for 2016/17 and the Council's Capital Plans for 2017/18 to 2021/22, and are shown in Table 9 and in graphical form below (see also Appendix 4):-

Table 9: Prudential Indicators 2017/18 – Mid Year Update

Indicator	**2017/18 Original Estimate £000's**	**2017/18 Current Position £000's**	**2017/18 Revised Estimate £000's**
2017/18 Capital Expenditure	66,208	12,154	45,365
2017/18 Required Borrowing	50,600	5,186	23,228
2017/18 Underlying Borrowing Requirement*	318,647	281,824	294,043
2017/18 Gross External Borrowing	298,962	258,256	267,031
Operational Boundary – Borrowing	318,647	294,043	294,043
Authorised Limit – Borrowing	384,042	384,042	411,955
2017/18 Capital Financing Requirement**	372,306	336,139	347,702

** Excludes "On balance sheet" PPP schemes.*
*** Includes "On balance sheet" PPP schemes.*



The **Capital Financing Requirement (CFR)** denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's two PPP contracts. The

Underlying Borrowing Requirement strips out the latter of these (long-term liability arising from the two PPP contracts) from the CFR.

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements. This was recommended to be £384.042 million in the Treasury Strategy report presented to Council on 07 February 2017 and subsequently agreed by Council.

Rather than restrict external borrowing in the remainder of 2017/18 to:-

- the expected Underlying Borrowing Requirement for this year (£294.043 million); or
- the Authorised Limit for Borrowing of £384.042 million approved by Council on 07 February 2017;

it is proposed that permission be granted to borrow up to the authorised limit for borrowing of £411.955 million (as shown in the table below), if market conditions supported this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2022 remains achievable.

Table 10: Authorised Limit for Borrowing: Calculation

Indicator	**2017/18 Original Estimate £000's**	**2017/18 Revised Estimate £000's**
CFR – General Services (31 March 2021)	128,063	141,746
CFR – HRA (31 March 2021)	231,089	249,211
Unrealised Capital Receipts & Developer Contributions 2017/18	10,105	3,583
Forecast level of Capital Receipts & Developer Contributions 2017/18 to 2020/21	14,785	17,415
Proposed Authorised Limit – Borrowing	**384,042**	**411,955**

7 Other Treasury related issues

Performance Indicators 2016/17 – comparison with other Scottish Local Authorities

The Treasury Management Forum collates performance indicators for all Scottish Local Authorities. The indicators relating to financial year 2016/17 have been published and once again demonstrate the continuing effectiveness of the Treasury function in maximising efficiency in Treasury Management activity, with the Council continuing to have the lowest weighted average borrowing & investment (loans fund) rate across all Scottish mainland authorities for the sixth year out of the last eight financial years. Appendix 5 outlines the loans fund rate for each Scottish Local Authority in 2016/17.

Were the internal loans fund rate to have equated to the Scottish weighted average of 4.20%, this would have generated loan charges in 2016/17 of £18.0m. The Council's actual 2016/17 loan charges for General Services and HRA were £15.4m, representing a cash saving (compared to the Scotland average) of £2.6m in 2016/17.

Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on Midlothian Council apart from having to fill in forms sent by each institution lending to Midlothian Council and for each type of investment instrument the Council use apart from for cash deposits with banks and building societies.

Treasury Management Practices

The Council retain Treasury Management Practices which detail procedures and best practice within a number of areas of Treasury Management including risk management, performance measurement, decision making and analysis and cash and cash flow management. These have been updated to reflect current staffing structures and for housekeeping and to reflect the current legislative environment. These will be placed in the Members Library section of the Committee Management System.

8 Report Implications

8.1 Resource

Expenditure from Treasury Management activity i.e. loan charges, is reported in quarterly financial positions to Council, with Quarter 2 monitoring reflected in the Financial Monitoring 2017/18 – General Fund Revenue report elsewhere on today's agenda.

8.2 Risk

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved and these have recently been reviewed and updated.

8.3 Single Midlothian Plan and Business Transformation

Themes addresses 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

8.4 Impact on Performance and Outcomes

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

8.5 Adopting a Preventative Approach

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

8.6 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Capita Asset Services, the Council's appointed Treasury Consultants.

8.7 Ensuring Equalities

There are no equality issues arising from this report.

8.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

8.9 Digital Issues

There are no Digital Services implications arising from this report.

9 Summary

Treasury Management activity during the year to 11 October 2017 has been effective in minimising borrowing costs and maximising investment income within the parameters set by the strategy for the year.

No further long-term borrowing is forecast for the remainder of 2017/18, reflective of the General Services and HRA capital plans reported elsewhere on today's agenda. However, consideration will continue to be given to borrowing now (for capital expenditure in 2018/19 or beyond) to secure historically low PWLB rates offers value compared with forward interest rate projections, and/or whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

The investment climate remains challenging given the low interest rate environment and creditworthiness concerns. Officers will continue to review the investment opportunities available to the Council.

The Prudential Indicators have been updated to reflect current capital expenditure and income projections.

10 Recommendations

It is recommended that Council:-

a) Note the report and the treasury activity undertaken in the period to 11 October 2017, as outlined in Section 4;
b) Note the forecast activity during the second-half of the year as outlined in Section 5;
c) Approve the revisions to the Prudential Indicators in Section 6 of this report.

12 October 2017

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Appendices

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Appendix 1: Economic Update for first part of 2017/18 financial year

UK

After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

Eurozone

Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

US

Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Rest of World

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

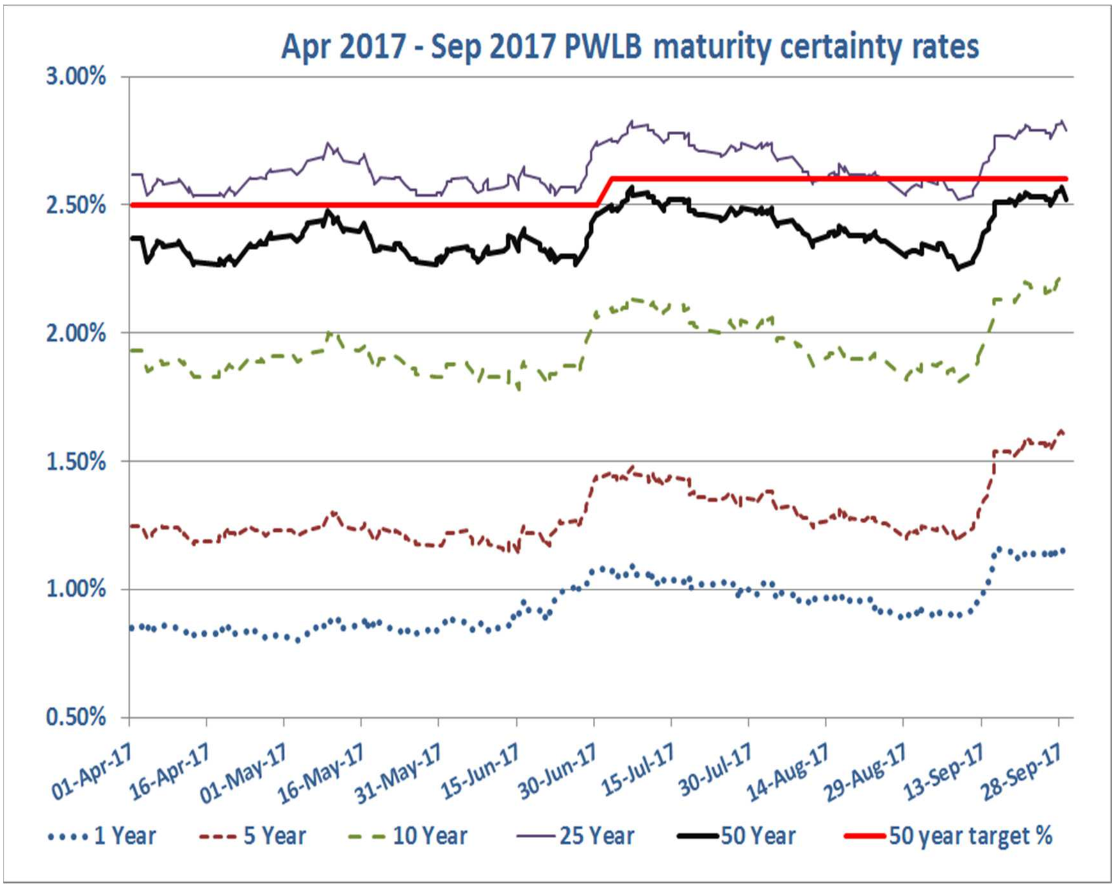
Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Appendix 2: PWLB Borrowing Rates 1 April 2017 to 30 September 2017

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30th September 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917



Appendix 3: Capita Asset Services Interest Rate Forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 4 Prudential Indicators Detail

Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget:-

Capital Expenditure by Service	2017/18 Original Estimate £000's	Current Position £000's	2017/18 Revised Estimate £000's
Resources	7,871	1,876	11,254
Education, Community & Economy	15,820	6,243	16,875
Health & Social Care	452	43	197
Council Transformation	120	10	205
HRA	41,945	3,982	16,834
Total	**66,208**	**12,154**	**45,365**

Forecast levels of capital expenditure on:-

- Resources has increased by £3.383 million compared to budget, due to rephasing of projects from 2016/17 to 2017/18 and the inclusion of approved budgets for new projects for (a) the provision of Outdoor Play Equipment in Rosewell & Gorebridge, structural works to Westerhaugh bridge, (b) the purchase of 9/11 White Hart street in Dalkeith, and (c) the new Legend Leisure Management System;
- Education, Community & Economy has increased by £1.055 million, due to rephasing across financial years for the Hopefield Primary School project, and the inclusion of approved budgets for the following projects: new Danderhall Primary hub, design team costs for the extension of Cuiken & Sacred Heart Primaries, Modular Units for various Primary/Nursery schools, the purchase of land at Shawfair Town Centre, and preliminary works to the A701 and A702;
- Health & Social Care has decreased by £0.255 million to reflect the rephasing of spend for the Assistive Technology project;
- Council Transformation has increased by £0.085 million to reflect rephasing of project spend from 2016/17 to 2017/18;
- HRA has decreased by £25.111 million to reflect the rephasing of the Phase II and III programmes.

Prudential Indicator for the Financing of the Capital Programme & Borrowing

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (principal repayments). This direct borrowing need is also supplemented by maturing debt and other treasury requirements.

Capital Financing	**2017/18 Original Estimate £000's**	**Current Position £000's**	**2017/18 Revised Estimate £000's**
Total Capital Expenditure	**66,208**	**12,154**	**45,365**
Capital Grants	9,022	5,218	12,152
Capital Receipts	0	984	2,076
Capital Reserves	0	0	0
Developer/Other Contributions	6,586	766	7,909
Total Financing	**15,608**	**6,968**	**22,137**
Borrowing Required	**50,600**	**5,186**	**23,228**

Total expected financing has increased from £15.608 million to £22.137 million, reflecting:-

- Forecast capital receipts applied to the HRA capital plan in 2017/18 of £2.076 million;
- Rephasing of developer contributions that can be applied to finance the capital plan;
- an increase in the level of "other contributions", predominantly reflecting the funding by Shawfair LLP of the Shawfair Town Centre land purchase.

Appendix 5

Loans Fund Rate Comparison for all Scottish Local Authorities 2016/17

Council	Loans Fund Rate
Midlothian	3.24%
Dumfries & Galloway	3.25%
Perth & Kinross	3.30%
East Lothian	3.53%
Falkirk	3.70%
Aberdeen City	3.82%
Orkney	3.73%
Fife	3.81%
Inverclyde	3.84%
Aberdeenshire	4.05%
North Lanarkshire	4.05%
East Renfrewshire	3.97%
Dundee City	4.13%
West Lothian	4.12%
Shetland	4.11%
West Dunbartonshire	4.21%
South Lanarkshire	4.28%
Renfrewshire	4.25%
Stirling	4.41%
Angus	4.47%
North Ayrshire	4.45%
Glasgow City	4.53%
Highland	4.52%
Moray	4.34%
Argyll & Bute	4.56%
Scottish Borders	4.62%
East Dunbartonshire	4.62%
Clackmannanshire	4.79%
East Ayrshire	5.02%
Edinburgh City	5.18%
South Ayrshire	5.35%
Comhairle Nan Eilean Siar	6.49%

The Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average “loans fund rate” figure for each authority, as noted in the final column above

Midlothian Local Development Plan – Resolution to Adopt

Report by Ian Johnson, Head of Communities and Economy

1 Purpose of Report

1.1 This report confirms the Direction issued by Scottish Ministers on 26 October 2017 in respect of the Midlothian Local Development Plan (MLDP) and hereby seeks Council approval to adopt the plan.

2 Background

2.1 At its meeting on 26 September 2017 Council considered the Report of Examination and the Reporter's recommendations in respect of unresolved issues made in respect of the Proposed MLDP. Council accepted the recommendations with only one exception relating to the allocation of areas of white land at Midlothian Science Zone (Easter Bush) as open space. Accordingly, the Council advertised its intention to adopt the modified plan and submitted a copy of the plan, the report of examination, a list of the modifications made to the plan and a statement setting out why it did not make modifications in respect of the land at Midlothian Science Zone, to Scottish Ministers on 29 September 2017.

2.2 Scottish Ministers have 28 days from receipt of the modified plan in which to determine if they are satisfied the Council can proceed to adopt the plan or if they intend to direct the Council not to. On 26 October 2017 a letter was received from Scottish Government intimating that the Scottish Ministers did not wish to intervene therefore, after 27 October 2017 the Council may proceed to adopt the plan in accordance with section 20 the Town and Country Planning (Scotland) Act 1997.

3 Adoption Process

3.1 The Council is now asked to adopt by resolution the Midlothian Local Development Plan (2017) whereupon it will supersede the Midlothian Local Plan (2008). The development plan for Midlothian will now comprise the Strategic Development Plan for South East Scotland (2013) and the Midlothian Local Development Plan (2017).

3.2 Following adoption of the plan the Council is required to:

a. send two copies to Scottish Ministers;
b. publish the plan, including electronically;
c. place copies in libraries;
d. notify people who made representations on the Proposed Plan or modified plan of its publication and its availability in public libraries; and

e. advertise its publication and availability in a local newspaper.

3.3 The plan becomes operative (and thereby replaces the previous local plan) on 7 November 2017 but any person wishing to question its validity in statutory terms can make application to the Court of Session within six weeks from the date of adoption (by 19 December 2017).

3.4 A copy of the Midlothian Local Development Plan (2017) is available in the Members' library for information and will also be available on the Council's web site. Members and Community Councils will be provided with printed versions of the plan in due course.

3.5 The Council is now required to prepare a post-adoption statement for the purposes of strategic environmental assessment (SEA) and to carry out monitoring and mitigation of the significant environmental effects of the Plan's policies and proposals.

4 Action Programme

4.1 Within three months of adopting the Plan the Council is also required to adopt and publish an Action Programme identifying the necessary actions required to deliver the policies and proposals of the plan, the agencies and organisations responsible for carrying out these actions and the timescales for carrying out these actions.

4.2 The Proposed MLDP Action Programme will be updated to reflect the modified plan and be the subject of a further report to Council to adopt and publish in due course.

5 Report Implications

5.1 Resource

The costs associated with producing the Local Development Plan have to date been met within existing budgets. The costs associated with the Examination were greater than projected due to the extent of work undertaken by the DPEA. However, this, and the additional unavoidable cost of printing the plan and associated proposals maps can be accommodated within the overall budget of the Planning Service.

5.2 Risk

The risk of legal challenge in the six weeks following adoption has been mitigated by ensuring adherence to the statutory procedures governing plan preparation.

5.3 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

5.4 Key Priorities within the Single Midlothian Plan

The MLDP provides the spatial land use policy and development framework for Midlothian for the next ten years. It is a vital component in ensuring economic growth and business support, seeking to meet housing need in all tenures, and ensuring protection/enhancement of built and natural heritage resources; all within an overarching aim of securing environmental sustainability.

5.5 Impact on Performance and Outcomes

The MLDP provides the policy and development framework to support improving opportunities in Midlothian and sustainable growth.

5.6 Adopting a Preventative Approach

The MLDP provides land use planning policy guidance for investment in future growth and development across the Council area up to 2027 and will help to inform the future investment priorities of the Council and its community planning partners as well as other public, private and voluntary sector bodies.

5.7 Involving Communities and Other Stakeholders

The local development plan process has been subject to public consultation at the Main Issues Report stage (in accordance with the activities and timetable set out in Development Plan Scheme No. 5, March 2013) and the Proposed Plan was placed on deposit for a period of representations to be made which ran from 14 May 2015 to 26 June 2015. The latest Development Plan Scheme No. 9 (March 2017) sets out the remaining stages of the development plan process post examination, including the preparation of Supplementary Guidance and Planning Guidance to support the MLDP and looks ahead to the emerging Strategic Development Plan (2) (currently at examination stage) and the corresponding consultation and engagement events and activities associated with the next MLDP, starting in 2018.

5.8 Ensuring Equalities

Both Strategic Environmental Assessment and an Equalities and Human Rights Impact Assessment were conducted in the early stages of the plan preparation process on the Main Issues Report and subsequently at the Proposed MLDP stage. In both cases the assessments were approved by Council. The proposed changes to the proposed plan arising from the Report of Examination (prepared by the Directorate of Planning and Environmental Appeals) do not fundamentally change the objectives, policies and proposals of the plan which represents the settled position of the Council and therefore it does not warrant further equalities assessment.

This report is seeking Council approval to adopt the Proposed Plan in line with the Reporter's recommendations. As part of that process the Council has a requirement to notify people who made representations to the Proposed Plan prior to the Examination that the Proposed Plan (as modified) has been adopted and where and when it can be viewed.

5.9 Supporting Sustainable Development

Preparation of the plan to proposed plan stage was subject to and informed by the requirements of the Environmental Assessment (Scotland) Act 2005 ('strategic environmental assessment'). The environmental authorities agree that no further significant environmental effects are likely as a consequence of the modifications recommended in the Report of Examination. Accordingly, and as required, the Council made a determination to this effect and sent a copy of the determination to the environmental authorities and published it in the local press and online.

5.10 IT Issues

There are no IT issues arising from this report.

6 Recommendations

6.1 The Council is recommended to:

a) adopt by resolution the Midlothian Local Development Plan (2017);

b) require the Head of Communities and Economy to make the necessary arrangements to:
   - i. publish the adopted plan, including electronically;
   - ii. place copies of the adopted plan in all public libraries and online;
   - iii. advertise its adoption, publication and availability in a local newspaper; and
   - iv. notify people who made representations on the Proposed Plan or modified plan of its publication and its availability in public libraries

c) require the submission of a further report to Council with an updated Action Programme for adoption; and

d) require the submission of the following documents to Scottish Ministers in accordance with statutory requirements:
   - i. two copies of the adopted plan; and
   - ii. the adopted Action Programme (within 3 months of adopting the plan).

Ian Johnson
Head of Communities and Economy

Date: **30th October 2017**
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Background Papers:

- Scottish Ministers determination

Council
7 November 2017

Midlothian Strategic Housing Investment Plan 2018/19 – 2022/23

Report by Kevin Anderson, Head of Customer & Housing Services

1 Purpose of Report

This Report summarises the key points set out in Midlothian's Strategic Housing Investment Plan 2018/19 – 2022/23 which details the priorities for the investment in new affordable housing in Midlothian.

2 Background

2.1 The Scottish Government requires that all local authorities prepare a Strategic Housing Investment Plan (SHIP) that identifies the main investment priorities for affordable housing.

This was previously required every two years but is now required on an annual basis as the Scottish Government requires greater detail on the Affordable Housing Supply Programme in each area towards meeting its target of supporting the development of 50,000 new affordable homes during the period 2016/17 – 2020/21.

The SHIP sets out the Council's approach to promoting affordable housing investment and meeting housing supply targets identified in the SESplan.

2.2 The SHIP acknowledges that this year has seen a significant milestone for Midlothian Council as it surpassed 1,000 new build homes since 2006. It also completed specifically designed accommodation for Midlothian residents who have complex care needs at Teviot Court, Penicuik. It also notes a total of 2,432 homes have been built or purchased as affordable rented housing, with most of this being housing for rent.

Despite this significant investment in the previous decade, waiting list applications have doubled from 2,465 in 2007 to 4,925 in 2017 indicating increased household formations and a need for social housing as more people are unable to afford open market home rentals or purchases.

2.3 To address this need for more affordable housing the Strategic Housing Investment Plan details sites for 1,860 new affordable homes to be built between 2018/19 and 2022/23, of which

- Unit types: 1,649 are general needs homes and 211 are specialist provision homes.

- Units built form: 1,753 will be new build housing; 80 will be 'off the shelf purchases' and 27 will involve construction works to existing buildings.
- Tenure type: 1,574 will be social rent, 220 for Mid Market Rent (MMR) and 43 for Low Cost Home Ownership (LCHO). A further 23 are planned for unsubsidised MMR. The most common tenure is social rented housing, which reflects the fact that the affordable housing tenure with the highest demand is social rented housing.
- 371 units are expected to receive additional funding due to them meeting the 'greener homes' standard – this number is likely to increase as renewable technology becomes more commonplace in new housing.
- Section 5 in the SHIP shows how sites have been prioritised for development. No development is considered as a low priority and priorities may change in later years. Sites and numbers are subject to change and many are dependent on planning approval.

2.4 Section 6 shows that In order to meet the 50,000 homes target the Scottish Government has been increasing the allocation of grant funding in Midlothian.

For example in Midlothian in 2014/15 the total level of grant funding for affordable housing was £3.78 Million. In 2017/18 it will be a minimum of £5.831 Million and is set to increase to a minimum of £9.186 Million by 2020/21. A total minimum level of grant funding of £31.229 Million has been allocated between 2017/18 and 2020/21.

However, £94.812 million of Scottish Government grant funding is required by the Council and RSLs to deliver the identified number of 1,860 units over the next 5 years. The required level of grant funding to deliver this number of units greatly exceeds the stated level of grant available. Council Officers will continue to discuss resource requirements with the Scottish Government to ensure that projects receive appropriate levels of funding.

2.5 It is recognised that significant infrastructure works are required on some sites; Section 7 provides information on the Scottish Government's Housing Infrastructure Fund which is open to funding bids by developers and landowners to support the acceleration of building new homes on sites in their ownership.

2.6 The SHIP acknowledges that the Edinburgh and South East Scotland City Region Deal will support further investment and collaboration between Councils, the Scottish Government and UK Government in the following ways:

- Supporting a 10 year affordable housing programme across the region with Scottish Government grant funding.
- Supporting local authority borrowing and share financing risk of infrastructure delivery for key development sites.
- Provision of a £50 Million housing infrastructure fund of predominantly private sector loans to be spent on projects that will unlock housing in strategic development sites across the region.
- Support for increased use of offsite construction methods.

- Prospects to establish a council-owned regional housing company to deliver mid market and private rented sector housing.

Resource Implications of future new build phase and HRA Rent Strategy

3.1 The SHIP highlights resource issues which impact upon the new build programme. Elected members have already approved funding for the first three phases of the new council house building programme. As noted in the Strategic Housing Investment Plan, consultation with tenants and the housing list applicants is required before a firm commitment can be made to a 4th phase which would provide a total of 2,000 new build council homes since 2006.

This is due to the need to consider the affordability of future rent increases which are required in order that a further phase of development beyond the projected 1,524 units that can currently be funded. The SHIP identifies sites for 894 units for council housing and officers are investigating further site options in order that 1,000 new build council homes could be developed during the next five years. The Housing Service has also been engaging with Planning colleagues on ways that the proposed revisions to Supplementary Guidance on Planning Obligations and Affordable Housing can better support the Council's new build programme.

3.2 Options will be provided to tenants during 2018 and a Report on this consultation will be provided to Elected Members before a decision is taken on future rent charges for 2019/20 and beyond. Midlothian Council house rents remain significantly below the *Scottish average for social rented housing* (£74.44). However, the average rent is now higher than the Scottish average: Midlothian Council average weekly rent is £69.40 compared to the *Scottish average for council housing* of £67.76. This average rent charge figure is inflated by the 1,000 new build homes which have a time-limited 25% rent premium charge.

3.3 In November 2009, Midlothian Council agreed to proposals for the rent strategy for new build council housing as follows:

"The weekly rent for new build properties is 25% higher than that of the equivalent size of existing property. Over time it is appropriate that new build and existing rents should converge and it is therefore proposed to achieve this by applying a rent increase for each new build property of 2% below the general increase starting with the first rent increase which is applied 10 years after the whole site was completed."

3.4 Midlothian Council currently allows for £524.495 million in Rental Income in the Housing Revenue Account Financial Model from 2017/18 to 2032/33, this assumes that the New Social Housing Rental Premium of 25% will start to reduce after a ten year period by 2% per annum until the rental charge converges with the General Housing Stock Rental Charge, convergence takes 11 years and allows reserves to remain at the Financial Guidelines recommended balance of approximately £2 million in 2032/33.

The financial year 2018/19 will be the first year where it is proposed that rental charges for new build properties will begin to converge. This will affect properties at Bill Russell Grove, with further estates to follow in 2019/20. By 2028 all 1,052 current new builds have their rental costs reduced, moving towards being charged an average rent charge. This poses a number of challenges for the Housing Service:

- The Council is required to consult with tenants on a regular basis with tenants on the rent charge and rent increase that they are required to pay. For tenants who live in a new build house it could be confusing for them as they will need to decide on different rent increase options. It would be a complicated administrative process to undertake rent consultation with new build tenants who may be affected by rent convergence over different time periods.
- The length of time it would take for the rental charge for a new build property to converge with existing properties is estimated at 21 years. It may be difficult to justify charging a 'new build' premium on a property over 20 years old.
- It is administratively onerous to set different rental increases for different houses built in different years and to do so would require an upgrade to the housing management system.

3.5 As a result, four options are suggested for rent charges to new build tenants:

Option A: Current policy 2% convergence
This does not address the challenges identified above.

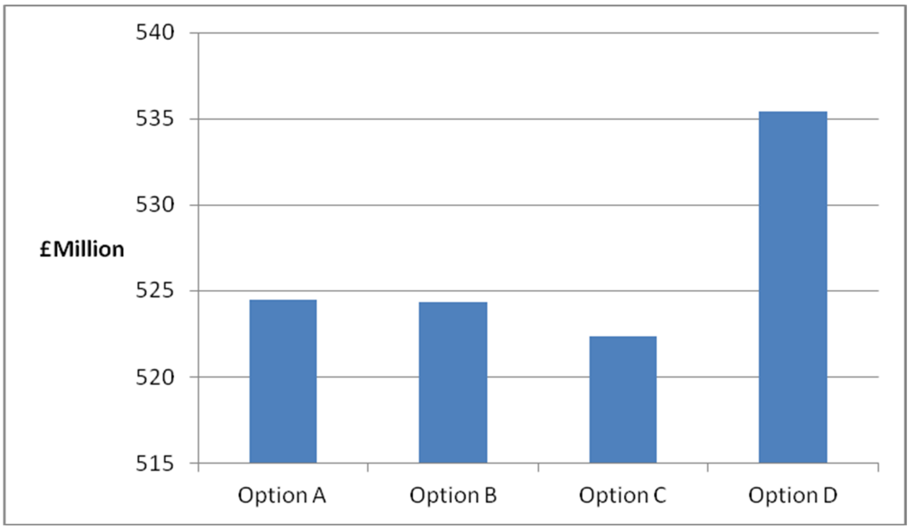
Option B: Retain Premium for additional 5 years then cease
Based on Midlothian Council's current Rent Strategy, if the rent premium of 25% were to remain for an additional five years after the ten year period then reverts to the standard rent charge rather than converge gradually this would generate approximately the same amount of income of £524.304 million over the life of the Financial Model. Although the profiling of when the rental income received will change, reserves would still remain at the recommended level due to the very similar level of rental income being generated over a 15 year period, as shown in Chart 1 below.

Option C: Cease to operate a Rent Premium after 10 Years
If the rent premium were to cease after the ten year period then this would reduce the rental income received by £2.127 million to £522,368 million over the life of the Financial Model which would effectively wipe out the recommended reserve position.

Option D: Retention of Rent Premium
If the rent premium of 25% were to be retained after the ten year period indefinitely then this would result in the rental income received increasing by £10.920 million to £535.415 million over the life of the Financial Model resulting in reserves far exceeding the recommended level. Whilst it is possible that the extra income could

be used for further new build development, this would result in a significant gap between rent charged for older properties compared to recent builds and potential concerns about the affordability of rent charges over the long term.

Chart 1: Projected HRA Rental Income 2017/18 – 2032/33



3.6 The Housing Service can consult on the proposals with tenants as part of the consultation on the future rental charges that are planned to take place during 2018. The preference is to recommend Option B which does not require any additional expenditure by new build tenants and ensures greater clarity in the approach to rent setting in future years for all tenants in existing and new build properties.

Report Implications

4.1 Resource

The SHIP notes the intention to undertake 80 open market purchases during the next five years. This helps to meet housing need in existing estates or in areas with a lack of development opportunities. This is an increase from 30 units which was agreed by Council in December 2016. An additional £5 Million is required to undertake these purchases. Long term financial modelling demonstrates that the Housing Revenue Account can sustain this extra investment.

4.2 Risk

If the Council does not support the development of new affordable housing, the level of housing need will continue to increase with negative consequences for the community.

4.3 Single Midlothian Plan and Business Transformation

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

This Strategy aligns with Midlothian's Single Outcome Agreement and with corporate priorities in the Health & Social Care Directorate.

4.4 Impact on Performance and Outcomes

The SHIP supports the following Local Housing Strategy Outcomes, these are:

- Households have improved housing options across all tenures.
- Homeless households and those threatened with homelessness are able to access support and advice services and all unintentionally homeless households will be able to access settled accommodation.
- The condition of housing across all tenures is improved.
- The needs of households with particular needs will be addressed and all households will have equal access to housing and housing services.
- Housing in all tenures will be more energy efficient and fewer households will live in or be at risk of fuel poverty.

4.5 Adopting a Preventative Approach

Setting out a programme for development in the SHIP enables the investment of affordable housing to be carried out in a balanced approach in order that any investment takes into account the needs of the community. This includes those with particular needs such as Extra Care Housing for older people or those Complex Physical or Learning Disabilities where provision of suitable housing would require less resourcing in comparison to traditional models of care. There has been a long-standing policy initiative to reduce reliance upon institutional settings including long stay learning disability hospitals, psychiatric hospitals, and long stay hospitals and care homes for frail older people. The success of this shift to community based care has been heavily dependent upon the contribution of Housing providers.

The vital role of housing was reflected in the requirement upon IJBs to include a Housing Contribution Statement (HCS) in their Strategic Plans. The HCS is to be seen as the 'bridge' between the Local Housing Strategy and the Strategic Commissioning Plan.

The Midlothian Housing Contribution Statement provides an analysis of local demographic features including the changing numbers of older people and those with disabilities and long term illness. It also explains what this analysis means for the provision of special needs housing, adaptations and supporting the objective of reducing inequalities.

Over the past 12 months the implication of the severe reductions in the Council budget has led to a further review of local models of care. This has identified the scope for delivering more cost effective services through the increased provision of specialist housing.

4.6 Involving Communities and Other Stakeholders

Extensive consultation was carried out for the LHS involving the input of key stakeholders, including local organisations such as housing associations and private landlords as well as the wider community. During consultation, it was widely recognised that investment in affordable housing was a key Local Housing Strategy priority. All developing Housing Associations have discussed their development plans with Council Officers. Private sector developers were also given the opportunity to discuss their future development plans with Council Officers.

4.7 Ensuring Equalities

An equalities impact assessment has been completed for the SHIP. No negative consequences were identified and specific actions within the SHIP are recognised as having positive outcomes for equality groups, such as those with a disability and the elderly.

4.8 Supporting Sustainable Development

An SEA Pre Screening was undertaken in respect of the Strategy, following this it is expected that a full screening will not be required. In addition, good practice in relation to energy efficiency and sustainability is highlighted in the document.

4.9 IT Issues

None

5 Recommendations

It is recommended that Council:

a) Approves submission of the Strategic Housing Investment Plan 2018/19 – 2022/23 to the Scottish Government.

b) Approves plans for consultation with tenants and housing list applicants during 2018 in order to agree a rent strategy for 2019/20 and beyond which could enable a 4th phase of new development for 1,000 additional new council homes.
c) Approves the proposal to consult on an amendment to the rent convergence policy as outlined in Section 3 of this Report.
d) Agrees to a programme of 80 open market purchases of properties for use as council housing.

Date: 7 November 2017
Report Contact:
Name : Kevin Anderson, Head of Customer & Housing Services
Tel No: 0131 271 3615
Email: kevin.anderson@midlothian.gov.uk

Background Papers:
Appendix 1: Strategic Housing Investment Plan 2018/19 – 2022/23

Item 8.10

Midlothian Council
Strategic Housing Investment Plan
2018/19 - 2022/23

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Körler icin kabartma yazilar, kaset ve büyük nüshalar da dahil olmak üzere, istenilen bilgileri saglamak ve tercüme etmekten memnuniyet duyariz.

اگرآپ چاہیں تو ہم خوشی سے آپ کوترجمہ فراہم کرسکتے ہیں اور معلومات اور دستاویزات دیگر شکلوں میں مثلاً بریل (نابینا افراد کے لیے اُبھرے ہوئے حروف کی لکھائی) میں، ٹیپ پر یا بڑے حروف کی لکھائی میں فراہم کرسکتے ہیں۔

Contact 0131 270 7500 or email: enquiries@midlothian.gov.uk

Front page photographs
Top: Midlothian Council development at Robert Franks Gardens, Gorebridge.
Bottom: Places for People Development at Wester Cowden, Dalkeith

Table of Contents

1. Introduction and Background

In 2016 the Scottish Government announced its intention to support the development of 50,000 new affordable homes in Scotland by March 2021. Meeting this target is ambitious and will require increased funding by the Scottish Government, Local Authorities and Registered Social Landlords and a step change in the pace of housebuilding in order that it is achieved. The delivery of more affordable housing remains a high priority for Midlothian Council which is planning a development programme of up to 1,000 new council houses in Midlothian.

The purpose of Midlothian's Strategic Housing Investment Plan (SHIP) is to set out strategic investment priorities for affordable housing over a 5 year period to achieve the outcomes set out in the Local Housing Strategy (LHS). The SHIP is also the key document for identifying strategic housing projects towards meeting the Government's 50,000 affordable housing target.

The previous SHIP for Midlothian was submitted to the Scottish Government in 2016 and covered the period 2017/18 – 2021/22. This 2017 submission is provides updated investment plans set out by Midlothian Council and affordable housing development partners for the period 2018/19 – 2022/23. The previous year's SHIP is available to view online at www.midlothian.gov.uk

The SHIP provides an opportunity for the Council to:

- Sets out investment priorities for affordable housing and identifies how these will be delivered
- Identify the resources required to deliver these priorities
- Involve key partners in the delivery of new affordable housing.

The aims of Midlothian's SHIP are to:

- Improve longer-term strategic planning
- Provide a practical plan detailing how the Local Housing Strategy investment priorities can be delivered
- Form the basis for more detailed programme planning

- Provide a focus for partnership working
- Inform, and be informed by Registered Social Landlords (RSL) development plans
- Develop actions identified in the Local Housing Strategy (LHS)
- Inform the allocation of resources from a national to a local authority level

The SHIP will continue to inform the allocation of resources from the Scottish Government's Affordable Housing Investment Programme, which primarily supports the delivery of affordable housing via the Council and Registered Social Landlords. In addition, other funding streams that seek to support LHS priorities for affordable housing or complement existing resources have also been evaluated.

Affordable Housing Achievements

The main achievements in relation to investment in affordable housing in Midlothian in recent years include:

- Midlothian Council completing it's 1,000th new council home since 2006.
- Completion of new 5 affordable housing developments in Gorebridge, Dalkeith, Penicuik and Bonnyrigg during 2017.
- Completion of 12 homes for people with complex care needs at Teviot Court, Penicuik.
- Assisting 175 households in Midlothian to purchase their own home using the Scottish Government's Open Market Shared Equity Scheme.
- Two affordable housing projects completed which did not require grant funding.

2. Strategic Links

Midlothian Local Housing Strategy 2013 - 2017

The Housing (Scotland) Act 2001 requires that all local authorities in Scotland develop a Local Housing Strategy (LHS). The purpose of the LHS is to:

- Describe the extent and type of housing need and demand;
- Set out the local authority's strategic vision for the future of housing across all tenures, taking account of national priorities;
- Set out how the standard of housing will be improved;
- Provide clear strategic direction for housing investment;
- Focus on the outcomes required to achieve this vision; and
- Identify specific commitments made by the local authority and key partners to enable the delivery of outcomes as shared priorities.

As a consequence, the SHIP is a key part of the Local Housing Strategy process and together the key statements on affordable housing investment priorities guide the application of Scottish Government subsidy and other funding in Midlothian.

The strategic vision of Midlothian's Local Housing Strategy 2013 – 2017 is that:
"All households in Midlothian will be able to access housing that is affordable and of good quality in sustainable communities."

Affordable housing investment decisions will be made in order that the identified outcomes of the LHS due to be achieved by 2017 are realised. These outcomes have also shaped key housing priorities within the Single Midlothian Plan – which is a combined Midlothian Community Plan and the Single Outcome Agreement with the Scottish Government.

The outcomes are:

- Households have improved housing options across all tenures.
- Homeless households and those threatened with homelessness are able to access support and advice services and all unintentionally homeless households will be able to access settled accommodation.
- The condition of housing across all tenures is improved.

- The needs of households requiring Specialist Provision housing will be addressed and all households will have equal access to housing and housing services.
- Housing in all tenures will be more energy efficient and fewer households will live in or be at risk of fuel poverty.

Development of the Midlothian's next Local Housing Strategy 2018 – 2023

Midlothian Council is in the process of developing the next Local Housing Strategy for 2018-2023. This will meet the requirements set out by Scottish Government whilst also taking account of local priorities which are determined by key stakeholders including the Council, Registered Social Landlords, housing developers and local residents. It is anticipated that increasing the supply of affordable housing in Midlothian will remain a key priority for the new LHS and the investment plans set out in this SHIP indicates how the Council and partners will deliver on this priority.

Strategic Development Plan for South East Scotland and the Midlothian Local Development Plan

SESplan is the Strategic Development Planning Authority for the Edinburgh and South East Scotland region. The region covers six council areas including City of Edinburgh, East Lothian, Midlothian, West Lothian, the Scottish Borders and the southern half of Fife. SESplan works in partnership with these six councils to prepare a Strategic Development Plan for the area. A Strategic Development Plan is a statutory planning document which is prepared or updated every five years and covers a twenty year time period. It communicates strategic and cross-boundary planning policy to the development of Local Development Plans prepared by each Council in the region.

The proposed Strategic Development Plan was published for consultation in October 2016 and once adopted, will be replacing the Strategic Development Plan of 2013. The Strategic Development Plan will help achieve the SESplan vision by:

- Providing direction to Local Development Plans in the city region.
- Providing a context for development management

- Influencing and supporting investment plans, strategic plans and other strategies affecting the region
- Identifying key strategic actions in the plan and in the SESplan Action Programme.

The Strategic Development Plan identifies the strategic housing land requirement for the SESplan area and for the strategic development areas and expects this requirement to be met through local development plans from various sources, including committed housing sites (from previous and current local plans), windfall sites and new allocations through the Proposed Midlothian Local Development Plan (MLDP). The Plan will allocate land for housing, employment and other uses, and provide a policy framework to assess planning applications. It is important that there is a sufficient supply of land for development in order that there are opportunities to develop affordable housing throughout Midlothian. The Proposed MLDP allocates a total land supply of 12,997 units

Midlothian Council's Affordable Housing Policy

Midlothian Council is committed to working with private sector developers in order that the need for market housing and affordable housing can be addressed in Midlothian. A significant proportion of affordable units proposed for development during the next five years are to be provided on sites provided as a result of the Affordable Housing Policy

The current Affordable Housing Policy which sets out that within residential sites allocated in the Local Plan, and on windfall sites, provision shall be required for affordable housing units equal to or exceeding 25% of the total site capacity (depending on the total number of units being developed).

Additionally, the 2012 Supplementary Planning Guidance (SPG) on Affordable Housing identifies that there is the potential for a range of types of affordable housing to be provided to meet the Local Plan's affordable housing requirement, including:

- Social rented housing;
- Subsidised low cost housing for sale
- Shared ownership;
- Shared equity;
- Unsubsidised entry level housing for sale;
- Housing let at a mid market or intermediate rent.

South East of Scotland Housing Need and Demand Assessment 2[1]

Undertaking an assessment of housing need and demand is a critical part of the evidence base for the Council's Local Housing Strategy (LHS) and the SHIP. The purpose of a Housing Need and Demand Assessment (HNDA) is to analyse key housing market drivers, past and present, in order to estimate future housing need and demand. This Assessment was prepared in consultation with the wider Housing Market Partnership to provide accurate and reliable data on housing need and demand to inform other strategic reports including the Strategic Development Plan, the Main Issues Report and subsequent Local Development Plans and the Local Housing Strategy. HNDA2 covers the six administrative areas of South East Scotland (including East Lothian, Edinburgh City, Fife, Midlothian, Scottish Borders and West Lothian Councils).

Housing Supply Target (HST)

Although the starting point for setting housing targets is the Housing Need and Demand Assessment , the Housing Supply Target sets out the realistic number of homes to be built in each SESplan Housing Market Area taking into account a range of material considerations including wider economic, social and environmental factors, issues of capacity, resource and deliverability, and other important requirements. The Housing Supply Targets agreed by SESplan Member Authorities for Midlothian between 2018 and 2030 include 165 for affordable housing and 369 for market housing per annum (see Table 2.1 below). The HSTs are robust, supported by evidence and have been set via a methodology designed to be compliant with Scottish Planning Policy and related guidance.

[1] The SESplan Housing Need and Demand Assessment is available to view at: www.sesplan.gov.uk

Table 2.1: SESplan Housing Supply Targets 2018-2030

	Affordable		Market		Combined	
	Annual Average	Period Total	Annual Average	Period Total	Annual Average	Period Total
City of Edinburgh	1,200	14,400	1,220	14,640	2,420	29,040
East Lothian	189	2,268	330	3,960	519	6,228
Fife	262	3,144	605	7,260	867	10,404
Midlothian	165	1,980	369	4,428	534	6,408
Scottish Borders	128	1,536	220	2,640	348	4,176
West Lothian	300	3,600	333	3,996	633	7,596
SESPLAN	**2,244**	**26,928**	**3,077**	**36,924**	**5,321**	**63,852**

3. Area Profile of Midlothian

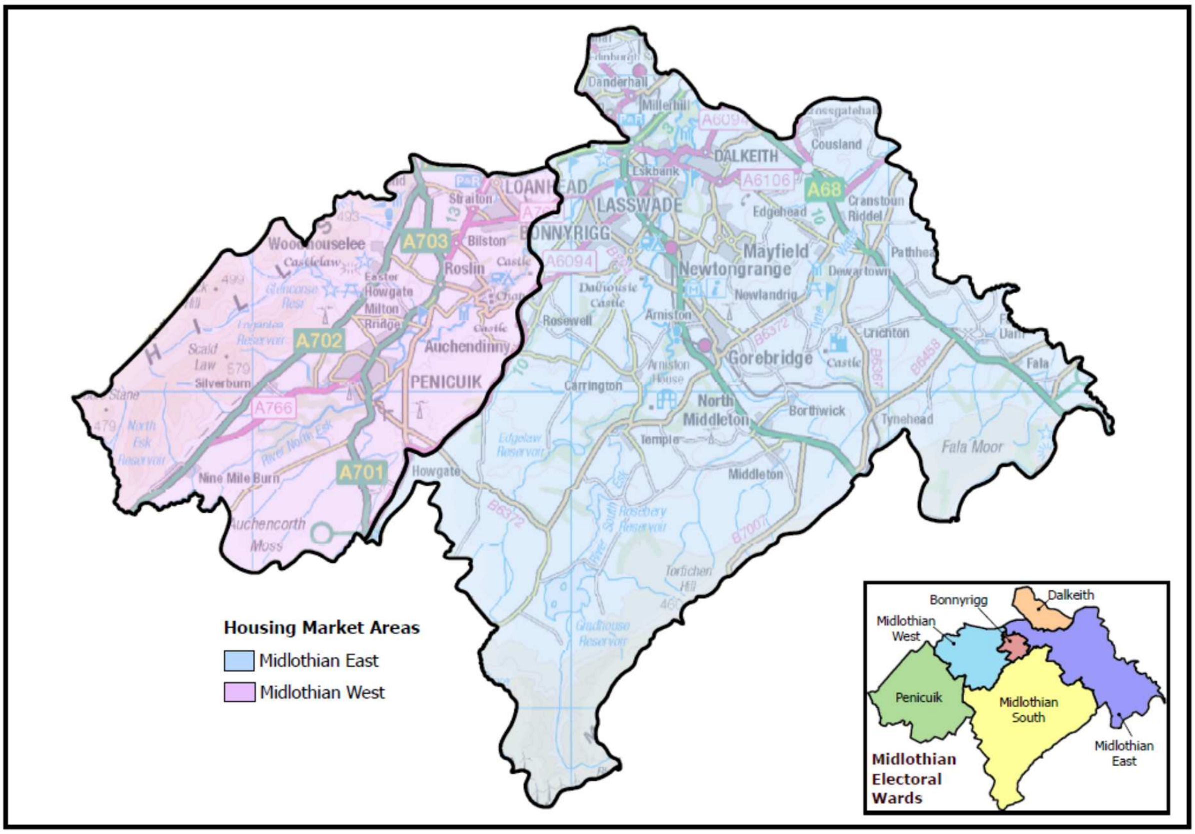
Housing Market Areas (HMAs)

Midlothian is situated within the SESplan Housing Market Area and is therefore influenced by the wider region in terms of where households choose to live and work. The Table below shows the two HMAs along with their corresponding towns and villages, while the map shows the geographical spread of the HMAs. The Midlothian West (A) HMA is denoted in purple while the Midlothian East (B) HMA is denoted in blue colour.

Table 3.1: Main Settlements in Housing Sub Market Areas

Midlothian West (A)	Penicuik, Loanhead, Bilston, Roslin, Straiton, Auchendinny
Midlothian East (B)	Dalkeith, Bonnyrigg, Gorebridge, Rosewell, Mayfield, Easthouses, Pathhead, Newtongrange, Danderhall/Shawfair

Figure 3.1: Map showing Midlothian Housing Sub Market Areas



The Housing Market Areas are the core development areas in Midlothian, based predominantly on the provisions of the Edinburgh and the Lothian's Structure Plan 2015, which concentrates new development in Midlothian on:

- The A701 Corridor;
- The A7/A68/ Borders Rail Corridor; and
- Shawfair

Deliverability per Sub Area

Affordable housing development responds to local housing need, with the highest need located in sub area B. Consequently, most of the affordable housing units to be delivered are in this HMA sub area.

Danderhall/Shawfair

It is proposed that this area of Midlothian will see a significant level of new development with an allocation of land for around 4,000 houses, employment land, a town centre including a supermarket and school provision. The initial new sites for development are under construction and it is anticipated that a significant number of new affordable units will be developed in this area during the next five years.

Housing Tenure in Midlothian

The most common housing tenure in Midlothian is owner occupied housing (64%) followed by Council housing (18%). Housing Association and Private Rented housing each represent 8% of the housing stock.

Social Housing Demand

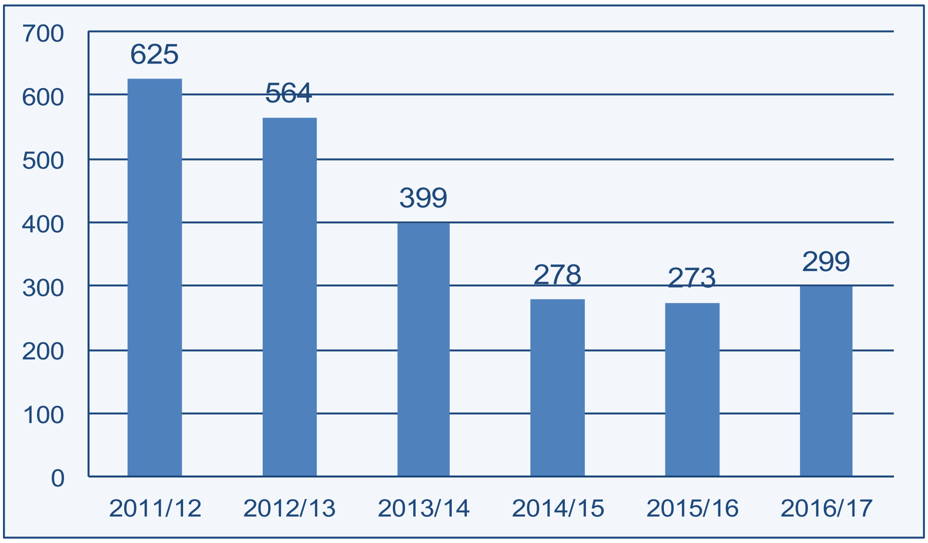
An analysis of social housing in Midlothian shows:

- There are 6,633 Council houses in Midlothian. The majority of stock is 2 bed (3,639 units), followed by 3 bed (1,840 units). There are fewer 1 bed homes (830 units) and 4 bed and larger homes (324 units).
- There are currently 3,236 RSL properties in Midlothian; Melville Housing Association has the highest number of properties in Midlothian with 58% of total housing association stock followed by Castle Rock Edinvar Housing Association with 32%. Other RSLs have about 10% of the total RSL stock in Midlothian

- There is no dominant age group on the housing list: 30% of applicants are aged 40-59 years, followed by those aged 26-39 years (26%), 16-25 years (26%) and 60+ years old with 18%.
- One and two bedroom properties are most in demand from the Housing List. 34% of applicants are waiting for one bed homes and 52% of applicants are waiting for two bed homes. Only 14% of Housing List applicants require 3 and 4 bed homes.

Chart 3.1 below, shows the number of new council lets in recent years. In the last three years, turnover rate in Midlothian has been very low at less than 5%. The high level of lets in 2011/12 and 2012/13 were due to the high number of new build completions in these years, it is anticipated that the number of lets will increase as more council housing sites are being constructed.

Chart 3.1: Midlothian Council Lettings



Despite significant investment in new council housing in the previous decade, waiting list applications have doubled from 2,465 in 2007 to 4,925 in 2017 indicating an increase in household formation and the need for social housing as more people are unable to afford open market home rentals or purchases. Chart 3.3 shows the number of households assessed as homeless by Midlothian Council in recent years. There has been a slight reduction in the number of households assessed as homeless since 2011/12 due to homeless prevention activity and providing housing options advice but the number of homeless households remains greater than the number of social housing lets in Midlothian. This adds to the pressure for more affordable housing.

Chart 3.2: Number of Households on Midlothian Council Housing List 2007 - 2017

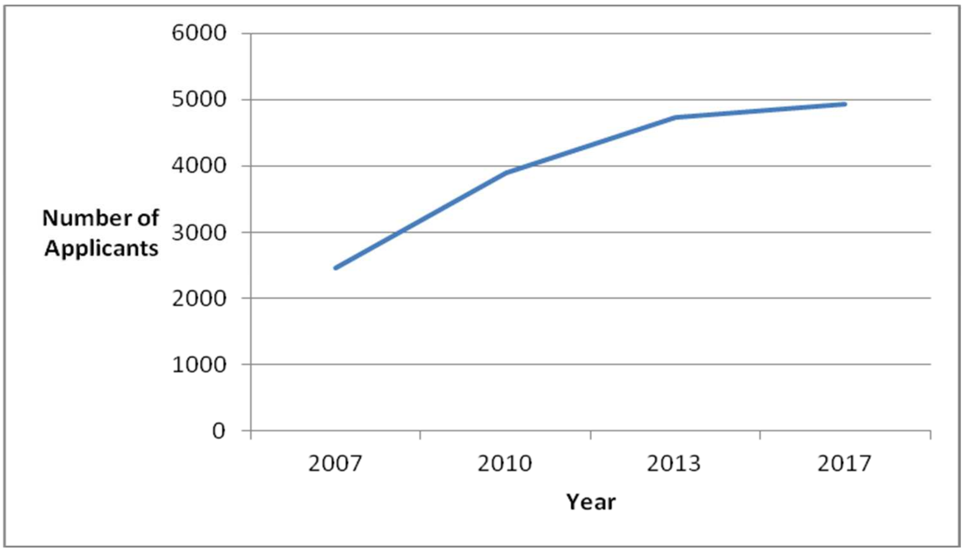
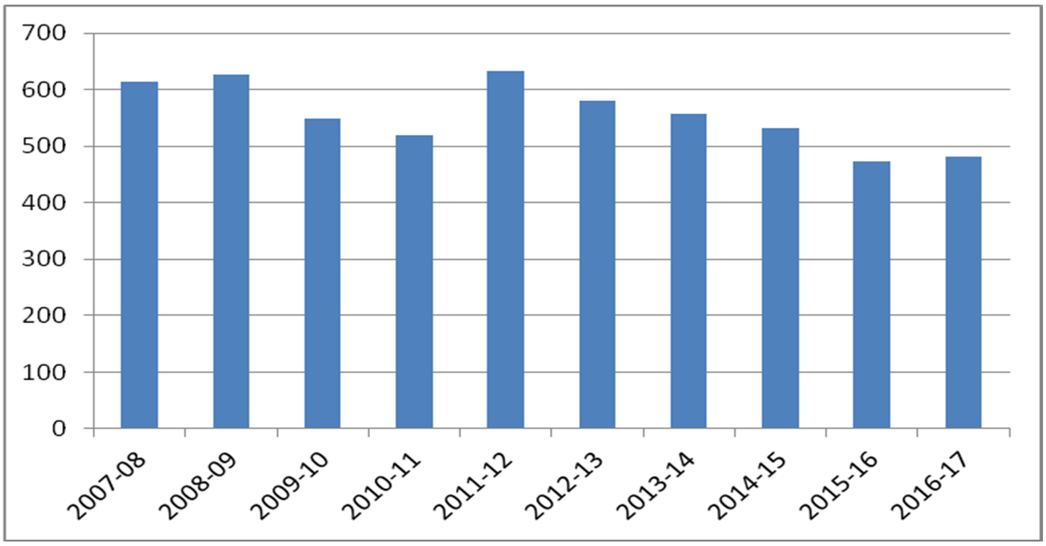


Chart 3.3: Number of Households Assessed as Homeless in Midlothian 2007/08 – 2016/17



Affordable Housing Development in Midlothian

Table 3.1 shows the level of investment in new affordable homes in Midlothian since 2006. It shows that 1,064 council homes have been built, and a total of 1,600 council and RSL affordable units have been built overall. In addition home ownership schemes such as shared equity schemes and Help to Buy Scotland have supported 832 households to purchase their own home.

Table 3.1: New Affordable Housing in Midlothian, by Type and Area since 2006

Settlement	Council Completed Units	RSL Completed Social Units	RSL Completed MMR Units	Shared Equity	Settlement sub-total	Open Market Shared Equity	Help to Buy	Total
Bilston	0	28	0	0	**28**			
Bonnyrigg/Lasswade	227	22	6	4	**259**			
Dalkeith	146	129	34	17	**326**			
Gorebridge	241	28	24	4	**297**			
Loanhead	88	0	0	0	**88**			
Mayfield/Easthouses	130	137	12	0	**279**			
Newtongrange/Butlerfield	55	26	15	0	**96**			
Penicuik	177	42	0	0	**219**			
Rosewell	0	8	0	0	**8**			
TOTAL	**1,064**	**420**	**91**	**25**	**1,600**	**563**	**570**	**2,432**

4. Partnership Working

Partnership working is crucial to the delivery of high quality housing and housing related services across all tenures in Midlothian. As part of delivering a robust SHIP, Council Officers engaged and consulted with all delivery partners on their proposals and priority projects.

In order to identify suitable investment priorities Council Officers have worked with the Scottish Government, Housing Associations, tenants groups, private developers and colleagues in the Finance, Estates and Construction teams to discuss the level of housing need in the region, the level of demand for different tenures of affordable housing and the mix of suitable house sizes and types in order to agree a five year programme of development.

The development priorities in the SHIP will be monitored through a number of ways including by:

- Monitoring and reviewing of the actions in the Local Housing Strategy
- Annual assessment of the Council's Housing Supply Targets
- Annual assessment of RSLs' housing delivery
- Monitoring of housing need and demand.
- Reports and returns submitted to the Scottish Government

Edinburgh and South East Scotland City Region Deal

The Edinburgh and South East Scotland City Region comprises the six local authorities of City of Edinburgh, Fife, East Lothian, Midlothian, Scottish Borders and West Lothian. Officers from these Council's have been collaborating with the UK and Scottish Government to develop a transformational and inclusive city deal for the region which will attract investment of up to £1.1 Billion over the next 15 years. This includes investment and collaboration on housing. Housing is included within the City Region Deal as it is recognised as being an area of pressure but also an opportunity for accelerated economic growth while reducing social exclusion.

All Councils in the South East of Scotland face the same pressures in addressing housing need with the recent housing need and demand assessment for the region estimating at least 67,000 new homes are required by 2030, with the majority of need being for households who cannot buy or rent at market prices.

The Heads of Terms provide for greater region-wide collaboration on the key themes of infrastructure, affordable housing, housing delivery vehicles, strategic use of public sector land and property, and skills and innovation. There is expected to be City Deal support in the development of major new housing sites across the region, including Shawfair.

Key housing investment areas in Midlothian that are being supported through the City Region Deal include:

- Supporting a 10 year affordable housing programme across the region with Scottish Government grant funding.
- Supporting local authority borrowing and share financing risk of infrastructure delivery for key development sites.
- Provision of a £50 Million housing infrastructure fund of predominantly private sector loans to be spent on projects that will unlock housing in strategic development sites across the region.
- Support for increased use of offsite construction methods.
- Prospects to establish a council-owned regional housing company to deliver mid market and private rented sector housing.

Health and Social Care

Housing providers in Midlothian work collaboratively with health and social care colleagues to ensure that housing provision in Midlothian can better meet the needs of households who may require specialist housing provision to be able to live independently.

A new Health and Social Care Partnership, the Midlothian Integration Joint Board (IJB), is now responsible for planning health and care services for the Midlothian population. This changes the way Local Authorities and the NHS work together and facilitates closer partnership working with housing providers, including the council, RSLs and the private sector to provide housing and housing-related services which best address the health and social care needs of residents in Midlothian. The types of outcomes that this will facilitate include:

- Increased specialist housing provision as a result of improved understanding of the future needs of the population, such as developing extra care housing which provides an alternative to living in a care home for some people.
- Identification of the level of need for, and funding of, adaptations to ensure that people living in private sector housing and council housing are able to continue to live independently.
- Improving the health outcomes for homeless households, many of whom currently have poorer levels of physical health and mental health than the general population.
- Taking action to improve the energy efficiency of housing and reducing fuel poverty which would lessen the risk to household health and wellbeing.

More information is contained in the Midlothian Health and Social Care Joint Integration Plan 2016 – 2019, available at www.midlothian.gov.uk

There has been a long-standing policy initiative to reduce reliance upon institutional settings including long stay learning disability hospitals, psychiatric hospitals, and long stay hospitals and care homes for frail older people. The success of this shift to community based care has been heavily dependent upon the contribution of Housing providers.

The vital role of housing was reflected in the requirement upon IJBs to include a Housing Contribution Statement (HCS) in their Strategic Plans. The HCS is to be seen as the 'bridge' between the Local Housing Strategy and the Strategic Commissioning Plan.

The Midlothian Housing Contribution Statement provides an analysis of local demographic features including the changing numbers of older people and those with disabilities and long term illness. It also explains what this analysis means for the provision of special needs housing, adaptations and supporting the objective of reducing inequalities.

Over the past 12 months the implication of the severe reductions in the Council budget has led to a further review of local models of care. This has identified the scope for delivering more cost effective services through the increased provision of specialist housing.

Analysis of Midlothian Council's Housing List indicates that a significant number of households are seeking housing to assist with medical needs.

- Medical Category A is awarded in the Housing Allocation Policy when it is determined that an applicant can no longer continue to live in their current accommodation with 180 applicants assessed in this category and awaiting suitable accommodation.
- Medical Category B is awarded in the Housing Allocation Policy where it is determined that re-housing would be of significant benefit to the applicant's health/level of independence, with 461 applicants assessed in this category and awaiting suitable accommodation.
- Currently, there are 224 households on the Housing List awaiting housing for older people (such as sheltered or retirement housing) and 45 applications for wheelchair accessible housing.

Recently built examples of Specialist Provision include:

- Cowan Court, a 32 unit extra care development in Penicuik
- Teviot Court, a 12 unit development built for households with complex care needs.
- 2 Wheelchair Adapted Homes in Gorebridge completed in 2017

Teviot Court opened in 2017. The development represents a redesign of services for people in Midlothian with a learning disability that allows them to live independently in their own communities. Consisting of twelve single storey properties, the new scheme at Teviot Court in Penicuik is close to the town centre and local amenities. Within each house is a bedroom, lounge, kitchen, bathroom and a patio area. The properties are all wheelchair accessible and were designed using the most up to date research and best practice in building design.

The tenants are a diverse group of people who will benefit from individually tailored support to set up home and become involved in what's going on locally. The Richmond Fellowship Scotland, a charity which supports people with a broad range of needs to live as independently as possible in their own homes, has been appointed to provide support to all tenants living in the development. They will provide support in a number of areas including personal finance, education and skills development. A tenant participation group has also been established. Figure 4.1 below shows a picture of the new development being visited by Midlothian Councillor Stephen Curran, Cabinet Member for Customer & Housing Services, together with Officers from Midlothian Council Officers and the Richmond Fellowship.

Figure 4.1: Picture of Teviot Court

Future Plans for Specialist Provision

A greater awareness of the health needs of the community has led to over 10% of all new affordable housing in the SHIP being planned for specific needs groups. These needs include:

Housing for the Elderly

A range of housing provision specifically designed for older people is being designed in various settlements. This includes amenity housing and extra care housing development by both Midlothian Council and partner Housing Associations.

Housing for those with disabilities and other specific needs

Many households with mobility needs are benefiting from new build developments which are built to housing for varying needs standards. In addition on most sites some units are built with wet floor bathrooms and sometimes wheelchair houses also. Plans are being developed for the first council house in Midlothian to support bariatric care. Midlothian Council is also investigating the development of housing for specific client groups such as women at risk of domestic abuse and ex-armed forces personnel.

5. Investment Priorities

In order for the SHIP to deliver strategic investment priorities for affordable housing in Midlothian, the Council has engaged with RSLs and relevant delivery partners in setting out Midlothian's investment priorities for affordable housing. To ensure that available resources are prioritised in delivering affordable housing, each project against a set of criteria: Housing Need; Land Availability; Ability to Start on Site; Constraints; Equalities Needs and Environmental Impact, as shown in the tables below. In total, a project can be awarded a maximum score of 30 points and a score less than 18 indicates a 'low priority project', 18-22, 'a medium priority project' and over 22, a 'high priority project'.

Table 5.1: Project Prioritisation Scoring

Criteria	Explanation	Score
Area Housing Need	Housing need rankings are based on a waiting list demand study. 1 would indicate no housing need in an area, whilst 5 indicates the highest level of need.	1-5
Land Availability	Sites ranked most highly are those owned by the Council or RSL. Also ranked highly are sites with Planning Permission in place	1-5
Ability to Start on Site	A site with a high score indicates that the work could start on site underway once funding was approved.	1-5
Constraints	Issues such as Section 75 requirements that have yet to be resolved would be given a lower score.	1-5
Equalities Needs	All sites will score at least a good rating (3) due to Housing for Varying Needs. Additional points would be awarded for particular needs housing, mixed tenure development e.g. shared equity.	1-5
Environmental Impact	All sites which have been allocated through the Midlothian Local Plan would not be considered as having a negative environmental impact. Use of renewable technology and building on Brownfield sites would score more points.	1-5

Table 5.2: Area Project Prioritisation Score

Rank	Area	Points
1	Bonnyrigg/Lasswade/Poltonhall Loanhead, Newtongrange, Danderhall/Shawfair Small Settlements including Pathhead, Roslin, Rosewell, Bilston	5
2	Dalkeith, Penicuik	4
3	Gorebridge, Mayfield/Easthouses	3

It should be noted that some projects may have scored less not because they are of less strategic importance to the Council or RSLs but due to circumstances which prevent construction works from commencing on site (e.g. need for infrastructure works or demolition). In terms of the area ranking for housing need, there are no areas in Midlothian with a low level of housing need so areas judged to have lower levels of housing need are those where there has been significant investment in new affordable housing in recent years.

The sections below show both Council and RSL housing development priorities over the next 5 years. It should be noted that some of these sites may be subject to change as some sites have not yet been approved by the developing organisation or received planning permission. More detail on each site is shown in Appendix 1.

Council Development Priorities

The table below sets out the priorities for proposed Council projects over the next 5 years. Key notes:

- 23 development projects are proposed by the Council over the next 5 years
- 12 of the 23 projects are considered high priority while 11 are medium priorities. There are no projects judged to have a low priority.
- Most projects with the highest priority scores are highlighted for commencement in the immediate years while most with medium priorities are for the later years and it is expected that scores for the later sites will become higher due to constraints being resolved.

Table 5.3: Council Housing Development Priorities

Project Name, Area & RSL (e.g. Dewar Park, Gorebridge Phase 2- DCHA)	2018/19						2019/20						2020/21									2021/22	2022/23
	Newbyres Crescent, Gorebridge - MLC	Confier Road, Mayfield - MLC	Morris Road, Newtongrrange - MLC	Crichton Drive, Pathhead - MLC	Kirkhill Road, Penicuik - MLC	Woodburn Terrace, Dalkeith - MLC	Castlelaw Terrace, Bilstom - MLC	Cockpen Terrace, Bonnyrigg - MLC	Clerk Street, Loanhead - MLC	Hopefield, Bonnyirgg - MLC	Open Market Purchases, Midlothian - MLC	Miller Homes, Shawfair - MLC	Danderhall/Shawfair - MLC	Bellway Homes, Shawfair - MLC	TBC, Dalkeith - MLC	Newmills Road, Dalkeith - MLC	Deanburn, Penicuik - MLC	Mactaggart and Mickel, Shawfair - MLC	High Street, Bonnyrigg - MLC	Moorfoot Place, Bonnyirgg - MLC	Stobhill Road, Bonnyrigg - MLC	Eastfield Farm Road, Penicuik - MLC	Stobhill Rd (Phase 3) - MLC
Housing Need	3	3	5	5	4	4	5	5	5	5	5	5	5	5	4	4	4	5	5	5	5	4	3
Land Availability	5	5	5	5	5	5	5	5	5	3	3	5	3	5	5	5	3	3	3	3	3	4	4
Ability to Start on Site	5	5	5	4	5	5	3	3	5	2	5	3	2	3	2	2	3	3	2	2	2	2	5
Constraints	4	4	4	4	3	3	3	3	3	2	3	4	2	4	3	2	2	3	2	2	2	2	4
Equalities Needs	5	3	5	4	5	4	4	4	5	4	4	3	5	3	3	5	3	3	4	4	3	4	3
Environmental Impact	3	3	3	3	3	3	3	3	3	3	4	3	3	3	3	3	3	3	3	4	3	3	3
TOTAL	**25**	**23**	**27**	**25**	**25**	**24**	**23**	**23**	**26**	**19**	**24**	**23**	20	**23**	**20**	**21**	**18**	**20**	**19**	**20**	**18**	**19**	**22**

RSL Development Priorities

The table below sets out the priorities for proposed RSL projects over the next 5 years. Key notes:

- 25 development projects are proposed by RSLs over the next 4 years- no project has been identified for 2022/23
- 15 of the 25 projects are high priority while 10 scored as medium priority. There are no projects with a low priority.
- 5 RSLs have indicated their plans to develop during this period including:
  - Melville Housing Association (9 projects)
  - Places for People (9 Projects)
  - Viewpoint (1 project)
  - Dunedin Canmore (2 Projects)
  - Ark Housing Association – 1 project.
  - There are also 3 projects where the developer is yet to be confirmed.
- Most projects with the highest priority scores are highlighted for commencement in the immediate years while most with medium priorities are for later years

Table 5.4: RSL Housing Development Priorities

Project Name, Area & RSL (e.g. Dewar Park, Gorebridge Phase 2- DCHA)	2018/19										2019/20									2020/21				2021/22	
	Limekilns Inn , Mayfield (2017/18) - MHA	Whitehill Road, Rosewell - MHA	Hopefield, Bonnyrigg - MHA	Mauricewood Phase 1, Penicuik - MHA	Fordell - MHA	Glenesk, Avenue Road, Dalkieth - Viewpoint	Millerhill phase 2 - PfP	Bilston Phase 1 - PfP	Paradykes Primary School Loanhead - TBC	Windsor Square, Penicuik - ARK	High Street, Bonnyrigg - MHA	Mauricewood, Deanburn, Penicuik, Phase 2 - DCHA	Cauldcoats phase 1 - PfP	Bonnyrigg Coop - PfP	Newtongrange Church Site - PfP	Conifer Road - PfP	Shawfair - PfP	Bonnyrigg Dalhousie - TBC	Bilston phase 2 - TBC	Auchendinny 1 - MHA	Auchendinny, Phase 2 - DCHA	Newbattle Lodge - PfP	Cauldcoats phase 2 - PfP	Auchendinny 3 - MHA	Lothian Drive, Easthouses - MHA
Housing Need	3	5	5	4	5	4	5	5	5	4	5	4	5	5	5	3	5	5	5	4	4	3	5	4	3
Land Availability	5	5	4	4	3	5	5	4	5	5	3	3	2	2	3	5	4	1	4	4	3	5	2	4	5
Ability to Start on Site	5	5	5	5	4	5	5	4	4	2	3	2	2	2	3	2	4	2	4	4	2	2	2	4	5
Constraints	4	4	3	4	4	3	5	4	4	3	3	3	2	2	3	3	4	3	4	5	3	2	2	5	4
Equalities Needs	4	4	4	4	4	5	4	4	4	3	4	4	4	4	5	4	4	4	4	4	4	4	4	4	4
Environmental Impact	5	5	4	4	4	4	5	4	4	3	4	3	3	4	4	4	5	4	4	4	3	4	3	4	4
TOTAL	**26**	**28**	**25**	**25**	**24**	**26**	**29**	**25**	**26**	**20**	**22**	**19**	**18**	**19**	**23**	**21**	**26**	**19**	**25**	**25**	**19**	**20**	**18**	**25**	**25**

Addressing Potential Development Constraints

Midlothian Council is confident that its proposed SHIP can be delivered given the actions and initiatives undertaken to date by the Council and its strategic partners to source suitable sites for development. However, a number of challenges need to be addressed by the Council and its partners in order that an accelerated pace of development can be achieved.

Risks and constraints to development vary depending on the circumstances of each site and the developing landlord. These potential risks and constraints are:

- Obtaining required Planning Approval.
- Building and Procurement Constraints.
- Environmental and design issues.
- The commencement of affordable housing policy sites are dependent on developers' timescales and the economic conditions of the housing market.
- Sites not in the ownership of the developer.
- Unknown site ground conditions.

- The rural nature of some areas in Midlothian can mean that development is constrained in these areas, particularly in relation to available land for housing. development and the requirements for additional infrastructure prior to development commencement
- Developer contributions required as part of the Council's Planning Policy are required to pay for things like contributions to school extensions and local play facilities – sometimes these contributions threaten the viability of affordable housing projects.
- The impact of welfare reform and particularly the introduction of the impacts of the Universal Credit in Midlothian once it is fully rolled out. This is projected to have significant impact on rental income by the RSLs and Council, thereby affecting funding for future development projects.

Energy Efficiency and Environmental Standards

All housing projects in Midlothian have maximised and will continue to maximise the opportunities for energy efficiency and reduction in fuel poverty. For instance, both the Council and RSLs are working towards ensuring that properties in Midlothian meet the Energy Efficiency Standard for Social Housing (EESSH). The EESSH aims to encourage landlords to improve the energy efficiency of social housing in Scotland by:

- Reducing energy consumption, fuel poverty and greenhouse gas emissions.
- Making a significant contribution to reduce carbon emissions by 42% by 2020 and 80% by 2050 in line with the requirements set out in the Climate Change (Scotland) Act 2009.

The Council and partner landlords now consider the EESH requirements when planning for new developments and for any regeneration projects involving existing housing stock.

6. Resources

Funding from the Scottish Government

Although the majority of funding for the development of new affordable housing is financed via loans accessed by Midlothian Council or Housing Associations the availability of Scottish Government grant subsidy is crucial to achieving increased numbers of affordable homes. Each local authority area is allocated a sum of money for funding affordable housing development.

Table 5.1 below shows the level of subsidy available to both the Council and the RSLs, which has been significantly increased in 2016. At present, RSLs can receive up to £70,000 per unit, with Councils receiving up to £57,000. There is increased subsidy available if units are built to meet higher standards of energy efficiency.

Table 5.1: Scottish Government Grant Subsidy

Tenure/Provider	Grant Per Unit
RSL social rent – greener	£72,000
RSL social rent – other	£70,000
RSL mid-market rent – greener	£46,000
RSL mid-market rent	£44,000
Council social rent - greener	£59,000
Council social rent – other	£57,000

Table 5.2 Affordable Housing Supply Programme 2018 – 2021

Year	Grant Funding
2017/18	£5.831M
2018/19	£7.611M
2019/20	£8.601M
2020/21	£9.186M
Total	**£31.229M**

In June 2017 the Scottish Government announced details of the minimum amount of grant funding being allocated to each Council area until 2020/21. Table 5.2 shows that the minimum level of funding being allocated to developments will be £31.229 Million.

The Strategic Housing Investment Plan details sites for 1,860 new affordable homes to be built between 2018/19 and 2022/23, of which

- Unit types: 1,649 are general needs homes and 211 are specialist provision homes.
- Units built form: 1,753 will be new build housing; 80 will be 'off the shelf purchases' and 27 will involve construction works to existing buildings.
- Tenure type: 1,574 will be social rent, 220 for Mid Market Rent (MMR) and 43 for Low Cost Home Ownership (LCHO). A further 23 are planned for unsubsidised MMR. This reflects the fact that the affordable housing tenure with the highest demand is social rented housing.
- 371 units are expected to receive additional funding due to them meeting the 'greener homes' standard – this number is likely to increase as renewable technology becomes more commonplace in new housing.
- 385 units will be developed in sub-area A (Midlothian West) - this excludes 'off the shelf purchases'.
- 1,395 units are to be developed in sub-area B (Midlothian East) - this excludes 'off the shelf purchases'.

Scottish Government Affordable Housing Supply Funding Required

A total of £94.812 million of Scottish Government grant funding is required by the Council and RSLs to deliver the identified units over the next 5 years:

- The year which requires the most grant funding is 2020/21, with a requirement of £29.518 Million.
- £19.994 million is required in 2018/19 and £21.928 Million is required in 2019/20.
- In 2021/22 the total requirement is £20.932 million.
- Only a small proportion of the total is required in 2022/23: £2.440 million. However it is expected that this number will significantly increase once there is more certainty of sites for development in 2022/23.
- 894 of the units will be new Council housing requiring £44.480 million Government funding. It is the intention that Midlothian Council will identify further sites for new council housing during the current five year period and these will be included in the next submission of the SHIP in 2018.

- 812 of the units will be RSL housing requiring £42.312 million Government funding.
- The required level of grant funding to deliver this number of units greatly exceeds the stated level of funding available. Council Officers will continue to discuss resource requirements with the Scottish Government to ensure that projects receive appropriate levels of grant funding.
- There are 131 units identified on sites which do not yet have an agreed provider for affordable housing. This will require an additional £8.020 Million of grant funding if all these units are taken forward by an RSL. A total of £7.467 Million would be required if all these units are delivered by Midlothian Council.
- It is expected that most units to be built will be smaller sized properties, which reflects the Local Housing Strategy target that at least 70% of all new affordable housing units will be 1 and 2 bedroom properties in order to address the need for smaller properties from Housing List applicants.

Midlothian Council Rent Strategy

Since 2016 three phases of new council housing have been undertaken by Midlothian Council and it is projected that upon completion a total of 1,524 units will have been built. In 2015, all Council tenants and applicants on Midlothian's Housing List were given options regarding the future rent strategy for council housing in Midlothian. As there was support for higher rent increases to fund additional new council housing a 5% per annum rent increase was agreed between 2016/17 and 2018/19. In order that Midlothian Council reaches 2,000 new build units in total a further period of consultation with tenants and housing list applicants will take place before the Council can be fully committed to the development of 2,000 units. This consultation will determine the willingness of tenants and housing list applicants to support further new development and will take place in 2018 in order that a rent strategy for 2019/20 and beyond is agreed.

Midlothian Council house rents remain significantly below the Scottish average for *social rented housing* (£74.44). However, the average rent is now higher than the Scottish average: Midlothian Council's average weekly rent is £69.40 compared to the Scottish average for *council housing* of £67.76. This average figure is inflated by the 1,000 new build homes which have a time-limited 25% rent premium charge. This 25% premium supports the development of new housing and ensures that new build tenants who benefit from the advantages of living in a recently built house pay more towards this than those living in older properties. It also avoids having to make larger rent increases for tenants in older properties. Over time it is intended that new build rents should converge with that of existing older council homes. Consultation over how this will take place is also planned with affected tenants in 2018.

Disposal of Council Assets and Land

The Council is required by law to ensure it achieves best value in disposing of any asset, including land. The Council acknowledges that Best Value does not always mean highest price but can be linked to a range of wider benefits. Provision of affordable housing is a good example of where the Council has sold land and assets to RSLs at a price lower than market value while still achieving the required Best Value. There are also opportunities to undertake developments in partnership with other RSLs.

Second Homes and Empty Homes Council Tax Funding

Under the Council Tax (Discount for Unoccupied Dwellings) (Scotland) Regulations 2005, Midlothian Council reduced the amount of discount for long term empty dwellings and second homes from 50% to 10%, with the extra revenue used to support affordable housing. A total of £306,000 was raised during 2015/16 and 2016/17 which is being used to support Midlothian's New Build Council Housing Programme.

Commuted Sums

In some circumstances the Council may consider accepting commuted sums as opposed to the delivery of affordable housing units on some sites. In 2015/16 and 2016/17, a total of £1.357 Million was received in developer contributions for affordable housing. This was used to support Midlothian's New Build Council Housing Programme.

Non-Traditional Financial Models of Development

Places for People completed a development of 20 Mid Market Rent units in Dalkeith which received no Scottish Government grant funding and was partly financed via a pension fund provider.

In addition, LAR Housing Trust is a recently established affordable housing provider set-up to create permanent below market rent options for households that would otherwise be at risk of financial hardship.

Unlike traditional mid market rent models, LAR does not require any direct subsidy and so will not be seeking any grant allocations from local authorities – rather it will be providing additional affordable rent housing in specific, high demand areas.

Midlothian Council is working with the LAR Housing Trust to procure housing through this innovative model for developing affordable housing. Currently 6 units have been completed in Bonnyrigg with the remaining 18 will be completed in 2018. LAR are in the process of identifying further sites.

7. Housing Infrastructure Fund

The Scottish Government's Housing Infrastructure Fund (HIF) is aimed at supporting housing development through loans and grants with priority being given to those projects, which will deliver affordable housing. The fund is a five year programme which will run to at least 31 March 2021. The fund comprises two main elements:

- Infrastructure loans available to non-public sector organisations
- Infrastructure grant available to local authorities and Registered Social Landlords (RSLs) to support affordable housing delivery.

Eligible works for HIF could include on site and off site elements. Works will include physical infrastructure generally required to start a project, such as roads, sewers, SUDS ponds, decontamination, flood remediation and demolition work. Where a Section 75 obligation requires it, certain off-site infrastructure will also be eligible. The fund does not support the provision of community infrastructure required as a consequence of new housing development, for example, funding for schools.

As part of developing the SHIP, Midlothian Council will work with partners to identify and prioritise those sites which are of strategic importance and cannot proceed or have stalled due to the extent and costs/financing of infrastructure works involved, and with HIF's support, unlock these sites for the delivery of housing[2]. The Council will work with partners in examining the identified projects to ensure that such projects are eligible for the fund[3].

Four sites have been identified as having the potential for support from HIF, more detail on each site is shown in Appendix 1:

- Glenesk, Avenue Road
- Stobhill Depot, Newtongrange
- Mauricewood, Penicuik
- Redheugh, Gorebridge

[2] https://beta.gov.scot/policies/more-homes/housing-infrastructure-fund/
[3] https://beta.gov.scot/publications/housing-infrastructure-fund-eligibility-criteria/

8. Conclusion

The Midlothian Strategic Housing Investment Plan 2018/19 - 2022/23 identifies the priorities for the development of affordable housing and where development will be undertaken over the next 5 years. It identifies sites for the delivery of 1,860 units during the next 5 years to meet the increasing level of housing need in Midlothian. This will not only ensure best value in the use of resources but also ensure the delivery of the right mix of houses in the most pressured areas.

If you have any comments or queries on the content of this document, please contact Housing Planning & Performance at Midlothian Council for more information.

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Equality Impact Assessment (EIA) and Strategic Environmental Assessment

Midlothian Council is committed to ensuring equality of opportunity and combating discrimination through a series of equal opportunities and anti-discriminatory policies. The Council has embedded equalities principles into strategic planning as well as service delivery. Housing policies and services are regularly monitored, reviewed and reported on to ensure that they comply with equalities requirements.

Midlothian Council carried out an Equality Impact Assessment to ensure that the Strategic Housing Investment Plan takes the needs of all equality strands into account. The assessment found no evidence that any direct discrimination will arise from any part of the strategy. The SHIP is also subject to pre-screening as part of Strategic Environmental Assessment requirements.

Appendix 1: SHIP Project Tables

MIDLOTHIAN COUNCIL STRATEGIC HOUSING INVESTMENT PLAN 2018/19-2022/23 -Table 1 - AFFORDABLE HOUSING SUPPLY PROGRAMME- Years 1-5: 2018/19-2022/23

PROJECT	SUB-AREA	PRIORITY	DEVELOPER	UNITS - TENURE				UNITS - BUILT FORM				UNITS - TYPE				UNITS - COMPLETIONS						SG AHSP FUNDING REQUIREMENT (£0.000M)
		Low / Medium / High		Social Rent	Mid Market Rent	LCHO - Shared Equity	Total Units	Rehab	Off the Shelf	NB	Total Units	GN	Specialist Provision	Type of Specialist Particular Need (If Known)	Total Units by Type	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL COMPLETIONS OVER PERIOD OF SHIP	TOTAL AHSP FUNDING REQUIRED OVER SHIP PERIOD
Newbyres Crescent, Gorebridge	B	High	Midlothian Council	75			**75**			75	**75**	62	13	Extra Care, Bariatric and Wheelchair Bungalow	**75**		75				**75**	**3.700**
Conifer Road, Mayfield	B	High	Midlothian Council	50			**50**			50	**50**	48	2	Wet Floor Showeroom (WFS)	**50**		50				**50**	**2.150**
Morris Road, Newtongrange	B	High	Midlothian Council	70			**70**			70	**70**	46	24	Amenity, Wheelchair house and WFS	**70**		70				**70**	**3.015**
Crichton Drive, Pathhead	B	High	Midlothian Council	12			**12**			12	**12**	11	1	WFS	**12**		12				**12**	**0.684**
Kirkhill Road, Penicuik	B	High	Midlothian Council	26			**26**	3		23	**26**	22	4	4 Wheelchair	**26**		26				**26**	**0.864**
Woodburn Terrace, Dalkeith	B	High	Midlothian Council	10			**10**			10	**10**	9	1	WFS	**10**		10				**10**	**0.570**
Castlelaw Terrace, Bilston	B	High	Midlothian Council	6			**6**			6	**6**	4	2	WFS	**6**			6			**6**	**0.342**
Cockpen Terrace, Bonnyrigg	B	High	Midlothian Council	22			**22**			22	**22**	20	2	WFS	**22**			22			**22**	**1.054**
Clerk Street, Loanhead	A	High	Midlothian Council	34			**34**			34	**34**	18	16	Amenity	**34**			34			**34**	**1.688**
Newmills Road, Dalkeith	B	Medium	Midlothian Council	35			**35**			35	**35**	0	35	Extra Care	**35**			35			**35**	**0.195**
High Street, Bonnyrigg	B	Medium	Midlothian Council	56			**56**			56	**56**	52	4	Wheelchair and WFS	**56**				56		**56**	**3.192**
TBC, Dalkeith	B	Medium	Midlothian Council	12			**12**			12	**12**	12	0		**12**				12		**12**	**0.684**
Open Market Purchases, Midlothian	A and B	High	Midlothian Council	80			**80**		80		**80**	78	2	WFS	**80**	16	16	16	16	16	**80**	**3.200**
Danderhall/Shawfair	B	Medium	Midlothian Council	35			**35**			35	**35**	25	10	Amenity	**35**				35		**35**	**1.995**
Miller Homes, Shawfair	B	High	Midlothian Council	24			**24**			24	**24**	22	2	WFS	**24**		24				**24**	**1.368**
Bellway Homes, Shawfair	B	High	Midlothian Council	47			**47**			47	**47**	45	2	WFS	**47**				47		**47**	**2.679**
Mauricewood, Penicuik	A	Medium	Midlothian Council	55			**55**			55	**55**	55	0		**55**				55		**55**	**3.135**
Mactaggart and Mickel, Shawfair	B	Medium	Midlothian Council	50			**50**			50	**50**	50	0		**50**				50		**50**	**2.850**
Moorfoot Place, Bonnyrigg	B	Medium	Midlothian Council	24			**24**	24			**24**	20	4	Amenity	**24**				24		**24**	**1.368**
Stobhill Road (Depot), Newtongrange	B	Medium	Midlothian Council	50			**50**			50	**50**	46	4	WFS	**50**				50		**50**	**2.850**
Hopefield, Bonnyrigg	B	Medium	Midlothian Council	78			**78**			78	**78**	76	2	WFS	**78**			78			**78**	**4.446**
Eastfield Farm Road, Penicuik	A	Medium	Midlothian Council	18			**18**			18	**18**	12	6	WFS	**18**					18	**18**	**1.026**
Stobhill Road (Phase 3)	B	Medium	Midlothian Council	25			**25**			25	**25**	25		WFS	**25**					25	**25**	**1.425**

PROJECT	SUB-	PRIORITY	DEVELOPER	UNITS - TENURE				UNITS - BUILT FORM				UNITS - TYPE				UNITS - COMPLETIONS						SG AHSP FUNDING
		Low / Medium / High		Social Rent	Mid Market Rent	LCHO - Shared Equity	Total Units	Rehab	Off the Shelf	NB	Total Units	GN	Specialist Provision	Type of Specialist Particular Need (If Known)	Total Units by Type	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	TOTAL COMPLETIONS OVER PERIOD OF SHIP	TOTAL AHSP FUNDING REQUIRED OVER SHIP PERIOD
Harvieston Farm, Gorebridge	B	Medium	Melville	21			21			21	21	21			21	21					21	0.000
Broomieknowe, Bonnyrigg	B	Medium	Melville	14			14			14	14	14			14	14					14	0.000
Greenlaw Mill, Penicuik	A	Medium	Melville	24			24			24	24	24			24	24					24	0.000
Limekilns Inn, Mayfield	B	Medium	Melville	20			20			20	20	18	2	Amenity	20	20					20	0.000
Whitehill Road, Rosewell	B	Medium	Melville	14			14			14	14	12	2	Amenity	14		14				14	1.006
Hopefield, Bonnyrigg	B	High	Melville	22			22			22	22	22			22		22				22	1.309
Mauricewood 1, Penicuik	A	High	Melville	42			42			42	42	38	4	Amenity	42		34	8			42	2.119
Fordell	B	Medium	Melville &	35			35			35	35	31	4	Amenity	35		20	15			35	2.538
Auchendinny 1	A	High	Melville	25			25			25	25	21	4	Amenity	25				25		25	1.300
Auchendinny 3	A	High	Melville	25			25			25	25	25			25					25	25	1.300
Lothian Drive Easthouses	B	Medium	Melville	26			26			26	26	22	4	Amenity	26					26	26	2.000
Millerhill Phase 1	B	High	PFP	15			15			15	15	15			15	15					15	0.000
The Woodlands Dalkeith	B	High	PFP	22			22			22	22	22			22	22					22	0.000
Millerhill Phase 2	B	High	PFP		17		17			17	17	17			17		17				17	0.750
Paradykes Primary School	A	High	TBC	21			21			21	21	21			21		21				21	1.600
Bilston phase 1 social rent	A	High	PFP	30			30			30	30	30			30		30				30	2.200
Bilston phase 1 MMR	A	High	PFP		10		10			10	10	10			10		10				10	0.500
Conifer Road	B	Low	PFP		20		20			20	20	20			20			20			20	0.900
Bonnyrigg Coop	B	low	PFP	30			30			30	30	30			30			30			30	2.100
Cauldcoats Phase 1 - Aff Rent	B	Medium	PFP	40			40			40	40	40			40				40		40	3.000
Cauldcoats Phase 1 - MMR	B	Medium	PFP		40		40			40	40	40			40				40		40	1.760
Bonnyrigg Dalhousie, Walker	B	Medium	TBC	30	30	10	70			70	70	70			70				30	40	70	3.720
Newtongrange Church Site	B	High	PFP	25			25			25	25		25	older	25			25			25	1.750
Shawfair social rent	B	High	PFP	42			42			42	42	42			42			42			42	3.000
Shawfair mmr	B	High	PFP		33		33			33	33	33			33			33			33	1.500
Bilston phase 2 social rent	A	High	TBC	30			30			30	30	30			30			30			30	2.200
Bilston phase 2 MMR	A	High	TBC		10		10			10	10	10			10			10			10	0.500
Newbattle Lodge	B	Medium	PFP	35		15	50			50	50	50			50				50		50	3.000
Cauldcoats Phase 2 - Aff Rent	B	Medium	PFP	37			37			37	37	37			37				37		37	2.800
Cauldcoats Phase 2 - MMR	B	Medium	PFP		24		24			24	24	24			24				24		24	1.100
Cauldcoats Phase 2 - Shared Equity	B	Medium	PFP			18	18			18	18	18			18				18		18	0.600
Glenesk Extra Care Housing, Avenue Road	B	Medium	Viewpoint	30			30			30	30		30	Extra Care Housing	30		30				30	2.160
Mauricewood, Penicuik, Phase	A		DCHA		36		36			36	36	36			36			36			36	2.520
Auchendinny, Phase 2	A		DCHA	25			25			25	25	25			25				25		25	1.100
Total				**1574**	**220**	**43**	**1837**	**27**	**80**	**1730**	**1837**	**1626**	**211**	**0**	**1837**	**132**	**481**	**440**	**634**	**150**	**1837**	**94.812**

Table 2 - HOUSING INFRASTRUCTURE FUND (HIF) PROJECTS

TABLE 2.1 - GRANT PROJECTS

								AFFORDABLE HOUSING UNITS DIRECTLY PROVIDED BY INFRASTRUCTURE FUNDING - BY ESTIMATED COMPLETION DATE										FUNDING REQUIRED	ADDITIONAL CAPACITY -	
PROJECT	PRIORITY	APPLICANT	PLANNING STATUS (OUTLINE/ MASTERPLAN/ FULL CONSENT IN PLACE) (Y/N)	DOES APPLICANT OWN OR HAVE POTENTIAL TO OWN THE SITE? (Y/N)	CURRENT SITE OWNER	BRIEF DESCRIPTION OF WORKS FOR WHICH INFRASTRUCTURE FUNDING IS SOUGHT (PROVIDE WORK HEADINGS - DO NOT INSERT "INFRASTRUCTURE WORKS")	IS PROJECT LINKED TO DIRECT PROVISION OF AFFORDABLE HOUSING? (Y/N)	AFFORDABLE					MARKET							
	Low / Medium / High							2018/19	2019/20	2020/21	POST 2020/21	AFFORDABLE TOTAL OVER PLAN OVER SHIP PERIOD	2018/19	2019/20	2020/21	POST 2020/21	MARKET TOTAL OVER PLAN OVER SHIP PERIOD	TOTAL HIF GRANT FUNDING REQUIRED	UNITS - POTENTIAL ADDITIONAL CAPACITY IN EITHER LATER PHASES OR OTHER SITES	TENURE - AFFORDABLE / MARKET /PRIVATE RENTED
Glenesk Extra Care Housing, Avenue Road, Dalkeith	Medium	**Viewpoint**	**Y**	**Y**	**Yes**	**Demolition/Suds/sewers/roads/ decontamination/ flood remediation/utilities/diversions/ substation/ street lighting/tree felling**	**Y**		**30**			**30**					**0**	**0.600**		
Stobhill Depot, Newtongrange	High	**Midlothian Council**	**N**	**N**	**Yes**	**Decontamination, new separate entrance for recyling plant**	**Y**		**35**	**35**		**70**		**70**	**70**	**70**	**210**	**1.250**		
Mauricewood, Penicuik	High	**CALA/Avant**	**Y**	**Y**	**Yes**	**Road access and services**	**Y**		**42**	**36**	**55**	**133**					**N/A**	**N/A**		
Redheugh, Gorebridge	N/A	**Arniston Estates**	**N**	**Y**	**Yes**	**Transport infrastructure**	**N/A**					**N/A**					**N/A**	**N/A**		
												0					**0**	**0.000**		
												0					**0**	**0.000**		
												0					**0**	**0.000**		
												0					**0**	**0.000**		
												0					**0**	**0.000**		
												0					**0**	**0.000**		
Total								**0**	**107**	**71**	**55**	**233**	**0**	**70**	**70**	**70**	**210**	**1.600**		

Table 3 - POTENTIAL HIF AFFORDABLE HOUSING PROJECTS WHICH MAY BE DEVELOPED FOLLOWING HIF INVESTMENT

PROJECT	SUB-AREA	PRIORITY	DEVELOPER	UNITS - TENURE							UNITS - BUILT FORM				UNITS - TYPE				UNITS - COMPLETIONS					SG AHSP FUNDING
		Low / Medium / High		Social Rent	Mid Market Rent	LCHO - Shared Equity	LCHO - Shared Ownership	LCHO - Improvement for Sale	PSR	Total Units	Rehab	Off the Shelf	NB	Total Units	GN	Specialist Provision	Type of Specialist Particular Need (If Known)	Total Units by Type	2018/19	2019/20	2020/21	POST 2020/21	TOTAL COMPLETIONS OVER PERIOD OF SHIP	TOTAL AHSP FUNDING REQUIRED OVER SHIP PERIOD
Glenesk Extra Care Housing, Avenue Road, Dalkeith	B	Medium	**Viewpoint**	**30**						**30**				**0**				**0**		30			**30**	**2.160**
Stobhill Depot, Newtongrange	B	Medium	**Midlothian Council**	50						**50**				**0**				**0**			50		**50**	**2.850**
Stobhill Depot, Newtongrange	B	Medium	**TBC**		20					**20**				**0**				**0**			20		**20**	**0.880**
Mauricewood, Penicuik	A	High	**CALA/Avant**	133						**133**				**0**				**0**		42	36	55	**133**	**5.460**
Redheugh, Gorebridge	B	Medium	**Arniston Estates**							**N/A**				**0**				**0**					**N/A**	**N/A**
										0				**0**				**0**					**0**	**0.000**
										0				**0**				**0**					**0**	**0.000**
										0				**0**				**0**					**0**	**0.000**
										0				**0**				**0**					**0**	**0.000**
Total				**213**	**20**	**0**	**0**	**0**	**0**	**213**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**72**	**106**	**55**	**233**	**11.350**

TABLE 4 - AFFORDABLE HOUSING PROJECTS FUNDED OR SUPPORTED BY SOURCES OTHER THAN THE RPA/TMDF BUDGET

PROJECT ADDRESS	SUB-AREA	PRIORITY	GEOGRAPHIC COORDINATES (X:EASTING Y:NORTHING)	DEVELOPER	FUNDING SUPPORT SOURCE	APPROVAL DATE						TOTAL	UNIT COMPLETIONS					TOTAL UNIT COMPLETIONS	NON SG FUNDING TOTAL £0.000M	OTHER NON-AHSP SG FUNDING (IF APPLICABLE) £0.000M	TOTAL FUNDING £0.000M
		Low / Medium / High				Financial Year (Actual or Estimated)	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL SITE STARTS	2018/19	2019/20	2020/21	2021/22	2022/23				
Eskdaill Terrace, Bonnyrigg	B			LAR	SG Loan	2017/18	18					18	18					18	N/A	M/A	0.000
Not known	B			LAR	SG Loan	2017/18	5					5		5				5	N/A	N/A	0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
												0						0			0.000
Total							**23**	**0**	**0**	**0**	**0**	**23**	**18**	**5**	**0**	**0**	**0**	**23**	**0.000**	**0.000**	**0.000**

TABLE 5.1: COUNCIL TAX ON SECOND AND EMPTY HOMES(£0.000M)

	TAX RAISED OR IN HAND	TAX USED TO SUPPORT AFFORDABLE HOUSING	TAX CARRIED FORWARD TO SUBSEQUENT YEARS
PRE - 2015/16			
2015/16	0.150	0.150	**0.000**
2016/17	0.156	0.156	**0.000**

TABLE 5.2: DEVELOPER CONTRIBUTIONS (£0.000M)

	SUMS			UNITS		
	RAISED OR IN HAND	USED TO ASSIST HOUSING	SUM CARRIED FORWARD TO SUBSEQUENT YEARS	AFFORDABLE UNITS FULLY FUNDED FROM CONTRIBUTIONS	UNITS PARTIALLY ASSISTED FROM CONTRIBUTIONS	UNITS TOTAL
PRE - 2015/16						
2015/16	£1.022	£1.022	**0.000**		**18**	**18**
2016/17	£0.335	£0.335	**0.000**		**69**	**69**

Period Poverty Proposal

Report by John Blair, Director Resources and Mary Smith, Director Education Communities and Economy

1 Purpose of Report

To provide a costed proposal for the Council to implement the provision of free sanitary products for school pupils across Midlothian.

2 Background

2.1 Council Meeting 29 August 2017

At this meeting the Council approved the following motion:

"Midlothian Council congratulates Monica Lennon MSP, Shadow Minister for Inequality, on her work raising awareness of and campaigning against period poverty; agrees that the Council will respond positively to her consultation and calls on the Scottish Government to fully fund any outcomes from that consultation.

Council supports in principal the provision of free sanitary products for pupils and asks the Director of Resources to prepare a detailed report on the costs involved."

2.2 Context

The issue of period poverty is currently being considered by a number of Scottish local authorities and it is proposed that the Council puts arrangements in place across the six High Schools, the relevant Primary Schools and Saltersgate School to provide free access to sanitary products for pupils.

Presently school office or guidance teachers are able to supply sanitary products, if requested by pupils at no cost to the pupil.

Furthermore the draft Council response to the government consultation is appended to this report for consideration by Council.

3.0 Proposed Scheme

3.1 In support of the Council motion it is proposed that the provision of free sanitary products be put in place at the following locations during the Autumn term prior to Christmas break.

- Beeslack Community High School
- Dalkeith High School
- Lasswade High School
- Newbattle Community High school
- Penicuik High School
- St Davids RC High School
- Saltersgate School

In addition it is proposed to establish arrangements with the Primary Schools where appropriate.

3.2 Best Practice and Guidance

The School Premises (General Requirements and Standards) (Scotland) Regulations 1967 is the main underpinning for standards in school toilets in Scotland. These regulations set out ratios of children to toilets and toilets to washbasins, requires locks on the toilet doors, and that there should be a place to dispose of sanitary towels from Primary four – but any provision of sanitary products themselves is absent.

In terms of specific issues relating to school toilet provision currently there is no definitive Scottish guidance, however the Welsh government has provided the guidance entitled School Toilets: Good Practice for Schools in Wales, which has been used as a basis for costing this proposal.

Sanitary machines are placed in all age appropriate girls' toilets (aged 8 or over) where sanitary towels/tampons can be obtained unobtrusively without having to ask an adult.

- Secondary schools: each set of toilets (with two or more toilet cubicles) for girls has a sanitary dispenser.
- Primary schools: a minimum of one set of toilets for girls aged eight and over has a sanitary dispenser.
- All girls are regularly informed (including at the beginning of every school year) that sanitary products are available to obtain in a discreet manner (and from named females) in an emergency at all times.
- Disposal bags or toilet paper are available in cubicles for girls to wrap used sanitary products in.
- Sanitary disposal units are available in all age-appropriate female toilets within individual cubicles. Ordinary bins are not sufficient.
- Sanitary disposal units are emptied sufficiently often, by a registered company, to prevent them from becoming overfull or malodorous.

This guidance has been used to provide the assumptions to underpin the costs of implementing the Council motion.

4.0 Report Implications

4.1 Resource Implications

Taking cognisance of the intention of the Council motion the cost of the proposal comprises two distinct elements.

a) The provision of sanitary products to Midlothian School pupils.
b) The provision of sanitary dispensing machines within school premises.

4.2 Provision of Sanitary Products

In the Ending Period Poverty Bill there are costings which have been applied to the Midlothian female school population on a pro rata basis as set out in the table below.

	Scotland	Midlothian
Estimated number of menstruating pupils	100,000	1,700
Lower Estimated Cost	£360,000	£6,000
Higher Estimated Cost	£450,000	**£7,500**

Accordingly it is estimated that the indicative annual cost of providing free sanitary products based on Scotland wide assumptions as they apply to Midlothian is approximately £7,500 per annum.

This estimate is based on a number of assumptions most critically the take up level of free sanitary products which has been estimated at 50% and may vary.

Dispensing Sanitary Machines

The estimated maximum cost of providing sanitary dispensing machines and associated servicing is estimated at £5,000 per annum.

Accordingly it is anticipated that should the Council wish to adopt the guidance as set out in section 3.2 the costs to the Council amount to a maximum of £5000 per annum which is additional to the estimated direct costs of providing free sanitary protection.

Therefore it is proposed that the Council write to the Scottish Government advising of the overall cost and to seek to secure extra additional funding of £12,500 based on estimated costs.

4.3 Risk

Should the Council not support the proposals as set out in this report there is a possibility that negative reputational criticism could be received when compared to other public sector bodies who have introduced a scheme.

4.4 Policy

Single Midlothian plan and Business Transformation themes addressed in this report.

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

4.5 Impact on Performance and Outcomes

The provision of free sanitary products will assist in ensuring that pupils do not have the opportunity to miss school and assist with education.

4.6 Adopting a Preventative Approach

This proposal will in part contribute to increasing access to education and potentially improve attendance.

4.7 Involving Communities and other stakeholders

This proposal has been developed in conjunction with colleagues within the Education Directorate.

4.8 Ensuring Equalities

This proposal is open to all female pupils irrespective of age, ~~and~~ disability, race, religion or belief or socio economic status.

4.9 Supporting Sustainable Development

This proposal is consistent with the Councils focus on improving education achievement levels.

4.9 IT Issues

There are no direct IT issues arising from this report.

5 Recommendations

Council are invited to consider the proposal to provide free sanitary products to Midlothian pupils and specifically:

a) Note the additional recurring revenue cost of £7,500 per annum for the provision of sanitary protection.
b) Note the maximum recurring revenue cost of £5,000 per annum for the provision of dispensing machines across the school estate.
c) Note the planned timescale for introduction of free sanitary products.
d) Note the draft response to the consultation as appended to this report.
e) Instruct the Director Resources to write to Scottish Government via COSLA to seek additional funding.
f) Instruct the Director Resources to monitor the cost of the provision of free sanitary products.

Date: October 2017

Report Contact:
Name Tel
Background Papers

Appendix 1

QUESTIONS
ABOUT YOU

1. Are you responding as: ☐ an individual – in which case go to Q2A ✓ on behalf of an organisation? – in which case go to Q2B
2A. Which of the following best describes you? (If you are a professional or academic, but not in a subject relevant to the consultation, please choose "Member of the public".) ✓ Politician (MSP/MP/Peer/MEP/Councillor) ☐ Professional with experience in a relevant subject ☐ Academic with expertise in a relevant subject ☐ Student (at school, college or university) ☐ Other member of the public
2B. Please select the category which best describes your organisation: ☐ Public sector body (Scottish/UK Government or agency, local authority, NDPB) ☐ School, college or university ☐ Commercial organisation (company, business) ☐ Representative organisation (trade union, professional association) ☐ Third sector (charitable, campaigning, social enterprise, voluntary, nonprofit) ☐ Other (e.g. clubs, local groups, groups of individuals, etc.)
3. Please choose one of the following: ✓ I am content for this response to be attributed to me or my organisation Please provide your name or the name of your organisation as you wish it to be published: Name: MIDLOTHIAN COUNCIL ☐ I would like this response to be anonymous (the response may be published, but no name) ☐ I would like this response to be confidential (no part of the response to be published)
4. Please provide details of a way in which we can contact you if there are queries regarding your response. (Email is preferred but you can also provide a postal address or phone number. We will not publish these details.) **Contact details**: Sandra.wright@midlothian.gov.uk YOUR VIEWS ON THE PROPOSAL Aim and approach

1. Which of the following best expresses your view of the proposed Bill? ✔ Fully supportive ☐ Partially supportive ☐ Neutral (neither support nor oppose) ☐ Partially opposed ☐ Fully opposed ☐ Unsure Please explain the reasons for your response. Universal provision of sanitary products
2. Do you think a universal, card-based system (modelled on the C-card system for free condoms) would be an effective means of providing sanitary products for free to those who need them? ✔ Yes ☐ Unsure ☐ No Please explain the reasons for your response.
3. Which of the following best expresses your view in relation to a cardbased system? ☐ The card should be available to anyone; card-holders should have unlimited access to free sanitary products ☐ The card should be available to anyone; its use should be restricted (e.g. by limiting the number of products that may be claimed each month) ☐ The card should be available only to those on low incomes or in receipt of benefits; card-holders should have unlimited access to free sanitary products ✔ The card should be available only to those on low incomes or in receipt of benefits; its use should be restricted (e.g. by limiting the number of products that may be claimed each month) ☐ There is no need for a card scheme ☐ Other (please specify) Please explain the reasons for your response.

4. Do you have a view on which locations would be most suitable for dispensing free sanitary products (e.g. GP surgeries, pharmacies, community centres, health clinics)? Schools, colleges and universities

5. Do you agree that there should be specific obligations on schools, colleges and universities to make sanitary products available for free

(via dispensers in toilets)?

✔ Yes
☐ Unsure
☐ No
Please explain the reasons for your response.

Personal experience (questions 6 and 7 are for individual respondents only)
6. Have you ever struggled to access or afford sanitary products during menstruation? (e.g. financial barriers, unexpected circumstances, health issues)

☐ Yes, frequently
☐ Yes, occasionally
☐ No
☐ Not applicable: I do not need or use sanitary products
☐ I prefer not to say

Please explain or give an example of your experience if you feel able to do so.

7. If sanitary products were available for free, which of the following would apply to you?

☐ I would expect to claim free products regularly
☐ I would expect to claim free products occasionally
☐ I would not expect to claim free products
☐ Not applicable: I do not need or use sanitary products
☐ I prefer not to say
Please explain the reasons for your response.

Financial implications

8. Taking account of both costs and potential savings, what financial impact would you expect the proposed Bill to have on:

(a) Government and the public sector (e.g. local authorities, the NHS)
☐ Significant increase in cost
✔ Some increase in cost
☐ Broadly cost-neutral
☐ Some reduction in cost
☐ Significant reduction in cost
☐ Unsure

(b) Colleges and universities
☐ Significant increase in cost
☐ Some increase in cost
☐ Broadly cost-neutral

☐ Some reduction in cost
☐ Significant reduction in cost
☐ Unsure
(c) Businesses (including suppliers/retailers of sanitary products)
☐ Significant increase in cost
☐ Some increase in cost
☐ Broadly cost-neutral
☐ Some reduction in cost
☐ Significant reduction in cost
☐ Unsure
(d) Individuals (including consumers of sanitary products)
☐ Significant increase in cost
☐ Some increase in cost
☐ Broadly cost-neutral
☐ Some reduction in cost
☐ Significant reduction in cost
☐ Unsure
Please explain the reasons for your response.

9. Are there ways in which the Bill could achieve its aim more cost effectively (e.g. by reducing costs or increasing savings)?

Equalities

10. What overall impact is the proposed Bill likely to have on equality, taking account of the following protected characteristics (under the Equality Act 2010): age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, sex, sexual orientation

✔ Positive
☐ Slightly positive
☐ Neutral (neither positive nor negative)
☐ Slightly negative
☐ Negative
☐ Unsure
Please explain the reasons for your response.

11. In what ways could any negative impact of the Bill on equality be minimised or avoided?

12. Do you consider that the proposed bill can be delivered sustainably, i.e. without having likely future disproportionate economic , social and/or environmental impacts?

Yes
No
Unsure

Please explain the reasons for your response.

General 13. Do you have any other comments or suggestions on the proposal?

HOW TO RESPOND TO THIS CONSULTATION

You are invited to respond to this consultation *by 9th December 2017* answering the questions in the consultation and *by* adding any other comments that you consider appropriate.

Format of responses

You are encouraged to submit your response via an online survey (Smart Survey) if possible, as this is quicker and more efficient both for you and the Parliament. However, if you do not have online access, or prefer not to use Smart Survey, you may also respond by e-mail or in hard copy.

Online survey

To respond via Smart Survey, please follow this link: http://www .smartsurvey.co.uk/s/EndingPeriodPoverty/

The platform for the online survey is Smart Survey, a third party online survey system enabling the SPCB to collect responses to MSP consultations. Smart Survey is based in the UK and is subject to the requirements of the Data Protection Act 1998. Any information you send in response to this consultation (including personal data and sensitive personal data) will be seen by the MSP progressing the Bill and by specified *staff* in NGBU, and may be added manually to Smart Survey.

Further information on the handling of your data can be found in the Privacy Notice, which is available either via the Smart Survey link above, or directly from this link:

https://www .smartsurvey.co.uk/privacy-policy

Electronic or hard copy submissions

If possible, please submit your response electronically – preferably in MS Word document. Please keep formatting of this document to a minimum, and avoid including any personal data other than your name (or the name of the group or organisation on whose behalf you are responding).

Any additional personal data (e.g. contact details) should be provided in the covering e-mail (or a covering letter).

Please make clear whether you are responding as an individual (in a personal capacity) or on behalf of a group or organisation. If you are responding as an individual, you may wish to explain briefly what relevant expertise or experience you have. If you are responding on behalf of an organisation, you may wish to explain the role of that organisation and how the view expressed in the response was arrived at (for example, whether it reflects an established policy or was voted on by members).