

Notice of Meeting and Agenda



Audit Committee

Venue: Council Chambers/Hybrid,
Midlothian House, Dalkeith, EH22 1DN

Date: Monday, 24 June 2024

Time: 11:00

Executive Director : Place

Contact:

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

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

4.1 Minute of Audit Committee 18 March 2024, submitted for approval 5 - 12

4.2 Action Log 13 - 14

5 Public Reports

5.1 Internal Audit Work to May 2024, report by Chief Internal Auditor 15 - 30

5.2 Counter Fraud Annual Report 2023/24, report by Chief Internal Auditor 31 - 40

5.3 Internal Audit Annual Assurance Report 2023/24, report by Chief Internal Auditor 41 - 52

5.4 Draft Annual Governance Statement 2023/24, report by Chief Executive 53 - 64

5.5 Internal Audit Shared Service Arrangement Continuation, report by Chief Executive 65 - 70

5.6 Strategic Risk Profile Q4 2023/24, report by Chief Officer Place 71 - 108

5.7 Annual Treasury Management Report 2023/24, report by Chief Financial Officer & Section 95 Officer 109 - 138

5.8 Scotland's Public Finances: Challenges and Risks, report by Chief Financial Officer & Section 95 Officer 139 - 178

5.9 Unaudited Annual Accounts 2023/24, report by Chief Financial Officer & Section 95 Officer 179 - 284

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday, 20 September 2024 at 2pm.

Minute of Meeting

Audit Committee
Monday, 24 June 2024
Item No 4.1



Audit Committee

Date	Time	Venue
Monday 18 March 2024	11.00am	Council Chambers/Hybrid

Present:

Councillor Milligan (Chair)
Councillor Bowen
Councillor McEwan
Councillor Smaill

In Attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal and Governance Manager/Monitoring Officer
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People & Partnerships
Morag Barrow	Director Health and Social Care
Derek Oliver	Chief Officer Place
David Gladwin	Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Patricia Fraser	Audit Scotland
Claire Gardiner	Audit Scotland
Lucy Roddie	Democratic Services Officer
Gary Leadbetter	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair welcomed everyone to the meeting. Apologies for absence were received from Councillor McCall.

2. Order of Business

The order of business was as detailed in the agenda previously circulated.

3. Declarations of interest

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

4. Minute of Previous Meeting

- 4.1 The minute of the meeting of 29 January 2024 was submitted and approved as a correct record.
- 4.2 The Action log was submitted and noted. It was agreed that Item 3 would be kept open until after the meeting of Midlothian Council on 27 March 2024. In relation to Item 4, the Chief Internal Auditor advised that he intended to bring a report to the meeting of Audit Committee on Monday 24 June 2024.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Annual Audit Plan 2023/24	Audit Scotland, External Auditors
Outline of report and summary of discussion		
<p>Claire Gardiner, External Auditor, Audit Scotland, introduced the report. It was noted that Audit Scotland are working towards completion of the audit by 30 November 2024, later in comparison to previous years. It was noted that the planned audit fee for 2023/24 is £289,950, an increase of 6% on last year.</p> <p>The Chair thanked the External Auditor for the report and opened it up to questions.</p> <p>Some discussion took place regarding the later completion of the audit and the implications this would have. The Chief Financial Officer commented that this would put pressure on the finance team and acknowledged current resourcing challenges, although noted that a management review was in progress which would result in increased capacity. Other areas of work may need to be de-prioritised in order to accommodate the deadline. It was suggested that this be logged as a risk. Assurances had been received that Audit Scotland would have the substantial work completed by end September 2024. The External Auditor confirmed that the November deadline could not be brought forward.</p> <p>Some discussion took place regarding the 6% increase in fees. The external auditor commented that fee levels are impacted by inflation which increases the cost of audit delivery. The external auditor noted that the full increase had not been passed on to Councils.</p>		

The Chief Financial Officer confirmed that the publication of the draft accounts would follow the same timetable as previous years.

In response to a question regarding the capitalisation of the spending on the Hillend and Midlothian Energy assets, the Chief Financial Officer offered to provide further detail to Elected Members at the conclusion of current discussions as part of the audit process. It was commented that it would be important to establish the accounting basis and ascertain the possible negative effects on the General Account before significant works on these projects were progressed.

Decision

The Audit Committee noted the report.

Action

Report No.	Report Title	Submitted by:
5.2	Internal Audit Work to February 2024	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The Chief Internal Auditor introduced the report. The purpose of the report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.</p> <p>The Audit Committee is asked to:</p> <ul style="list-style-type: none"> a) Consider the Executive Summary of the final Internal Audit assurance report issued with the delivery of the approved Internal Audit Annual Plan 2023/24; b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work. <p>The Chair thanked the Chief Internal Auditor for the report and opened it up to questions.</p> <p>It was suggested that a gap analysis should be conducted if the proposals are implemented. It was questioned why risk protocols had not been updated in recent years. The Chief Internal Auditor commented that this was due to a lack of resource, particularly during the Covid-19 pandemic where resources were directed to other areas. The Chief Executive provided assurances that the Council's strategic risk matrix remained up to date. Officers were actively ensuring that risk registers for particular services were updated in full and progress was being monitored via regular Corporate Management Team meetings.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> a) Considered the Executive Summary of the final Internal Audit assurance report issued with the delivery of the approved Internal Audit Annual Plan 2023/24; 		

- b) Noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
- c) Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

Action

Chief Internal Auditor

Report No.	Report Title	Submitted by:
5.3	Counter Fraud Annual Plan 2024/25	Chief Internal Auditor
Outline of report and summary of discussion		
The Chief Internal Auditor introduced the report. The purpose of the report is to gain approval from the Audit Committee for the proposed Counter Fraud Annual Plan 2024/25 to support the delivery of the Council's Counter Fraud Strategy and to demonstrate compliance with the Council's Counter Fraud Policy Statement. The Audit Committee is invited to approve the Counter Fraud Annual Plan 2024/25.		
Decision		
The Audit Committee approved the Counter Fraud Annual Plan 2024/25.		
Action		
Chief Internal Auditor		

Report No.	Report Title	Submitted by:
5.4	Internal Audit Charter	Chief Internal Auditor
Outline of report and summary of discussion		
The Chief Internal Auditor introduced the report. The report provides the Audit Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Audit Executive to prepare annual Internal Audit opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.		
The Audit Committee is invited to:		
<ul style="list-style-type: none"> a) Note the changes to the Internal Audit Charter outlined in section 4 of the report in conformance with PSIAS; b) Approve the revised Internal Audit Charter shown at Appendix 1; and c) Note that the Internal Audit Charter will be reviewed annually. 		
The Chair thanked the Chief Internal Auditor for the report and opened it up to questions.		

It was commented that, historically, officers of another Local Authority had examined internal audit work. The Chief Internal Auditor responded that the examining Council was still to be determined and reported that new standards will come into effect from 2025 which may impact on the continuation of this arrangement.

Decision

The Audit Committee:

- a) Noted the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with PSIAS;
- b) Approved the revised Internal Audit Charter shown at Appendix 1; and
- c) Noted that the Internal Audit Charter will be reviewed annually.

Action

Chief Internal Auditor

Report No.	Report Title	Submitted by:
5.5	Internal Audit Strategy and Annual Plan 2024/25	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The Chief Internal Auditor introduced the report. The purpose of the report is to gain approval from the Audit Committee to the proposed Internal Audit Strategy and Annual Plan 2024/25 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and Midlothian Health and Social Care Integration Joint Board (MIJB).</p> <p>The Audit Committee is invited to:</p> <ul style="list-style-type: none"> a) Note the changes to the Internal Audit Strategy outlined in section 4 of the report; b) Note the outline of the Internal Audit planning process outlined in section 5 of the report; c) Approve the Internal Audit Strategy (Appendix 1); and d) Approve the Internal Audit Annual Plan 2024/25 (Appendix 2). <p>The Chair thanked the Chief Internal Auditor for the report and opened it up to questions.</p> <p>With reference to Appendix 2, Internal Audit Annual Plan 2024/25, it was commented that the Audit Committee were being asked to review Midlothian Energy's governance structures. No member of the Audit Committee were on Midlothian Energy's board and it was therefore questioned whether the Audit Committee were suitably equipped to conduct such a review. The Chief Internal Auditor provided clarification that the actions contained within the Internal Audit Annual Plan 2024/25 were for completion by the Audit team as opposed to the Audit Committee. The Chief Internal Auditor commented that reports would be brought</p>		

back to the Audit Committee to provide assurances that appropriate governance and arrangements were in place.

Further information was requested in relation to the Vehicle Maintenance and Fleet Management assurance risk entry within Appendix 2, Internal Audit Annual Plan 2024/25. The Chief Internal Auditor commented that reports would be brought back to the Audit Committee to provide assurances that appropriate governance and regulatory arrangements were in place.

In relation to the Consultancy entry within Appendix 2, Internal Audit Annual Plan 2024/25, the Chief Internal Auditor reported that this entry referred to the Audit team conducting consultancy work and resource had not yet been allocated.

It was questioned whether the reference to maintenance within the Vehicle Maintenance and Fleet Management assurance risk entry within Appendix 2, Internal Audit Annual Plan 2024/25 was necessary. It was suggested that the necessary checks would be conducted by other agencies including the DVLA. The Chief Internal Auditor commented that the Audit team will ensure that relevant checks are in operation to provide assurances that the fleet is maintained appropriately. It was noted that the Council runs a large fleet and it is therefore deemed appropriate to include this as a risk. Following a suggestion from an Elected Member, the Chief Internal Auditor agreed to consider the risk of any future Low Emissions Zones as part of the scope of the Audit Plan.

It was questioned whether the categories within Appendix 2, Internal Audit Annual Plan 2024/25, were static or subject to change based on the risk environment. The Chief Internal Auditor provided further information on the audit planning process, noting that categories are taken from the audit universe which are risk assessed on an annual basis.

Decision

The Audit Committee:

- a) Noted the changes to the Internal Audit Strategy outlined in section 4 of the report;
- b) Noted the outline of the Internal Audit planning process outlined in section 5 of the report;
- c) Approved the Internal Audit Strategy (Appendix 1); and
- d) Approved the Internal Audit Annual Plan 2024/25 (Appendix 2).

Action

Chief Internal Auditor

Report No.	Report Title	Submitted by:
5.6	Strategic Risk Profile Q3 2023/24	Chief Officer Place
Outline of report and summary of discussion		
The Chief Officer Place introduced the report. Audit Committee is recommended to note the current risk landscape and organisational response to the most significant risks in Quarter 3 (Q3) 2023/24 (1 October to 31 December 2023).		

The Chair thanked the Chief Officer Place for the report and opened it up to questions.

In response to a question from an Elected Member, the Chief Officer Place provided assurances that the Hillend and Midlothian Energy projects had existing risk registers and would be included in the strategic risk profile going forward.

In response to a comment regarding Covid-19 risk, the Chief Officer Place reported that it is deemed appropriate to continue monitoring this on the basis that there could be further outbreaks. If the risk remains low into Q4, Officers will recommend removal. The Chief Officer Place noted that pandemic planning and response was included in other areas of risk.

In response to a question regarding learning estate strategy, the Chief Officer Place reported that condition surveys were in progress and reports would be brought back to the relevant forums.

Decision

Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 3 (Q3) 2023/24 (1 October to 31 December 2023).

Action

Chief Officer Place

6. Private Reports

No items for discussion

7. Date of Next Meeting

The next meeting will be held on Tuesday 14 May 2024 at 2.00pm.

The meeting terminated at 11.40 pm.

Audit Committee Action Log

No	Date of Meeting	Item No and Title	Action	Action Owner	Expected completion date	Comments
1	5.1 Treasury management	06/12/2022	Session with members to be organised with regards to Responsible treasury management/ethical issues.	Chief Financial Officer	Ongoing	Carry forward, paper coming forward regarding CSG and ethical depositing coming later in the year.
2	5.6 Council House Building Programme – Progress Update 2023	30/10/2023	Mr Anderson to report back in due course on the actual cost per unit of the 10 houses within the Buccleuch Street development	Kevin Anderson	June 2024	Complete Passivhaus cost comparison reported to Council 26 March and paper forwarded onto Audit Committee for information.
3	4.3 Action Log Hillend Project	29/01/2024	Hillend Project was raised, and Internal Audit confirmed that the work will be commencing shortly and will submit report to the Audit Committee.	Duncan Stainbank	June 2024	Complete On agenda for 24 June meeting.

Internal Audit Work to May 2024

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the Executive Summary of the final Internal Audit assurance report issued associated with the delivery of the approved Internal Audit Annual Plan 2023/24;
- b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 7 March 2023. Internal Audit has carried out work associated with the delivery of the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Date 4 June 2024

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 7 March 2023. Internal Audit has completed the following work in the period from 29 February to 31 May 2024 associated with the delivery of the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017), including the production of this report to communicate the results.
- 3.3** Internal Audit issued final assurance reports on the following subject:
- Payroll (Appendix B)
 - Destination Hillend Water Pipe Delays (Appendix C)
 - Education Software (Appendix D)
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Internal Audit Consultancy and Other Work

- 3.5** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- a) In its critical friend role provided an independent view and challenge at various forums including: Capital Plan and Asset Management Board, Chief Officers Risk & Resilience Group, Integrity Group, Children Young People Partnerships Estate Programme Board and Information Management Group.
 - b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums (Computer Audit Sub-group) and meetings; and
 - c) Monitored publication of Audit Scotland reports.

Recommendations

- 3.6** Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.7 The table below summarises the number of Internal Audit recommendations made during 2023/24:

Recs Rating	2023/24 Number of Recs
High	0
Medium	9
Low	13
Sub-total reported this period	22
Previously reported	51
Total	73
Recommendations agreed with action plan	73
Not agreed; risk accepted	0
Total	73

4 Report Implications (Resource, Digital, Risk and Equalities)

4.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

4.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

4.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

A.6 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.

Appendix B Internal Audit Report Payroll

Report	Summary of key findings and recommendations	Recommendations			Status												
		H	M	L													
<p>Subject: Payroll</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 29 February 2024 Draft 08 April 2024 Final</p> <p>Level of Assurance: Substantial for: complying with relevant legislation and paying staff correctly, on time, and only to those in authorised posts. Limited for: the timely submission of paperwork for leavers and contractual changes resulting in overpayments, the authorisation of forms by managers, and the retention of system records.</p>	<p>The purpose of the audit was to review the processes in place to ensure complete, accurate and timely payment of Council staff (including Teachers' payroll) in accordance with the contractual terms and conditions of the employees.</p> <p>The Council operates two main monthly payrolls: the Local Government payroll (661) and the Teachers' payroll (671) and there is a separate payroll for election workers. The Council uses Midland's iTrent HR & Payroll system and payments are processed via BACS. Documents are scanned into the Council's Document Management system - CS16. Upgrades and backups of the iTrent HR & Payroll system and CS16 system are carried out on a regular basis. The iTrent HR & Payroll system was migrated to a new hosted service in January 2024. System management and software updates are undertaken by the Business Applications team. The table below details the value and number of net payments made in January 2024:</p> <table><tr><th>Payroll</th><th>Value of Payments (£)</th><th>Number of Payments to Employees</th></tr><tr><td>671 (Teachers)</td><td>£3,339,924</td><td>1,335</td></tr><tr><td>661 (Local Government)</td><td>£6,039,366</td><td>3,908</td></tr><tr><td>Total</td><td>£9,379,290</td><td>5,243</td></tr></table> <p>Following on from HMRC legislative changes under IR35 for Off Payroll Workers, there is now a requirement to register all workers in the iTrent HR & Payroll system. In February 2023, HMRC requested a review of Off Payroll Worker status for Midlothian Council and this identified significant inaccuracies with the information held and existing processes not being followed. An internal review of the process, workflow and information submitted was undertaken and a report was presented to CMT in February 2024 highlighting the issues and a proposal to introduce a range of controls to ensure that processes are followed, and a robust audit trail is in place.</p>	Payroll	Value of Payments (£)	Number of Payments to Employees	671 (Teachers)	£3,339,924	1,335	661 (Local Government)	£6,039,366	3,908	Total	£9,379,290	5,243	0	2	6	Management have accepted the factual accuracy of the report and its findings and have agreed to implement the recommendations.
Payroll	Value of Payments (£)	Number of Payments to Employees															
671 (Teachers)	£3,339,924	1,335															
661 (Local Government)	£6,039,366	3,908															
Total	£9,379,290	5,243															

	<p>In October 2023, the Chief Officer Corporate Solutions reported to CMT that there was a significant overpayments issue within the organisation (over 500 employees amounting to circa £457k) with only around 50% subject to a live recovery process or repayment arrangement. 75% of overpayments were a result of managers failing to submit relevant forms in time. An interim process was established to recover the overpayments, an Overpayments and Underpayments Policy has been drafted and managers are being reminded of their responsibilities for staff management. A communications plan is being developed to promote this including highlighting that it is the employee's responsibility to act in good faith when they identify an overpayment and report it immediately; and managers responsibility to monitor employee budgets. As at March 2024, overpayments had reduced to £154k and the majority of these have an active repayment plan.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The pre-employment checks undertaken should be centralised so that there is a clear audit trail of the checks undertaken. For new starts, Employment and Reward should check with relevant services if there is an updated SSSC registration in place within 6 months of the start date; and remind services that these should be forwarded to Employment and Reward. (Medium) • The Dispositions searches on CS16 for Employee information and Payroll records should be implemented. (Medium) • The Council's Code of Conduct should be updated to state that employees should work with integrity and should not withhold any payments that are overdue to the Council (eg rent, council tax, or salary overpayment). (Low) • Payroll Officers should be reminded to check that the officer who is authorising amendments, recruitment or leavers is on the Authorised Signatory system. (Low) • Managers should be reminded to send self-certification forms when reporting sickness. (Low) • Procedures / guidance should be documented detailing the purpose of the audit check and payroll scheduling reports. An audit trail detailing who has checked the audit report and what action was undertaken should be retained. The Working Time Directive report should be checked on a timely basis. All checks on the payroll processing schedule should be signed off and if a check has not been undertaken this should be recorded with an explanation. The Net Pay Difference report limit of £400 should be reviewed and the reasoning for setting the limit should be documented. (Low) • The Employment and Reward and HR service risk registers require to be reviewed and updated. (Low) 				
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	<ul style="list-style-type: none">• Management should ensure that a declaration form is completed on an annual basis by all employees who have access to change salary details on the iTrent HR & Payroll system. (Low).				
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Appendix C Destination Hillend Water Pipe Delays

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Destination Hillend Water Pipe Delays</p> <p>Category: Consultancy</p> <p>Date issued: 8 April 2024 Draft 27 May 2024 Final</p> <p>Level of Assurance: As is standard practice for consultancy reviews, no assurance rating has been given to this report.</p>	<p>The Destination Hillend project includes upgraded ski facilities, entrance/reception area and toilet facilities; increased car parking capacity, access road and public road junction with pedestrian cross which improves public safety and supports green travel; new soft play area, climbing walls and enhanced and flexibly configured children's party rooms; new zip-line and alpine coaster attractions, new and expanded food provision, retail unit for outdoor activity focused retail, and glamping.</p> <p>The project is being progressed in 5 separate elements: Contract 1 – Access Road, Junction, Infrastructure and Car Park; Contract 2 – Alpine Coaster Installation; Contract 3 – Zip Wire Installation; Contract 4 – Main Building; and Contract 5 – Glamping. The delays relate to Contract 1, which in turn has delayed all other aspects of the project. However, at May Council this year, it was decided not to proceed with the New Building Contract and to progress with a revised replacement, with a reduced footprint and a focus on facilities essential to the wider business. This will delay the start of construction of the replacement building into at least Q4 of 2025. An updated business case will be presented to Council when the revision is complete.</p> <p>The design solution for the water pipe has been approved by Scottish Water along with other associated safety approvals and the contractors are on site progressing the works. The final connection was anticipated to take place at the end of May however there have been further delays due to a request from Scottish Water to install a fire hydrant before the connection takes place thus pushing the date of the final connection into June. The project critical path documents and deadlines have been updated appropriately following the project delays using the best available information at the time, and project costs are being reported to the Project Board. However, there is a need to improve cost reporting information to the Project Board to include more detail on current costs and the impact of change requests. There has been some slippage since the January 2024 board meeting, but management are still anticipating a 'soft opening' of the coaster in mid-July and an official opening two to three weeks after this.</p>	0	2	3	Management have accepted the factual accuracy of the report and its findings and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>Appropriate processes are in place for reporting issues from the Hillend Project Board to the Regeneration and Development Board, to the Capital Plan and Asset Management Board, and subsequently to Council via quarterly monitoring reports and the Medium-Term Financial Strategy updates. Risk management processes supporting the project are in place, but it was noted that some wider project risks were not included in the project risk register.</p> <p>As Destination Hillend risks are not documented in the Ideagen Risk Management system, they are not included in the Council's quarterly performance reporting. However, it was advised that a request has been made to the Risk and Resilience Group to include Hillend on the Strategic Risk Register as a Strategic Opportunity. As was noted in the recent audit of Risk Management, there is no risk register on the Ideagen system for the Development Service and risks in relation to Hillend have not been logged on the Sport and Leisure Service risk register.</p> <p>It was noted that only 1 year of planned preventative maintenance was included in the contract for the Alpine Coaster, the guarantee period for the steel used in the coaster was not known, and at the time of reporting, arrangements for the future maintenance of the coaster had not yet been negotiated.</p> <p>In relation to the changes in the external market environment and project since the last business case review the following was noted:</p> <ul style="list-style-type: none"> • It was reported that the previous zipwire specialists advised it was likely that only 2 zipwires would be possible for Hillend rather than the 4 planned in the original business case due to the topography of the land which would result in less income to the Council. The current zipwire specialists are yet to advise on the number of lines technically possible on the preferred route and once this is known, the impact on projected income will need to be taken into account as part of the updated business case. • The chairlift has not been operational since Summer 2023 and the repair of the asset is not part of the Hillend project; the chairlift would improve the experience of customers using the planned zipline. The March 2024 Project Board monthly report stated that utilisation of the zip line relies on the chairlift being in operation, but management have advised other options such as the use of a tow line or magic carpet / moving walkway could be considered or refurbishment of the chairlift to avoid the cost of full replacement. 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<ul style="list-style-type: none"> Assumptions for the potential usage of the assets were seen to be reasonable providing the facility is adequately marketed to reposition Hillend as a multi-activity sports centre followed by sufficient customer uptake. The borrowing rate used in the business case model is still appropriate based on Midlothian's borrowing position and the Bank of England's February and May 2024 Monetary Policy Reports. Based on guidance from the 'Intergenerational wealth transfers and social discounting: Supplementary Green Book Guidance' the discount rate applied to the project should have been reduced from 3.5% to 3% after 30 years which would have resulted in a slightly more favourable NPV and discounted payback period. Prices for activities set out in the business case are still reasonable based on review of competitors. From review of sensitivity analysis supporting the business case, a 30% reduction in all income would result in the project still having a positive NPV and a discounted payback period within 41 years which is within the life of new assets. <p>As is standard practice for consultancy reviews, no assurance rating has been given to this report. Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> Management should arrange an appropriate maintenance contract for the Alpine Coaster. The details should be clarified with the contractor in relation to any guarantees and warranties for the construction of the Alpine Coaster and the updated business plan adjusted as required to take these costs into account. (Medium) The observations made by Internal Audit in relation to changes to the external market environment and project (e.g. the Zipline, Chairlift, NPV and usage) should be reviewed by the project board and taken into account as part of the updated business case. (Medium) Appropriate cost reporting to the board showing the full impact of change requests should be implemented for the Destination Hillend project. (Low) The project risk register should be updated with the risks identified in this review and consideration should be given to any further risks that should be recorded. (Low) Risk registers within the Council's risk management system for Sport and Leisure and Development should be updated to take into account the 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	Destination Hillend project. Hillend should be added as a Strategic Opportunity on the Council's Strategic Risk Register. (Low)				

Appendix D Education Software

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Education Software</p> <p>Category: Assurance – Risk-based</p> <p>Date issued: 17 May 2024 Draft 13 June 2024 Final</p> <p>Level of Assurance: Substantial for policies, procedures and guidance for equipment provided as part of the Equipped for Learning project, user access controls and monitoring arrangements, and licence management for apps deployed to Google Chromebook, iPad and Mac devices. Limited for the assessment of educational software for data protection implications; educational benefit and best value; and the management of educational software</p>	<p>Midlothian's Equipped for Learning project provided every child with a digital device from P1 to S6. Education adopted the Google workspace platform which gives pupils the ability to take greater control of their learning, access their learning materials on their device at any time, and become proficient in a widely used digital platform. iPads are mainly used by Primary 1 and 2 pupils and Chromebooks are allocated to pupils from Primary 3 onwards. At the time of the review 4,319 iPads and 13,573 Chromebooks had been allocated to Education.</p> <p>Software used by Education can be purchased by: Digital Services as part of a central Digital Services project; as part of the Equipped for Learning Project; from Digital Inclusion and Learning budgets in coordination with Digital Services; or by schools using their Devolved School Management allocations and installed by Digital Services. Some software may have data protection implications, so a formal assessment of the information security risks may need to be carried out via a Data Protection Impact Assessment (DPIA).</p> <p>There is a wide range of educational software deployed in Midlothian to support learning for pupils, including the Google for Education suite of digital tools and Microsoft Office applications.</p> <p>Internal Audit considers that the level of assurance is substantial for the policies, procedures and guidance provided as part of the Equipped for Learning project; for user access controls and monitoring processes for devices; and software licence management for apps deployed to Google Chromebook, iPad and Mac devices. Assurance is limited for the assessment of educational software for data protection implications; educational benefit and best value; and the management of educational software deployed on Windows devices including guidance and licence management. Limited guidance has been provided for Windows and web-based applications used by schools; DPIAs have not always been completed where required or been fully completed; and there is limited follow-up of agreed actions.</p>	0	5	4	Management have accepted the factual accuracy of the report and its findings and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
deployed on Windows devices including guidance and licence management.	<p>Some recent purchases of applications have not followed the Council's Procurement process; Mac, iPad and Chromebook devices need to be updated with greater frequency; the Google passwords assigned to pupils and numerical password settings for staff iPads are weak; software on Education Windows had not always been updated to the most recent version, in many cases was old and potentially no longer supported by the supplier and may have security risks in some limited circumstances by its continued use; and there is no licence management system in place for software deployed to Windows devices. Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Purchases in excess of £5,000 for goods and services should follow the Council's approved procurement processes and submit relevant details of planned purchases to the Procurement team prior to purchase. This should include consideration of alternative quotes or a Non-Competitive Action form where required. Management should evidence competitors were considered when purchasing new education software. (Medium) • Mac, iPad and Chromebook devices should be updated with greater frequency. Processes should be developed to identify if devices are not being used and if they could be redeployed elsewhere. This should include implementing a process to identify, recall and update devices that have not been connected within an agreed timeframe. (Medium) • Pupil passwords should be strengthened and methods to implement password reset investigated. Passwords for staff iPads should be strengthened and it should be determined if Mac hard drives should have encryption applied. Appropriate consultation should be carried out with Education staff for any proposed changes. (Medium) • A review should be undertaken of all Education software deployed on Windows devices and web-based apps to establish if the software is still used, if they are meeting the relevant educational needs of students, if there is any overlap/duplication between what is purchased by the school and provided by Digital Inclusion and Learning, and to either remove or update the software as required to minimise the security risks of using unsupported or out-of-date applications. (Medium) • Management should carry out a cost / benefit analysis of implementing a Software Asset Management solution to log the relevant licence details of all deployed software. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<ul style="list-style-type: none"> Guidance distributed to schools should include key Windows and web-based applications used by schools if they are useful and still being used. Appropriate support and monitoring arrangements should be developed as required for Windows and web-based applications. Guidance should be provided for schools requiring new Windows software installed by Digital Services. (Low) Guidance for Data Protection Impact Assessments should specify the level of authorisation required and the requirement for a segregation of duty when authorising. It should specify that final versions of DPIAs should always be submitted to the DPO, the timescales for review and update and the requirement to report to the ICO if the risk cannot be managed. A process should be developed to follow-up DPIA actions and there should be only 1 type of DPIA template. (Low) Data Protection Impact Assessments identified as not being fully complete or with actions outstanding should be completed and any further actions identified appropriately progressed. DPIAs should be completed for web-based apps identified as being used by schools, if required. Appropriate monitoring and governance arrangements should be established for Education software purchases to ensure the need for a DPIA is promptly identified going forward. (Low) Financial Services should periodically provide Digital Inclusion and Learning with a summary of software licence and information technology spend from schools to allow the total licensing cost for Education to be collated. (Low) 				

Counter Fraud Annual Report 2023/24

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2024 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2023/24.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team in liaison with other services over the past year as part of the arrangements to tackling fraud at the Council.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Specific changes associated with the Counter Fraud Strategy approved by Council on 25 August 2020 include: a focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime; and ensure these are embedded preventative practices.

Assurances about the effectiveness of the Council's existing systems and arrangements for tackling fraud can be taken from the outcomes contained within this report.

Date 3 June 2024

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Background

- 3.1** The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft, corruption and crime. Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.2** The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy in 2020. Specific changes associated with the refreshed Counter Fraud Strategy include: a focus on enhancing fraud prevention and detection to improve the Council's resilience to the risk of fraud, theft, corruption and crime; and ensure these are embedded preventative practices.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with management. The Integrity Group is an officer forum which has representatives from across the Council's Services to support management to fulfil their responsibilities in tackling fraud, and it is chaired by the Executive Director Place. The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). It oversees the policy framework, agrees and monitors the implementation of improvement actions, raises awareness as a method of prevention, and performs self-assessments against best practice.
- 3.4** Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.
- 3.5** Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.

4 Counter Fraud Activity during 2023/24

- 4.1** The Counter Fraud Annual Plan 2023/24, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 7 March 2023. All elements of the Counter Fraud planned work were carried out, relating to activity at a high level as follows:
- a) Contract Management
 - b) Corporate Fraud Enquiries
 - c) National Fraud Initiative
 - d) Social Housing
 - e) Council Tax
 - f) Corporate Fraud Policy Framework
 - g) Fraud Risk Assessments
 - h) Fraud Awareness Training
 - i) Integrity Group
- 4.2** As specialist investigators, the Corporate Fraud Officers have conducted significant and comprehensive work in respect of Contract Management, liaised with Scotland Excel and Police Scotland as required, and recommended improvements to reduce risks. Work has identified areas of control concern in relation to end to end procurement processes and contract management, within the Council and Scotland Excel. Improvements are being implemented through improved Procurement staffing and blueprint work to resolve these control issues.
- 4.3** The Corporate Fraud Team has dealt with 89 enquiries including 16 from the Midlothian Council website page “Report a possible crime, fraud or similar concern” which is available to employees or the public for whistleblowing purposes. Fraud Response Group meetings have been held to share concerns and progress actions with relevant Management.
- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2022/2023 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Principal Internal Auditor acts as the Council’s Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date with input from relevant Services across the Council.
- 4.5** The Corporate Fraud Team has received referrals from Housing Officers during the year to investigate potential subletting or abandonment of Council owned properties; 46 allegations of potential tenancy fraud were investigated, see 5.2 for outcomes.
- 4.6** The Corporate Fraud Team responded to 8 notifications of alleged fraud associated with Council Tax Discounts and Exemptions during the year to determine whether these discounts and exemptions are

claimed legitimately, including Council Tax Reduction Scheme (CTRS) and Single Person Discount (SPD), see 5.3 for outcomes.

- 4.7** It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection.
- 4.8** The Corporate Fraud Officers are members of the Scottish Local Authority Investigators Group (SLAIG) to represent Midlothian Council. They join SLAIG's quarterly virtual meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring their knowledge of emerging fraud risks and issues is up to date. Any insights on fraud risk assessments are shared on a regular basis with the Integrity Group. The Corporate Fraud Officers liaise throughout the year with the Internal Audit Team to provide their view on the potential fraud risk aspects of areas under review.
- 4.9** The Integrity Group held 4 meetings during the year 2023/24 to undertake its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and has representatives from HR, Finance, Legal, IT, Procurement, Internal Audit and Corporate Fraud.

5 Outcomes of Counter Fraud Activity 2023/24

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of counter fraud activity a total savings value of £837,467 has been identified during 2023/24. The types of referrals and the outcomes are summarised in the table in Appendix 1, with details provided below.
- 5.2** As a result of the collaboration between Housing Officers and the Corporate Fraud Team, 5 of the 46 allegations of potential tenancy fraud that were investigated resulted in the return of a property to the Council's housing stock, which were subsequently made available to those in genuine need of social housing. For each of the properties identified, the calculation of savings per property (based on NFI Estimates Outcomes Methodologies) is £78,300, thus resulting in a saving of £391,500.
- 5.3** 1 referral associated with Council Tax Discounts and Exemptions relating to undeclared persons residing in the property, was investigated and subsequently resulted in the removal of Council Tax Single Person Discount this resulted in a saving of £1,891, (based on NFI Estimates Outcomes Methodologies).
- 5.4** Outcomes of the Council's participation in the National Fraud Initiative for 2022/23 resulted in a total saving of £444,076. These outcomes are detailed in Appendix 2.
- 5.5** In conclusion, the Corporate Fraud Team in collaboration with other Services have been successful in delivering the range of activity set out in the Counter Fraud Annual Plan 2023/24 to support the Council's

objectives. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes.

6 Report Implications (Resource, Digital, Risk and Equalities)

6.1 Resource

The Integrity Group will support Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention.

The staff resource set out in the Counter Fraud Annual Plan 2023/24 relates to 2 Corporate Fraud Officers, plus some management and supervision provided by the Principal Internal Auditor and the Chief Internal Auditor. The Corporate Fraud Officers collaborate with other managers and employees across the Council to carry out the activity and support the Integrity Group.

6.2 Digital

None.

6.3 Risk

The size and nature of the Council's services puts the Council at risk of loss due to fraud, theft, corruption and crime.

The Counter Fraud Policy sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. Council service fraud risk register creation is now taking place facilitated by the Counter Fraud team. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team during 2023/24 in collaboration with other services is aligned to the Policy and Strategy.

6.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed prior to the presentation of the revised Counter Fraud Policy and Strategy that were approved by the Council on 25 August 2020.

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy. The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud risk assessments and e-learning packages that can be tailored to specific Services.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Counter Fraud Strategy (August 2020) states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to be evaluated, managed and evidenced to demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has is being utilised by employees, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.

A.8 Supporting Sustainable Development

None.

Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2023/24

Type of Referral	No. of Referrals	Web	Phone	Email / letter	No. with Potential Fraud Detected	£ Fraud Detected	Comments
Corporate Fraud (Internal)	12	5	3	4			Full investigations undertaken in response to referrals from various sources. Currently 1 historic criminal case is with Police Scotland Economic Crime Unit and has been reported to the Procurator Fiscal and is currently being progressed by the Crown Office.
Housing Tenancy Fraud	46	3		43	5	£391,500	43 referrals were received by email directly from Housing Officers. All 46 referrals were investigated, resulting in the recovery of 5 Council houses which were returned to the available housing stock. Value for each property calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance (£78,300 per property recovered).
Council Tax Discounts & Exemptions, CTRS / SPD/ DWP Benefits	8		1	7	1	£1,891	1 investigation relating to undeclared persons residing in the property subsequently resulting in removal of Council Tax Single Persons Discount. Overpayment calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance.
DPA/SOCG enquiries	6			6			6 enquiries received from Police Scotland.
Other	17	8	5	4			Investigations resulting in referrals being submitted to external partners and internal services including: Education, Trading Standards and Economic Development.
Total	89	16	9	64	6	£393,391	

Appendix 2 – Total outcomes from Midlothian Council's participation in the National Fraud Initiative 2022/2023 exercise

Type	No of Matches 22/23	No of matches reviewed	Fraud or Errors Detected	Outcome (overpayment)	Estimated Savings	Total Savings	Comments
Council Tax (SPD)	3613	662	50	£10,470	£38,721	£49,191	2 SPD data sets reviewed by Corporate Fraud and 1 reviewed by Revenues. There are still a number of referrals to be decided by Revenues, however due to backlogs, the final outcomes may not be known for some time. There was also a significant reduction in the number of matches reviewed by Corporate Fraud as a request was made by Revenues to pause the production of referral reports as they were adding to an already substantial backlog. Overpayment calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance.
Disabled Parking Blue Badges	409	409	311		£202,150	£202,150	311 badges which had not been cancelled on death of badge holder. Savings calculated as £650 per blue badge cancelled to reflect lost parking and congestion charge revenue. As per Cabinet Office NFI Estimates Outcomes Methodologies guidance
Housing Tenants	1468	609	45		£192,735	£192,735	45 errors resulting in applicant being removed from Housing Waiting List with notional savings of £4,283 per individual removed, as per Cabinet Office NFI Estimates Outcomes Methodologies guidance
Total savings for 2022/23 NFI exercise				£10,470	£433,606	£444,076	

Internal Audit Annual Assurance Report 2023/24**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Internal Audit Annual Assurance Report 2023/24 (Appendix 1), and assurances contained therein; and
- b) Provide any commentary thereon, including any further actions required by Management.

2 Purpose of Report/Executive Summary

The purpose of this report is to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2024 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.

The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive, the Council's Chief Internal Auditor, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.

To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2023/24 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

Date 4 June 2023

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Background

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the organisation.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) 2017 require that:
“The chief audit executive [MLC’s Chief Internal Auditor] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 3.3 The Terms of Reference of the Midlothian Council Audit Committee states:
- The Audit Committee is a key component of Midlothian Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
 - The purpose of the Audit Committee is to provide independent assurance to Elected Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council’s governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees Internal and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

4. Internal Audit Annual Assurance Report 2023/24

- 4.1 The Internal Audit Annual Assurance Report 2023/24 (Appendix 1) includes the Chief Internal Auditor’s independent and objective opinion regarding the adequacy and effectiveness of internal control within Midlothian Council to fulfil the statutory role of Internal Audit, provides details of the Internal Audit activity that supports the opinion and of the performance during the year, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).
- 4.2 The Internal Audit Annual Assurance Report 2023/24 provides assurances in relation to the Council’s corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Single Midlothian Plan and will be used to inform the Annual Governance Statement 2023/24.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The Internal Audit function reports directly to the Chief Executive (operationally) and the Audit Committee (functionally). The staff resource during 2023/24 was 3.22 FTE, comprising Chief Internal Auditor (0.5 FTE – shared with East Lothian Council; Principal Internal Auditor (0.72 FTE), and Internal Auditor (2.0 FTE). Each member of the Internal Audit team has a professional internal audit or accountancy qualification, and has suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to perform the plan.

There is a commitment by Midlothian Council to provide resource to the Midlothian Health and Social Care Integration Joint Board (MIJB) as part of the Council's commitment to partnership working. Separate Plans and Reports are presented to the MIJB Audit and Risk Committee. The audit opinion based on work undertaken during the year to meet that commitment will be presented in a separate Annual Assurance Report to the MIJB Audit and Risk Committee and MIJB to fulfil that role.

Budget monitoring of the Service is discussed by the Chief Internal Auditor and the Principal Internal Auditor with the Financial Services Manager on a quarterly basis to address any budgetary pressures.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The Chief Internal Auditor's opinion on the systems of internal control, risk management and governance is set out within section 2 of the Internal Audit Annual Assurance Report 2023/24 (Appendix 1).

Internal Audit provides assurance to the Corporate Management Team and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the Annual Plan.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years.

Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

5.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or employees), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. This includes compliance by those within the Internal Audit function with the Code of Ethics, set out in the PSIAS, and the Seven Principles of Public Life (the Nolan Principles), set out in the Employees' Code of Conduct. This is appropriate for the profession of Internal Audit, founded as it is on the trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in learning outcomes; Reducing the gap in health outcomes; Reducing the gap in economic circumstances; and Reducing the impact of climate change), by providing an independent and objective annual assessment of the adequacy of the entire control environment, Internal Audit supports the Council to achieve its objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council's

own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives for the benefit of Midlothian's communities and other stakeholders.

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management have been advised to take into account the findings from Internal Audit work during the year when completing their internal control and governance assurance statements as part of the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2023/24.

A.6 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year, which are designed to maintain and / or enhance internal controls, governance arrangements and risk management, assists the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

Having robust internal controls, governance arrangements and risk management in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Internal Audit assurance and consultancy activity is designed to improve operations and assist the Council in accomplishing its objectives.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance, including the provision of an Internal Audit service, is important to enable Midlothian Council to achieve its objectives.

Chief Internal Auditor's Annual Assurance Report and Opinion 2023/24 for Midlothian Council

1 Introduction

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line, is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter:
- “Internal Audit's responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit Committee (the 'board' for the purposes of Internal Audit activity).
- Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.
- As part of Midlothian Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives”
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
- “The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”
- 1.6 This Annual Assurance Report provides the annual internal audit opinion to fulfil the statutory role of Internal Audit and summarises the work carried out by Internal Audit during the year to 31 March 2024 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2023/24. The report also states the outcomes of assessments of the Internal Audit service against the PSIAS.

2 Opinion on the systems of Internal Control, Risk Management and Governance

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control, risk management and governance are generally adequate. There is more work to be done with the implementation of Internal Audit recommendations made in previous years associated with the strategic governance arrangements that underpin procurement and contract management, and risk management. Internal Audit Reviews throughout the year have provided substantial assurance against the majority of the areas reviewed, and whilst only one High rated recommendation was raised in the Council Tax Discount and Exemption Audit, six of the reviews reported limited assurance in at least one area, being: Council Tax Discounts & Exemptions, Licensing, Care Homes Council & Private, Risk Management, Payroll, and Education Software. Recommendations made are being implemented to improve the control environment in these areas.
- 2.2 The Council's Local Code of Corporate Governance, updated and approved by Council in March 2021, complies with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). This ensures that this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.3 The Financial Regulations (approved June 2022), and associated policies, procedures and guidelines have been reviewed, updated and developed, as appropriate, to reflect changes arising from organisation structures and systems, and address recommendations arising from Internal Audit findings.
- 2.4 The Internal Audit review of Council Tax Discount & Exemptions October 2023 concluded: substantial assurance for complying with relevant legislation. Assurance was limited for ensuring adequate evidence is obtained and adequate investigations are undertaken before discounts and exemptions are awarded. Inadequate resource within the service, as a result of staff being reallocated to process high volumes of Scottish Welfare Fund (SWF) applications, resulted in a backlog of cases, poor customer service, discounts and exemptions not being reviewed, NFI data matches not being investigated and inadequate quality checking of cases. A business case for recruiting more staff to administer SWF applications was approved by Council in August 2023. Additional resources are now in place and backlogs are beginning to be reduced, however further focus on maintaining resources will be required to fully resolve the issues identified.
- 2.5 The Internal Audit review of Risk Management March 2024 concluded: substantial assurance in relation to the Council's Risk Management Policy and application of the policy at a strategic level. Assurance was limited over the application of the Risk Management Policy at the service (operational) level, the provision of training and guidance, and service level reporting and monitoring arrangements. In order for management of risks at the strategic level to be fully effective, service risk registers should be up-to-date. It was found that processes have not been established to formally report on risks to DMTs and escalate as required, there is limited risk management resource in place to support the Council, limited training and guidance is in place for risk management. Resources are being reviewed as part of a service review and training has been developed in risk management to provide across the Council.
- 2.6 Substantial assurance in relation to Risk Management policy. A revised Risk Management Policy and Strategy was subsequently approved by Council in August 2022 and application of principles at Strategic level with the Corporate Management Team and Audit Committee receiving quarterly update reports from the Chief Officer

Place on the most significant and emerging risks; Limited assurance in relation to provision of Risk training for Managers, inconsistent application of systematic risk management at Service operational level, and 2nd line monitoring for assurance purposes; and made recommendations which are designed to improve the application of the Risk Management framework consistently across the Council. Progress has been made and through recruitment of a new officer with responsibility for risk management further work is being completed to enhance the risk management process across the Council and ensure a training process is in place.

- 2.7 The procurement function has continued to strengthen this year, with a Procurement Manager being in place for most of the year. Work has commenced on updating and implementing contracts in a number of key areas across the Council. Counter Fraud and Council transformation blueprint work has identified that there are further savings that can be made across the council with the implementation of enhanced purchasing, procurement and contract management controls. Resources are being identified within the Council Transformation blueprint work and within the procurement and other teams to
- 2.8 Further improvements in internal control, risk management and governance have been agreed by Management, as highlighted in Internal Audit reports and through recommendations made during the year or outstanding from previous years. It is important that Management continue to monitor and oversee the implementation of Internal Audit recommendations on a regular basis to demonstrate continuous improvement and to address identified risks.

3 Internal Audit Annual Plan 2023/24 Delivery

- 3.1 The Internal Audit team continue to work from home, facilitated by the use of MS Teams and access to network drives and business applications. The team attend Council premises as necessary to obtain information or assurances as required. There has been no impairment to the independence or objectivity of the Internal Audit function arising from deployment to non-audit work or from consulting work during the year.
- 3.2 The revisions to the Internal Audit Annual Plan 2023/24 were approved by the Audit Committee. The following Audits have been removed from the 2023/24 Audit Plan in January 2024:
- Property Assets and Property Strategy was replaced with requested work on the Hillend Project Water Pipe delays. (29 January 2024 - Internal Audit Mid-Term Performance Report 2023/24).
 - Workforce Planning was replaced with additional work on a review of leases reported to the Audit & Governance Committee on the 29 January 2024 (29 January 2024 - Internal Audit Mid-Term Performance Report 2023/24).
- 3.3 It is further noted that a review of Children's Services Continued Care has been removed from the Audit plan for 2023/24 as the work will be incorporated into the Social Work Children Services to Adult Services Transition review that will be completed as part of the 2024/25 approved audit plan. The Review Growing Council, Budgeting for Growth has been replaced by assurance work on the Renfrewshire Council Bowles report comparing current practice within the Council with that external review of Renfrewshire Council this work remains ongoing and will be reported to the September 2024 Audit Committee.
- 3.4 The range and breadth of Internal Audit work, which amounts to 79% completion of the revised Internal Audit Plan, performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance opinion.

Risk Based Audits

3.5 To provide assurance on the internal controls, risk management and governance arrangements associated with strategic and operational frameworks in place for the efficient and effective delivery of objectives, reviews included (date reported to Audit Committee):

- Annual Assessment of Internal Controls and Governance (Continuous audit approach to follow-up on implementation of actions for Areas of Improvement set out in the Annual Governance Statement 2023/24. Annual evaluation against the Local Code of Corporate Governance to determine whether the arrangements are operating as described. Prepare this Annual Assurance Report forming the statutory opinion on the adequacy of the Council's arrangements for risk management, governance and internal control.) – June 2024.
- Care Homes, Council and Private (Review of the arrangements in place to manage the process of utilising appropriate bed spaces within care homes and the monitoring and control mechanisms in place to ensure quality care and best value.) – January 2024.
- Council Tax Discounts and Exemptions (Review the processes in place to ensure that the Council is providing the appropriate Council Tax discounts and exemptions to those households with an entitlement to these discounts and exemptions whilst preventing any error or fraud.) – October 2023.
- Licensing (Review the policies, processes and procedures in place to ensure the effective licensing services are in place and subject to effective governance.) – October 2023.
- Payroll (Review the processes in place to ensure complete, accurate and timely payment of Council staff (including Teachers payroll) in accordance with the Contractual terms and Conditions of the employees.) – June 2024.
- Absence Management (Review the operation of the systems in place for monitoring of absence to ensure maintenance of staff wellbeing in new working environments and capacity for service delivery..) – Audit Work complete and draft report will be issued to management in June with reporting to Audit Committee in September 2024
- Risk Management (Review of the control processes in place to ensure that Education Software is being utilised in safe, secure and best value manner.) – March 2024.
- Attainment Scotland Funding (Review the governance and internal control arrangements in place to support the effective utilisation of Attainment Scotland Funding (Pupil Equity, Strategic Equity and Care Experienced Children and Young People Funding). Audit ongoing and will be reported in September 2023.
- Developer Contributions (Review the processes in place to ensure that appropriate contributions are received for infrastructure as a result of housing development and the governance, control and risk management processes in place to ensure that the calculations for the value of contributions to be received are based on accurate and complete information.) – January 2024.
- Commercial Lease Reviews – (Complete an audit review of requested Commercial Lease issues at the request of the Audit Committee.)– March 2024.
- Destination Hillend Water Pipe Delays (Review of the revised project processes following the Water Pipe Delays for this project.) – June 24
- Assurance work on the Renfrewshire Council Bowles report (Review the Midlothian Council processes against the issues highlighted as part of this external report to

establish if any further best practice requirements can be incorporated into the Council.) – Assurance work is ongoing and reporting is expected for the September Audit Committee.

Consultancy

- 3.6 In its 'critical friend' role, Internal Audit provided an independent view and challenge at various forums including Capital Planning and Asset Management Board, Capital Plan Management Group, Learning Estate Board, Information Management Group.

Other Audit Work

- 3.7 During the year, resources were deployed in undertaking the following other audit work in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter:

- PSIAS Self-Assessment (Undertook an annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS) and report its findings to Management and the Audit Committee).
- MLC Audit Committee Self-Assessment (Provided assistance to the Chair in undertaking a self-assessment of the Audit Committee against the CIPFA best practice guidance leading to a report to Council in October 2023).
- MLC Recommendation Follow-Up Reviews (Undertook two reviews. The first included a sample check of Audit Recommendations which are flagged as closed, to check that they have been effectively implemented and to ensure that the new controls had the desired effect on improving internal controls, risk management and governance; and the second assessed performance against closing Audit Recommendations by the agreed due date).
- Help Desk Enquiry System (Provided guidance and advice on request to Management and Staff on internal controls and governance).
- MLC Administration of Audit Scotland Reports (Monitored publication of Audit Scotland reports and co-ordinated submission by Management of Audit Scotland Reports to the Audit Committee or other Committee as relevant).
- Risk Management and Integrity Groups (Attended the virtual forums and provided support in the form of relevant Internal Audit updates and advice to the Groups to fulfil their roles).
- MLC Boards / Committees (Prepared for and attended virtual Audit Committee meetings and other Boards/Committees as relevant).
- MLC Audit Planning for 2023/24 (Reviewed and updated the Internal Audit Charter and Internal Audit Strategy. Reviewed and extensively updated the Audit Universe to develop and consult on the proposed coverage within the Internal Audit Annual Plan for 2023/24).

Non MLC Work

- 3.8 The MLC Internal Audit team has carried out assurance work during the year for the Midlothian Integration Joint Board (MIJB) based on a plan approved by the MIJB Audit and Risk Committee in March 2023. An annual assurance report, including audit opinion on the adequacy of the MIJB's arrangements for risk management, governance and control of the delegated resources, will be presented to the MIJB Audit and Risk Committee and then to the MIJB in due course.

4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; Communicating the Acceptance of Risks).
- 4.2 The annual self-assessment 2023/24 of Internal Audit practices against the Standards, as required by the PSIAS, was carried out in June 2024 taking into account the progress with implementation of improvement actions arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Plan (QAIP).
- 4.3 The 2023/24 self-assessment is currently underway but has initially indicated Internal Audit 'Fully Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The following improvements arising from the 2022/23 self-assessment have been implemented during 2023/24:

(a) Ensure usage of available training budget against key annual audit priorities.
--

(b) Destroy paper audit files in line with retention policy.
--

The following improvement actions initially arising from the 2023/24 self-assessment are being implemented within the audit team to apply the quality management system in 2024/25:

(1) Develop appropriate methodology to formally document service feedback.
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(2) Update the Audit Reporting format to ensure report objective gradings are clearer

(3) Update Audit Grading references for reports, objectives and recommendations to be in line with CIPFA public sector guidance.
--

- 4.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To achieve this, an "EQA Peer Review Framework" was developed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), with Midlothian Council's first EQA in March 2018 carried out by Highland Council. SLACIAG has refined its "EQA Peer Review Framework" based on lessons learned and a programme for the second phase has been finalised. Midlothian Council's EQA is expected to be carried out by East Renfrewshire Council during 2024, to meet the requirements, this has been delayed awaiting confirmation of requirement to complete given new PSIAS requirements being implemented in 2025.

Duncan Stainbank Bsc (Hons) CPFA

Chief Internal Auditor

4 June 2024

Draft Annual Governance Statement 2023/24

Report by Chief Executive

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the details of the draft Annual Governance Statement 2023/24 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; and
- b) Approve that it be published in the Council's Statement of Accounts 2023/24, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process.

2 Purpose of Report/Executive Summary

The purpose of this report is to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2023/24.

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council's Local Code of Corporate Governance that was approved by Council on 23 March 2021 was used to assist with the annual assurance process 2023/24.

The draft Annual Governance Statement 2023/24, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.

Date 4 June 2024

Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

3 Background

- 3.1** Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2** Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.

4 Annual Assurance Process 2023/24

- 4.1** The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 4.2** The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. Its Terms of Reference includes 'To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances'.
- 4.3** The Internal Audit function undertook an assessment of the Local Code of Corporate Governance and identified areas of further improvement to enhance the effectiveness of internal control and governance arrangements and compliance against the Local Code.
- 4.4** Progress with implementation of actions regarding previously identified improvement areas of governance has also been evaluated.
- 4.5** The draft Annual Governance Statement 2023/24 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and Overall Opinion.
- 4.6** It is the Chief Executive's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.
- 4.7** The draft Annual Governance Statement 2023/24 is informed by the assessment of compliance against the Local Code, written assurance statements from the Executive Directors, Internal Audit annual opinion

and findings and recommendations, and comments and recommendations made by External Auditor and other external scrutiny bodies and inspection agencies.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), on which Midlothian Council's Local Code of Corporate Governance is framed, is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Core principle of good governance "E. Developing the entity's capacity, including the capability of its leadership and the individuals within it" is included within the CIPFA/SOLACE Framework. Workforce and elected member development are a key part of the good governance framework within the Council's Local Code of Corporate Governance.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The review and update of the Local Code of Corporate Governance during 2023/24 ensures that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis. The draft Annual Governance Statement 2023/24 details areas where additional work would further enhance the internal control environment, or improve risk management and corporate governance arrangements.

Core principle of good governance "F. Managing risks and performance through robust internal control and strong public financial management" is included within the CIPFA/SOLACE Framework. Midlothian Council's Local Code of Corporate Governance sets out evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance.

5.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The application of equalities legislation within practices is set out in Midlothian Council's Local Code of Corporate Governance to demonstrate compliance of core principle of good governance "A.

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

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council’s objectives as set out in the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change).

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is embedded in the Council’s Local Code of Corporate Governance to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

The overall aim of the CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’ (2016), on which Midlothian Council’s Local Code of Corporate Governance is framed, is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making;

and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

This will enable the Council to fulfil its obligations to provide best value service delivery to its citizens.

A.5 Involving Communities and Other Stakeholders

Core principle of good governance “B. Ensuring openness and comprehensive stakeholder engagement” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

The Council’s Corporate Management Team was engaged in the review and finalisation of the updated Local Code of Corporate Governance (approved by Council on 23 March 2021), and the update of the evidence to demonstrate good governance which reflects the current operating environment.

A.6 Impact on Performance and Outcomes

The annual self-assessment and the identification of improvement actions as evidenced through the draft Annual Governance Statement 2023/24 are designed to enhance the internal control environment, and risk management and corporate governance arrangements.

This demonstrates the core principle of good governance “G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability” included within the CIPFA/SOLACE Framework.

A.7 Adopting a Preventative Approach

Core principle of good governance “D. Determining the interventions necessary to optimise the achievement of the intended outcomes” is included within the CIPFA/SOLACE Framework. Prevention governance arrangements are a key part of the good governance framework within the Council’s Local Code of Corporate Governance.

A.8 Supporting Sustainable Development

Core principle of good governance “C. Defining outcomes in terms of sustainable economic, social, and environmental benefits” is included within the CIPFA/SOLACE Framework. Midlothian Council’s evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

Appendix B

Draft Annual Governance Statement 2023/24

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2024, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016) and was approved by Council in March 2021.

The Council's Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council's Medium Term Financial Strategy and Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan. In June 2023 the Council also approved a transformation blueprint 2023-2028 to support the Medium Term Financial Strategy and help bridge s projected five-year funding gap.

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

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

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

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

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

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

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

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

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

The Elected Members Induction Programme took place following elections in May 2022 and is periodically supplemented by training events, seminars and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit.

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

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

The Council updated its Risk Management policy and strategy in August 2022 whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public. Internal Audit's assessment in March 2024 was that assurance is substantial in relation to the Council's Risk Management Policy and application of the policy at a strategic level.

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

The Council's system of internal financial control is based on a framework of financial regulations (updated in June 2022), regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. This remains reliant on the staff within the framework to ensure management supervision and accountability are diligently enforced.

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

A Medium Term Financial Strategy was approved by Council in June 2019. The 2022/23 budget was approved by Council in February 2022. Given the significant fiscal challenges which lie ahead, work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £30 million for the Council over the next 5 years will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets.

The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. The Chief Officer Corporate Solutions identified six areas requiring improvement from his review of the CIPFA FM code. Actions identified included improving the resourcing of the Procurement team (Ongoing), updating the Council's Financial Regulations and Directives (Complete – approved at June 2022 Council), putting in place a multi-year financial plan (Ongoing – action relevant to two sections of the FM Code), improving the Council's approach to lessons learned from completed projects (Ongoing), and improving the Council's risk management arrangements (Ongoing). No further Committee update has been provided within the 2023/24 financial year.

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2023/24. This is based on work carried out by an in-house team, with supplementary support from an outsourced partner, including shared services resources from East Lothian Council, in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

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

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

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out. The output is this Annual Governance Statement which is presented to the Audit Committee.

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

In respect of the implementation of the remaining Best Value Audit Actions (nos. 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value. These actions are now all materially completed. The Council however recognises improvements are required in the areas presented below.

Improvement Areas of Governance

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

- 1) The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. One of the actions identified was putting in place a multi-year financial plan. The Council's subsequently approved a 2023-2028 Strategic Blueprint in June 2023, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £20 million for the Council over the next 5 years requires putting in place an approved multi-year financial plan key to developing the Council on a sustainable basis. Dedicated Financial Management CMT meetings have been implemented on a quarterly basis to challenge and scrutinise budgets in order to improve financial discipline.

- 2) Improvements in the Procurement Service staff capacity have been made during the year. With increased team capacity issues of off contract spend and non-contracted spend within the organisation are being progressed, however further purchasing and procurement issues continue to be noted. Expired contracts and off contract spend is being managed through regular review at Budget Boards who work to ensure that the risk is managed and the appropriate remedial action is being taken; with oversight from the Executive Director and Chief Officers. In addition as part of the Council's Blueprint under theme1 follow the money a sprint looking at contract management and a review of transport is being progressed.
- 3) Capital Plan Affordability review continues as the paper that was approved by Council on 27 February 2024, detailed that the Loan Charges arising from capital expenditure within the General Services Capital Plan, including planned Learning Estate Programme projects that are under development is expected to exceed the Loan Charges levels as per the Council's approved Medium Term Financial Strategy over the period 2024/25 to 2028/29. Work Continues to establish an approved affordable and financially sustainable Capital Plan for the Council moving forward. Whilst approval for fully funded learning estates projects has been progressed delays in decision to critical projects may result in breaches of capacity to provide education provision across the council area.
- 4) Workforce planning to address appropriate resource requirements, recruitment, retention, training, leadership development and resilience is taking place. However, it has been noted that there is a lack of resource within the Compliance Team to deliver the Council's statutory responsibilities under the Data Protection Act 2018. CMT approved a paper to identify additional resource on 5 June and these requirements are now being implemented along with support for the Council tax and Procurement teams to meet identified control needs and in both cases, this is a continuing process. It is the responsibility of service managers and Chief Officers to ensure that service risk registers are up to date, this is now being prioritised in order to ensure that all registers are up to date.

Conclusion and Opinion on Assurance

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

Dr Grace Vickers
Chief Executive
** September 2024

Kelly Parry
Leader of the Council
** September 2024

Internal Audit Shared Service Arrangement Continuation

Report by Chief Executive

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note the agreement of Midlothian Council Executive team and East Lothian Council Executive team have agreed following the, 18 month initial period, to the continuation of the Chief Internal Auditor shared service on an ongoing basis.
- b) Approve the Continuation of the Chief Internal Auditor Shared Service between Midlothian and East Lothian Council on an ongoing basis.
- c) Note that flexibility will be considered as part of the ongoing annual planning process for Internal Audit to widen the agreement to the potential sharing of Internal Audit and Counter Fraud resource staffing when the potential allows.

2 Purpose of Report/Executive Summary

This report provides the Audit Committee with the appraisal of the first 18 months of the shared service arrangement for the Chief Internal Auditor between Midlothian and East Lothian Council. The significant budget savings that have been delivered within the Internal Audit and Counter Fraud team over the 18month period whilst continuing to deliver a service that meets the requirements of the Public Sector Internal Audit Standards (PSIAS).

An updated SLA has been drafted to cover an ongoing shared service for Chief Internal Auditor services from 1 July 2024. The SLA provides for a continuation of the current Chief Internal Auditor services on ongoing basis with a five-year review date for the SLA. Provision has also been made for the potential to widen the sharing of services to the completion of audit or counter fraud work when approved by the Midlothian Audit Committee and the East Lothian Audit & Governance Committee.

The Audit Committee is being asked to approve the continuation of the Chief Internal Auditor shared service arrangements and therefore the signing of the SLA with East Lothian Council

Date 18 April 2024

Report Contacts

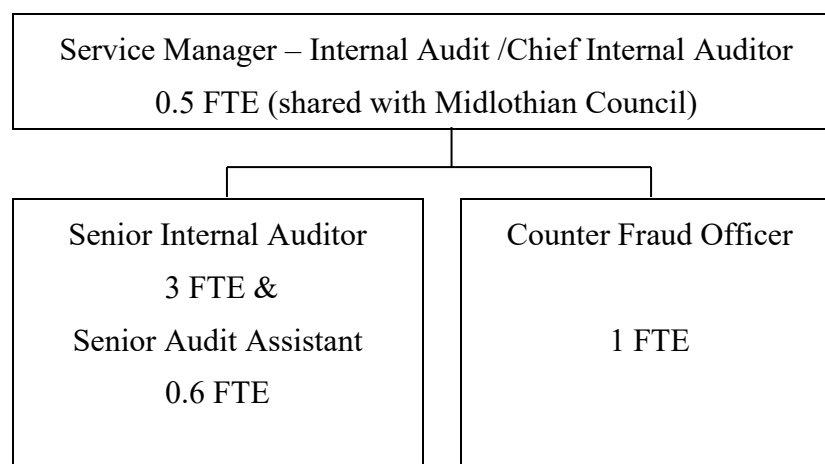
Duncan Stainbank, Chief Internal Auditor

duncan.stainbank@midlothian.gov.uk

3 Background

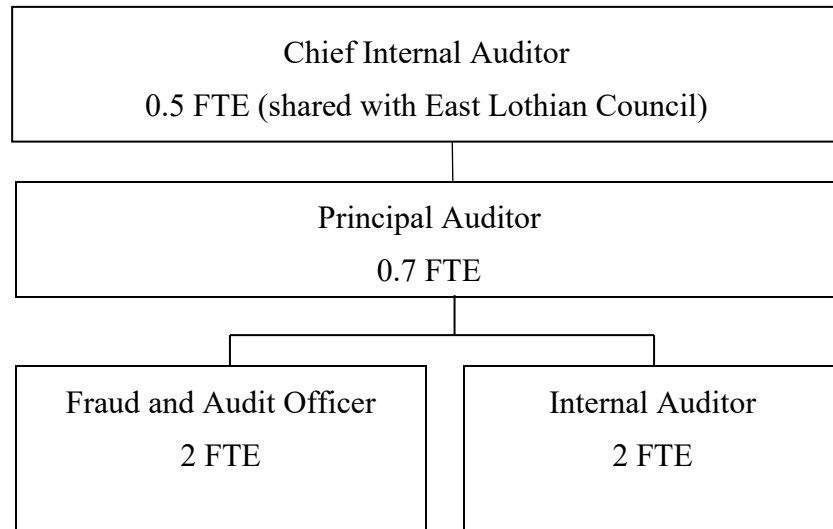
- 3.1** For the 5 years to the 30 June 2022 Midlothian Council had a shared service arrangement for Chief Internal Auditor Services with Scottish Borders Council. Following this arrangement ending on the 30 June 2022, and an unsuccessful recruitment process for an Internal Audit Manager, East Lothian Council were approached to consider a shared service. During 2022 a shared service was approved between East Lothian and Midlothian Council and the service commenced on the 1st January 2023.
- 3.2** The Midlothian Council approved budget for Internal audit was reduced by £55K per annum with the deletion of posts from the establishment as part of the 2023/24 approved Council budget. Services have been maintained to meet Public Sector Internal Audit Standards with this reduced budget and staffing and will continue to do so moving forward.
- 3.3** Both Midlothian and East Lothian Council continue to have Internal Audit Plans approved by the Audit Committee and the Audit & Governance Committee respectively on a risk basis, including length of time since last assurance review of an area. Whilst some risks are shared between the Council's some are specific to each council, however, that allows for efficiencies in sharing audit programmes and methodologies, with the potential for further savings if staffing is shared.
- 3.4** The Internal Audit teams are structured as shown in the following diagrams:

East Lothian Council



The Service Manager Service Manager – Internal Audit, East Lothian's Internal Audit Unit provides Internal Audit & Counter Fraud services for both the Council and the East Lothian Integration Joint Board and reports administratively to the Executive Director for Resources, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.

Midlothian Council



The Internal Audit function in Midlothian reports to the Chief Executive and provides Internal Audit and Corporate Fraud services for both the Council and the Midlothian Integration Joint Board.

- 3.5** Resources are anticipated to remain as they are currently available with the expectation of creating some cross working opportunities for staff when approved by Audit Committee. Cross working in certain audit areas will be more efficient and create greater resilience across these small teams. Any cross working will be approved prior to implementation and be dependent on appropriately available staffing for both Council's.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

This paper proposes no changes to the current resourcing of the Internal Audit and Counter Fraud teams.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The continuation of the shared service arrangement for Chief Internal Auditor services creates a key person dependency risk across both Council's. However creating a greater pool of staff with some knowledge of both Councils being developed provides a mitigation to that risk.

5.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS. This is of particular importance and relevance for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties. Providing a pathway to greater resilience in the Internal Audit and Counter Fraud service will assist in delivering best value.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

A.6 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

A.7 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.

Risk Management Update – Strategic Risk Profile Quarter 4 2023/24

Report by Derek Oliver, Chief Officer Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Note the current risk landscape and organisational response to the most significant risks in Quarter 4 (Q4) 2023/24 (1st January to 31st March 2024).

2 Purpose of Report/Executive Summary

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

- An update on the risk responses Midlothian Council has implemented during Q4 2023/24 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current strategic risks and opportunities for the Council

30 May 2024

Report Contact:

Derek Oliver, Chief Officer Place

Derek.Oliver@midlothian.gov.uk

3 Q4 Risk Management Overview

3.1 Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 4 2023/24.

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




3.3 Audit Committee should note that there were no new risks added from the previous Quarter. Updates on actions taken are included in the full strategic risk profile (Appendix B).

3.4 Strategic Risk Profile (SRP)

The SRP is split into three sections:

- Strategic issues
- Strategic risks
- Opportunities

3.5 STRATEGIC ISSUES - SUMMARY

Strategic issues	Likelihood	Impact	Score	Evaluation Q4	Q3 23/24
The Change Programme	5	5	25	Critical 	Critical
Financial Sustainability	5	5	25	Critical 	Critical
National Care Service	3	5	15	Medium 	Medium

3.6 The Change Programme

The Change Programme remained evaluated at Critical throughout 2023/24. The financial challenges of the forecasted budget gap pose a significant challenge for benefits realisation. Council agreed to a Transformation Blueprint in June 2023 which is a 5-year transformation plan.

3.7 Financial Sustainability

The scale of the financial challenge continues to be reported to the Business Transformation Steering Group and Council.



















3.8 National Care Service

The first stage of the Bill has been delayed and it had been anticipated that an update would be available around December 2023. This has since been moved to March 2024.

3.9 COVID-19

The risk evaluation has remained low for the last 12 months and, consequently, this strategic issue has now been removed from the profile. The Council continues to monitor and risk assess as appropriate, with its wider impacts assessed and controlled through relevant strategic risks. The risk of pandemic is captured within the Emergency Planning and Business Continuity Management Strategic Risk.

3.10 STRATEGIC RISKS – SUMMARY

Strategic Risks	Likelihood	Impact	Score	Evaluation Q4	Q3 23/24
Climate Change	5	5	25	Critical 	Critical
Financial Sustainability in future years	5	5	25	Critical 	Critical
The Long-Term Change Programme	5	5	25	Critical 	Critical
Legal and Regulatory compliance	5	5	25	Critical 	Medium
Early Years Expansion (1140 Hours)	4	5	20	High 	High
UK decision to leave the EU	4	5	20	High 	High
Scottish Child Abuse Inquiry	4	4	16	High 	High
Growing Council	4	4	16	High 	High
Cost of Living Crisis	3	5	15	Medium 	Medium
Asset Management	3	5	15	Medium 	Medium
Cyber Security	3	5	15	Medium 	Medium
Health and Safety	3	5	15	Medium 	Medium
Care at Home	3	4	12	Medium 	Medium
Employee performance	3	4	12	Medium 	Medium
Emergency planning and business continuity	3	4	12	Medium 	Medium
Governance and standards	2	4	8	Low 	Low
Internal control environment	2	3	6	Low 	Low
Corporate policies and strategies	2	3	6	Low 	Low

3.11 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.12 Climate Change

The Council has developed a final draft of a Climate Change Action Plan in Q4. This is the next stage of progressing with the Climate Change Strategy, approved by Council in August 2020. Councillors will

be presented with a briefing on the Climate Action Plan in Q2 24/25 as committed to through the Transformation Blueprint.

3.13 Financial Sustainability in future years

The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council.

3.14 The Long-Term Change Programme

The Change Programme remained at Critical throughout 22/23 and 23/24. The financial challenges of the underlying budget gap pose a significant challenge. Council agreed to a Transformation Blueprint in June 2023 which is a 5-year transformation plan.

3.15 Legal and Regulatory compliance

Significant resourcing pressures have impacted on risk evaluation. Work is ongoing with the Scottish Information Commissioner and National Records of Scotland to develop and deliver improvement plans.

3.16 Early Years Expansion (1140 hours)

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

3.17 UK decision to leave the EU

The rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams. This was reported to the Business Transformation Steering Group (BTSG) and also through progress reports on programmes to Council. A new Economic Strategy will be presented to Council. This risk evaluation remains High.

3.18 Scottish Child Abuse Inquiry (SCAI)

The SCAI risk evaluation remains High as the Inquiry continues.

3.19 Growing Council

In Q2 22/23 the risk evaluation increased from Medium to High and remains High in Q4 2023/24. This is in response to the current financial

challenge as described above and the increased pressure the Council faces with growth. Some current examples of this include:

- Inflationary impact on the delivery of the capital programme
- Cost of living crisis
- Pressure on the care sector as people are living longer and require more care provision
- General population growth places additional demand on infrastructure such as GPs, schools, waste services etc.

3.20 Work is ongoing to review the Learning Estate Strategy and a reprioritisation of the Capital Programme.

3.21 STRATEGIC OPPORTUNITIES

3.22 Shawfair

The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste. The Energy Services Agreement with Shawfair LLP has now been signed and work progresses to deliver the Energy Centre.

3.23 Easter Bush

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

3.24 City Deal

Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity.

3.25 Creating a world class education system

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian.

3.26 The Strategic Opportunities section of the SRP will be revised for 2024/25 to include specific project risk profiles.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

None

4.3 Risk

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

The report provides an overview of the significant risks faced by the Council during Quarter 4 2023/24 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

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

There are no direct equalities issues arising from this report.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Strategic Risk Profile (Quarter 4 2023/24)

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

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

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

STRATEGIC RISK PROFILE, Q4 January – March 2024





SRP STRATEGIC RISK PROFILE

SRP	This risk register captures the main strategic issues, risks and opportunities that are corporate in nature. It identifies the nature of the risks, measures required to control the risks and their evaluation. It also details what further actions are required to reduce the likelihood and impacts of those risks to more acceptable and manageable levels with timescales.
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Strategic Issues

SRP.IR.02 The Change Programme




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p>Risk event Delayed progress or non-achievement of outcomes and benefits.</p> <p>Risk effect Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	<p>Head of *Adult and Social Care; Chief Operating Officer</p> <p>*Education; Chief Director *Health and Social Care; Chief Officer</p> <p>*Place; Executive Director *Place; Chief Officer</p> <p>Corporate Solutions; Chief Finance Officer; Chief Officer</p> <p>Young People and Partnerships</p>	<p>1. Transformation Blueprint agreed at Council June 2023 which is a 5-year transformation plan. Revised governance for transformation agreed and revised Terms of Reference in place for the Business Transformation Board to oversee progress on change programme.</p> <p>2. Regular reporting to Council setting out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income.</p> <p>3. Cross Party Business Transformation Steering Group are given updates on the progress of the Transformation programme. 4. Financial monitoring reports and work of the Financial Management Corporate Management Team evidence continued financial sustainability, in so far as services are delivered within the overall budget in year.</p>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SPR.RA-02.08	Transformation Blueprint 2023-28 delivery	<p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p>	Chief *Executive; Chief Officer *Place; Chief Officer Corporate Solutions; Chief Finance Officer;	30-Jun-2028		20%
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p>	Chief *Executive; Chief Finance Officer;	30-June-2024		100%


SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's.</p> <p>Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Risk event Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps.</p> <p>Risk effect Inadequate government funding makes securing balanced budgets challenging. This in turn erodes the Council's ability to deliver services to the</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> 1. There is an approved Capital Strategy and Reserves Strategy in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures. 2. There is an approved budget for 2023/24. Services were delivered within the totality of that budget and the 2024/25 budget has been approved. 3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus. 4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services. 5. Strategic Boards in place and BTB focus and attention on driving transformation to support future year's financial sustainability. 6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 8. Chief Executive continues to emphasise the need for effective financial 	5	5	

	community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.		control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place across the Council. 9. Scottish Governments May 2022 Resource Spending Review provided planning parameters for term of parliament, albeit these are challenging and present a real terms reduction in grant funding of circa 7% over the period. 10. Report to Council February 2024 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income. 11. "Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic. 12. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a Strategic Plan to support decisions about what services, beyond those which are statutory can be provided.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA-02.09	Transformation Blueprint 2023 to 2028	Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item. Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.	Chief *Executive; Chief Finance Officer;	30-Jun-2024		20%
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024. Q3 23/24: As Q1. Preparations for MTFS at February Council.	Chief *Executive; Chief Finance Officer;	30-June-2024		100%
SRP.RA-02.10	Capital Plan Prioritisation	Q4 23/24: Work continues on Capital Plan prioritisation Q3 23/24: Work continues on Capital Plan prioritisation	Chief Finance Officer; Executive Director – Place; Executive Director - Education	31-Oct-2024		0%


SRP.IR.11 National Care Service

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.11	<p>Risk cause In August 2022 the Scottish Government launched a 12-week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS.</p> <p>Risk event A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.</p> <p>Risk effect The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be.</p> <p>At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care.</p> <p>It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill.</p>	Head of *Adult and Social Care; Chief *Executive; Director *Health and Social Care; Executive Director *Place; Chief Officer Young People and Partnerships	<p>1. The Bill is at stage 2 with no clear decisions as to whether or not children and justice are to be included within the NCS. The ongoing discussions are around allowing local areas to determine how they structure their services continues.</p> <p>2. Ongoing briefings with elected members</p> <p>3. Continued dialogue and engagement with Scottish Government and IJB/H&SCP/Children's Services</p>	3	5	




Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.11.1	Officer Working Group	Q4 23/24: The Bill is at Stage 2. Q3 23/24: Further information now expected late March 2024.	Chief *Executive; Laura Gunning; Gail McElroy; David Robertson	31-Dec-2024		100%

Strategic Risks


SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's. Increasing population of 0-15 age group and at a time when there are rising customer expectations. Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements.</p> <p>Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements. Securing the extent of change required in order to deliver financial sustainability and</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships	1. Development of Strategic Plan, Transformation Blueprint and MTFS projections which come together to provide a framework to effect change and to move the Council to a position of financial sustainability. 2. Maintaining a level of reserves to deal with unforeseen or one-off cost pressures. 3. Capital and Reserves Strategies in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Transformation Blueprint. 8. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to specific risk on NCS for further detail)	5	5	



	a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024. Q3 23/24: As Q1. Preparations for MTFS at February Council.	Chief *Executive; Chief Finance Officer;	30-June-2024		100%
SRP.RA.02.04	Transformation Blueprint 2023 to 2028	Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item. Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.	Chief *Executive; Chief Finance Officer;	30-Jun-2028		20%
SRP.RA.02.06	Capital Plan prioritisation	Q4 23/24: Work continues on Capital Plan prioritisation. Q3 23/24: Work continues on Capital Plan prioritisation.	Head of *Development; Executive Director *Place; Chief Finance Officer;	31-Oct-2024		0%


SRP.RR.02 The Long-Term Change Programme




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	Risk cause: A MTFS that does not address the projected budget shortfall or contextual factors relating to the Midlothian area. Reduced resources	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief	1. Development of Strategic Plan, Transformation Blueprint and MTFS projections which come together to provide a framework to effect change and to move the Council to a position of financial sustainability. 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group.	5	5	



	<p>Leadership fit for the future. Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>Risk event: Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation</p> <p>Risk effect: Objectives of change not actually met. Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in short term savings instead of transformation</p>	<p>*Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p>	<p>3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change. 6. Dedicated capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to new risk on NCS for further detail)</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q4 23/24: An update on the MTFS with refreshed projections and a clear plan to address financial sustainability will be presented to Council in June 2024.</p> <p>Q3 23/24: As Q1. Preparations for MTFS at February Council.</p>	Chief *Executive; Chief Finance Officer;	30-June-2024		100%
SRP.RA.02.04	Transformation Blueprint 2023 to 2028	<p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p>	Chief *Executive; Chief Finance Officer;	30-Jun-2028		20%


SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council.</p> <p>Lack of capacity to resource statutory obligations around GDPR, data protection, records management and information requests.</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Head of *Adult and Social Care; Legal *and Governance Manager; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> Executive Directors, Chief Officer(s) and Head(s) of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. Annual Assurance Statement. Internal Audit testing of internal controls as part of risk-based audit plan. External Audit. Range of external inspection. BTSG oversight of new legislation Central repository of applicable legislation. 	5	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.03.02	Rights of the Child Bill	<p>Q4 23/24: Q4 Council wide group established and developing a plan that ensures we are all aware and adhering to UNCRC.</p> <p>Q3 23/24: Bill now adopted. Policy to be presented to Council May/June 2024.</p>	Chief *Social Work Officer;	31-Dec-2024		0%
SRP.RA.03.03	National Care Service	<p>Q4 23/24: Q4 National Care Service is at stage 2 and we await decisions around what next.</p> <p>Q3 23/24: National Care Service Bill has been delayed for any further decision until the 1st March 2024.</p>	Chief *Executive;	31-Dec-2024		0%
SRP.RA.03.05	Review of Standing Orders, Scheme of Administration and Scheme of Delegation	Q4 23/24: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024 (this is technically Q1 2024/25 update).	Legal *and Governance Manager; Executive Director	31-Dec-2024		40%


		Q3 23/24: Workplan being developed by officer working group and will be presented to SOWG in March 2024 for approval.	*Place; Chief Officer Corporate Solutions;			
SRP.RA.03.07	Review of policy and creation of a policy register	Q4 23/24: work to develop policy register ongoing. Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed.	Chief Officer Corporate Solutions	31-Dec-2024		10%
NEW	Compliance with statutory duties	Q4 23/24: Work is ongoing with the Scottish Information Commissioner and National Records of Scotland to develop and deliver improvement plans. Ongoing recruitment for Records Manager. Rationale report for resourcing in development. Significant resourcing pressures contribute to the increase in scoring for Q4.	Chief Officer Corporate Solutions, Legal and Governance Manager	31-Dec-2024		10%

SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	Risk cause Employees not suitably trained/developed for the roles required of them. Limited availability of qualified practitioners in certain sectors. Change program not informed by all key stakeholders. Ageing work force. Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice. Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance. Salaries significantly lower in social work area in comparison to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff.	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; HR Strategic Lead; Chief Officer Young People and Partnerships	Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan. Attendance / Wellbeing 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers. Performance 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various	3	4	

	<p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation. Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce. Unacceptable behaviours demonstrated by employees. Stated organisational culture not consistently reinforced by managers. Poor employee performance will stifle transformational change.</p> <p>Risk effect Difficulties recruiting the right staff. Challenges retaining quality staff. Low skill levels. Low morale, especially during change. High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect, collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge.</p>		<p>communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g., turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>Conduct 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme.</p> <p>Communication 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.02.04	Revisions to Service Workforce Plans - including analysis of future workforce requirements, gap analysis and gap closing strategies, and performance measures and target setting.	<p>Q4 23/24: Ongoing work nationally to review workforce planning which Midlothian is contributing to. Best Value focus this year is on workforce planning – awaiting outcome of external audit to identify improvement plan for 24/25.</p> <p>Q3 23/24: Service plans were presented to June 2023 council. Supporting workforce plans are due to be fully in place for June 2024. The workforce planning process, guidance and documentation has been developed and approved for use by managers across the council. The HR team is available to support managers who wish help and guidance in the development of these workforce plans.</p>	HR Strategic Lead	30-Sep-2024		0%


SRP.RA.02.06	Workforce wellbeing	<p>Q4 23/24: Wellbeing strategy approved by CMT in quarter 4. Progress reported to Cabinet and Performance, Review and Scrutiny Committee through quarterly reporting.</p> <p>Q3 23/24: Health and Wellbeing is part of the work ongoing under Theme 2 of the Blueprint. This will be delivered in Spring 2024.</p>	Chief Officer Corporate Solutions, HR Strategic Lead	30-Sep-2024		100%
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SRP.RR.07 Care at Home



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Risk event Capacity of Community Support outstripped by demand.</p> <p>Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	Head of *Adult and Social Care; Director *Health and Social Care	<ol style="list-style-type: none"> Care at Home winter assurance plan and business continuity plan complete Development of Care at Home Service Improvement action plan near completion External commissioning complete and ongoing contract monitoring in place External provider audits complete Re-established Multi-Agency Quality in Care at Home quarterly review meetings jointly with East Lothian Weekly provider meetings in place Additional locum team members and contracts with agency staff in place Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place 	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	Q1 23/24: Pause remains in place.	Head of *Adult and Social Care; Chief *Executive;	31-Jan-2024	 100%


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p>Risk cause Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g., roads - normal wear and tear, streetlights and vehicles & buildings used to deliver services.</p> <p>Risk event Many assets will deteriorate under normal conditions although buildings, roads and streetlights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	<p>Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p>	<p>1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Condition Survey 4. Understanding of future asset needs 5. Asset Strategy: . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital programme - investment in estate. 7. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Established Capital Plan and Asset Management Board and dedicated Asset Management Board 9. Establishment of 7 thematic Estate Safety and Management Groups chaired by Chief Officer Place 10. Building Accessibility Strategy</p>	3	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	Q4 23/24: Backlog maintenance repairs being undertaken across the estate on a prioritised basis.	Chief Officer *Place;	30-Apr-2025		33%

		Q3 23/24: Surveyors have now completed the first phase of surveys that were due to have been completed by March 2024. A further phase will begin in April and run though until April 2025.				
SRP.RA.08.05	Learning Estate Strategy	<p>Q4 23/24: All Priority 1 and 2 projects are progressing. In terms of all of the capacity breaches that were detailed in Priority 2 of the LES, investment was made to provide a solution.</p> <p>Q3 23/24: All Priority 1 projects as detailed in the Learning Estate Strategy have been approved by Council in June 2023, this includes Beeslack HS replacement and Penicuik HS refurbishment & extension. A number of Projects in the priority 2 tranche have been progressed to ensure schools do not experience capacity breaches.</p>	Head of *Development;	30-Apr-2025		50%
SRP.RA.08.06	Asset Management systems	<p>Q4 23/24: As Q3.</p> <p>Q3 23/24: Identified for implementation through Transformation Blueprint and The Change Programme.</p>	Chief Officer *Place;	31-Mar-2025		0%


SRP.RR.09 Emergency Planning and Business Continuity Management




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p>Risk cause The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g., Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g., secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Laura Gunning; Gail McElroy; Senior Manager Protective	<p>1. Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Risk and Resilience Group support development, peer review and roll out of plans.</p> <p>2. Establishment based incident response plans in place and maintained locally.</p> <p>3. Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>4. As part of the Council's Emergency response the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p> <p>5. Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis. 06 – Care for People Group: Afghan, Ukrainian and UASC support programmes</p>	3	4	

		Services; David Robertson; Chief Officer Young People and Partnerships				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.09.02	Development of Emergency Plans	<p>Q4 23/24: Work on flooding across the county and its risks has commenced, with a report to Council scheduled for post-recess. CMT desktop exercise undertaken.</p> <p>Q3 23/24: A service review of the Health, Safety & Resilience team has commenced.</p>	Chief Officer *Place; Senior Manager Protective Services; David Robertson	31-Dec-2024		75%
SRP.RA.09.03	Business Continuity Software System	<p>Q4 23/24: Report in early draft, to be completed once Health, Safety & Resilience service review completed (SRPO.RA.09.02). BCPs in the event of power outage to be incorporated.</p> <p>Q3 23/24: System review/upgrade has been considered and it is planned to present a report to CMT in Q4.</p>	Chief Officer *Place; Senior Manager Protective Services; David Robertson	31-Dec-2024		25%

SRP.RR.10 Governance and Standards in Public Life




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<p>Risk cause Code of conduct for Members and employees' actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p> <p>Risk effect Service, partnerships and project outcomes not achieved. Non-compliance with conduct standards and reduction in standards in public life.</p>	Legal *and Governance Manager; Chief *Executive; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions	<p>01 Annual Assurance Statement.</p> <p>02 Standing Orders</p> <p>03 Scheme of Administration</p> <p>04 Scheme of Delegation</p> <p>05 Elected Member Code of Conduct</p> <p>06 Induction programme for new members and ongoing learning and development programme</p> <p>07 Employee Code of Conduct</p>	2	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.03.05	Review of Standing Orders, Scheme of Administration and Scheme of Delegation	<p>Q4 23/24: Workplan presented and agreed by SOWG in April 2024. Some changes to SOs and Scheme of Administration presented and approved by Council in May 2024 (this is technically Q1 2024/25 update)</p> <p>Q3 23/24: Workplan being developed by officer working group and will be presented to SOWG in March 2024 for approval.</p>	Legal *and Governance Manager; Chief Officer Corporate Solutions;	31-Dec-2024		20%
SRP.RA.10.03	Review of the employee onboarding and induction programme	Q3 2023/24: CMT agreed to a refresh of the staff induction programme which include a compliance section. It is anticipated that the new programme will be fully completed by end Dec 2024, with a phasing of improvement actions being delivered throughout 2024.	HR Strategic Lead	31-Dec-2024		5%
SRP.R.10.01	Corporate Governance	<p>Q4 23/24: Annual Assurance process for 23/24 ongoing. Final Assurance Statement to be presented to Audit Committee in June 2024 for approval.</p> <p>Q3 23/24: Annual Assurance Statement presented to Audit Committee in June 2023 and agreed.</p>	Legal *and Governance Manager; Executive Director *Place; Chief Officer Corporate Solutions;	31-Mar-2024		100%


SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R.11	<p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date. Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect Policies not monitored could result in non-compliance with legislation Policies not aligned to strategic priorities will inhibit rather than support</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer;	<p>1. Single Midlothian Plan providing overarching direction</p> <p>2. Service plans aligned to Single Midlothian Plan.</p> <p>3. Leadership team to ensure correct approaches are adopted to get the right results.</p> <p>4. Strategic housing investment plan, submitted to Scottish Government.</p> <p>5. Capital Strategy</p> <p>6. Integrated Joint Board (IJB) Plan</p> <p>7. IJB Strategic needs assessment 8. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy.</p>	2	3	


	implementation of strategic priorities.	Chief Officer Young People and Partnerships				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.02.04	Transformation Blueprint 2023 to 2028	<p>Q4 23/24: Work on sprints continues with some reporting to BTSG in the run up to June Council with the majority of others scheduled for August. BTB is now meeting fortnightly to encourage and closely monitor progress. To support monitoring of progress a dashboard has been developed and this is shared with CMT and BTSG as a standing item.</p> <p>Q3 23/24: Regular review and updates to the Business Transformation Board which meets monthly. Transformation Manager in post and sprints initiated.</p>	Chief *Executive; Chief Finance Officer;	30-Jun-2028		20%
SRP.RA.03.07	Review of policy and creation of a policy register	<p>Q4 23/24: work to develop policy register ongoing.</p> <p>Q3 23/24: Corporate Solutions has initiated a review of policies in the Council, aligned to legislation changes and statutory requirements for the Local Authority. Work is ongoing to gather information across the Council to inform an action plan and a refreshed policy register. It is estimated that this work will take until end 2024 to be completed.</p>	Chief Officer Corporate Solutions	31-Dec-2024		10%
SRP.RA.11.05	Antisocial Behaviour Policy	<p>Q4 23/24: Midlothian Community Action Team SLA 2024-25 contains tackling ASB as a strategic objective.</p>	Chief Officer *Place;	31-Dec-2024		0%

SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p>Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Managers failing to follow procedures and keep systems updated with accurate information.</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer	<p>1. Services have been prompted to consider fraud and waste within Service Risk Registers.</p> <p>2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls.</p> <p>3. Internal Audit examine internal control arrangements based largely on the risk registers.</p> <p>4. Corporate Fraud team in place who assist managers to undertake fraud risk assessments in their areas (focused on priority areas) and provide advice and guidance on fraud related matters. Active participation</p>	2	3	




	Risk event Persons exploiting opportunities to commit fraud. Waste and errors Changing risk landscape associated with remote working solutions. Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance.	*Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships	in the National Fraud Initiative to investigate matches. 5. Whistleblowing Policy and Counter Fraud Policy in place (subject to review) with whistleblowing channels available to report concerns (anonymously if required). 6. Internal and external assurance. Annual Governance Statement which involves obtaining assurance from Management over controls in their Service. 7. E-learning for staff to complete mandatory training for fraud awareness. 8. Regular updates to Audit committee on progress with recommendations made by Internal Audit. 9. Remind staff to declare secondary employment/outside interests and gifts & hospitality 10. Induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation. 11. The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.12.04	Review of Serious Organised Crime (SOC) group	Q4 23/24: Chief Officer Place on national SOC working groups and utilising forums to inform strategy. Q3 23/24: Work underway to refresh SOC Strategy, working with Police Scotland and neighbouring authorities. Draft report expected Q4.	Chief Officer *Place; Health, Safety & Resilience Manager	31-Mar-2025		50%


SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act.	Head of *Adult and Social Care; Chief Operating Officer	1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan	5	5	


	<p>Risk event Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	<p>*Education; Chief *Executive; Director *Health and Social Care; Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p>	<p>4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Resilience Seminars</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.13.03	Recruitment of Climate Change Officer	<p>Q4 23/24: Recruitment concluded.</p> <p>Q3 23/24: Recruitment process commenced. Climate Action Plan work to be presented to Council in Q1 24/25.</p>	Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place;	30-Sep-2024		100%
SRP.RA.13.04	Delivery of the BTB Board Carbon Neutral by 2030	<p>Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25.</p> <p>Q4 22/23: This action will be progressed when the Council's adopted Climate Change Strategy is reviewed in 2023/24.</p>	Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place;	31-Mar-2030		0%
SRP.RA.13.05	Development of the Strategic Plan 2023-27	<p>Q4 23/24: Climate Action Plan finalised and will be presented to Council in 2024/25.</p> <p>Q4 22/23: Carbon Neutral by 2030 is a strategic priority.</p>	Planning, Sustainable Growth and Investment *Manager; Chief Officer *Place;	31-Mar-2025		50%


SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R R.14.1	<p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential that some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported.</p> <p>The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.</p> <p>We have requested an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted. To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care</p>	Chief *Executive; Chief *Social Work Officer	<p>The Council initially set up an Inquiry Project Team, however this is no longer required as we have an experienced worker overseeing all requests for the Scottish Child Abuse Inquiry Team.</p> <p>Work is ongoing and we have the additional tasks of supporting and responding to enquiries from the redress team.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SARs in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings from the file read. 	4	4	



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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.14.03	Foster Care and Residential Care File Review	Q4 23/24: Foster care enquiry completed. Q3 23/24: Inquiry has heard all the evidence for the Sect 21.	Childrens Services Management Team; Chief *Social Work Officer; Chief Officer Young People and Partnerships	31-Mar-2024		100%


SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 to 15 years will see Midlothian become the fastest growing Council in Scotland. Between 2014 and 2039, ages 0-15yrs, population is projected to increase by 20% and for ages 75+ population projected to increase by 100%.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on</p>	Head of *Adult and Social Care; Chief *Executive; Executive Director *Place; Fiona *Robertson; Chief Officer Young People and Partnerships	1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Plan Prioritisation 6. Strategic Housing Investment Strategy 7. Rent Review Strategy 8. Joint needs assessment used to develop - IJB Strategic Plan 9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 10. City Deal provides the opportunity to support inclusive growth.	4	4	


	infrastructure including GP services. Increased pressure on infrastructure, services e.g., waste collection and growth of road network as new development roads are adopted.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.02.06	Capital Plan prioritisation	Q4 23/24: Work continues on Capital Plan prioritisation. Q3 23/24: Work continues on Capital Plan prioritisation.	Head of *Development; Executive Director *Place; Chief Finance Officer;	31-Oct-2024		0%
SRP.RA.16.01	Capital Programme	Q3 23/24: The Capital Plan in its current format is unaffordable due to rising costs of construction, inflation and EU-Exit/post pandemic and other economic pressures. A review of the Capital Plan is underway to determine affordability, prioritisation and options presented to members.	Executive Director *Place; Fiona *Robertson;	31-Dec-2024		75%


SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> 1. Risk and Resilience Group 2. Taking a risk management approach to identifying and assessing anticipated impacts 3. Working with a range of national and local bodies to inform preparatory arrangements. 4. EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme. 	4	5	




	regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.17.01	Refresh of Economic Strategy	Q3 23/24: Draft Economic Strategy prepared; to be presented to Council in Q1 24/25.	Chief Officer *Place;	30-Jun-2024		60%

SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R.19	<p>Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect Serious injury of ill health impact on employees and or service users.</p>	Head of *Adult and Social Care; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Laura Gunning; Gail McElroy; Senior Manager Protective	<ol style="list-style-type: none"> 1. Health Safety and Wellbeing Strategy & Service Plan 2. Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 3. Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4. Use of Health & Safety Management Information System (SPHERA) to enhance information transfer and organisational efficiency 5. Comprehensive training programme in place to support those with responsibility for managing health and safety. 7. Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 	3	5	


	Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.	Services; David Robertson; Chief Officer Young People and Partnerships				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
NEW	Health, Safety & Resilience Service Review	Q4 23/24: Service review in progress.	Chief Officer *Place; Senior Manager Protective Services; David Robertson	31/07/2024		50%
SRP.RA.19.01	Delivery of Health, Safety and Wellbeing Service Plan	Q3 23/23: Implementation of the Protective Services Health, Safety & Resilience Service Plan continues.	Chief Officer *Place; Senior Manager Protective Services; David Robertson	31-Mar-2025		50%
SRP.RA.19.07	H&S audit across all Council estate	Q4 23/24: Fire Risk Assessments/Audits are currently priority. Q3 23/24: Work on audit report continues. Change to SFRS response incorporated into Fire Action Plans and Management Arrangements.	Chief Officer *Place; Senior Manager Protective Services; David Robertson	31-Mar-2025		33%


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


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R	Risk cause	Chief *Executive;	1. Learning Estate Strategy	4	5	

R.20	<p>Population growth in Midlothian over the next 10 to 15 years will see Midlothian become the fastest growing Council in Scotland. Between 2014 and 2039, ages 0-15yrs, population is projected to increase by 20%</p> <p>In addition, the Scottish Government has made a commitment to increase the current provision of free early years care from 0600 to 1140 hours.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>The sustainable rate review may lead to significant increase in funding to providers; maintaining current rate is not an option if not deemed sustainable. The result could lead to a funding gap in future years.</p> <p>Risk effect Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools. Potential for additional unfunded request to place 4-year-olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>	Executive Director *Place; Chief Finance Officer	<p>2. Early Years Expansion to 1140 hours updates. There are some risks in terms of capacity and this needs to be reflected in our wider learning estate risks. The lack of capacity is compounded by an increase in deferrals.</p> <p>3. Capital Strategy</p> <p>4. School Roll Projections will be reviewed and updated</p> <p>5. Business Support and Finance Business Partners reviewing external funding landscape closely for future funding options</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.R R.20.01	1140 future years funding	<p>Q4 23/24: Sustainable rate is within the MTFS.</p> <p>Q1 23/24: Draft guidance from SG. Enhanced guidance due re sustainable rate but no additional funding for LAs.</p>	Young People and Partnerships, Executive Director *Children; Chief Finance Officer;	31-Aug-2024		100%


SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R R.21	<p>Risk Cause Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices.</p> <p>Risk Event The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering.</p> <p>Risk Effect Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	Head of *Adult and Social Care; Cyber Security Information Governance and *Compliance Manager; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Laura Gunning; Gail McElroy; Senior Manager Protective Services; David Robertson; Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> 1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Having adequate skills and knowledge in the organisation 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme 	3	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA .21.1	Appropriate Technical and Organisational Measures	Q4 23/24: Ongoing review of cyber incident response plans. Information Governance and Security processes for M365 deployment ongoing and a number of milestones achieved to progress further rollout of applications within M365 environment. Leadership Forum tabletop session scheduled June 2024.	Cyber Security Information Governance and *Compliance Manager; Chief *Digital Officer;	31-Mar-2025	 75%

		<p>Q3 23/24: Action/mitigation includes: -</p> <ol style="list-style-type: none"> 1. Updated cyber incident response plans. 2. Cyber security presentations to Elected Members and Place directorate. 3. Conducted phishing exercises. 4. Successfully responded to 13 cyber security events. <p>Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace</p> <p>Q1 23/24: Action/mitigation includes:-</p> <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Preparations completed for Q2 2023/2024 PSN Certification, including submission to Cabinet Office. 3. Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace 4. Responded to numerous threat alerts to ensure the security of the Council's network 5. Engaged with Cyber Incident Response company to review the Council's Cyber Incident response capability in Q2 				
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SRP.RR.22 Cost of Living Crisis


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.R R.22	<p>Risk cause The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40-year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.</p> <p>Risk event Rapid ongoing rise of energy prices as well as food and drink prices.</p> <p>Risk effect The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics; Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger</p>	Chief *Executive; Director *Health and Social Care; Executive Director *Place	<ol style="list-style-type: none"> 1. Council Cost of Living Task Force to oversee the Council's response to the crisis 2. Allocation of LACER funding to support those most affected 3. Strategic Evaluation Partner appointed to create poverty profile 4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health 5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships) 6. Child Poverty self-evaluation underway with Improvement Service 	3	5	

	proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.RA.22.1	Cost of Living Task Force	Q1 23/24: Meetings continuing.	Chief *Executive;	31-Mar-2024		100%
SRP.RA.22.2	LACER funding	Q2 22/23: Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish reheatable food initiatives.	Lifelong Learning and Employability;	31-Mar-2023		100%

Strategic Opportunities

SRP.OP.01 Shawfair

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


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


SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status


SRP.OP.03 Easter Bush - Penicuik


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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.O P.03.A2	A701/A702 Trunk Road Improvements	Q3 23/24: The funding gap associated with this project is estimated to be £33.2m. Midlothian Council submitted an application to the UKG Levelling Up Fund (LUF) to attract alternative funding into the project to close this gap. The	Executive Director *Place	31-Mar-2025	 0%


		application was unsuccessful. Alternative funding opportunities and means to phase and prioritise the programme are currently under consideration. A revision to alignments due to landfill avoidance and required increase in roundabout sizes at Bush Loan and the A702 Spur Road junctions was made to the specimen design. This is progressing with the target of submitting a planning application Q1 2024.				
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SRP.OP.04 City Deal

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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.O P.04.02	Realisation of outcomes of respective workstreams	Q3 23/24: Work continues on the relevant programmes.	Executive Director *Place	31-Mar-2025	 10%

SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.O P.07	<p>The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.</p> <p>Risk event The Phase 2 <i>Equipped for Learning</i> plan has a strong focus on transforming classroom practice and learner outcomes. This can only be achieved if effective technical support for EFL is in place to support this change.</p> <p>Risk Effect Without the technical support and appropriate infrastructure we will not achieve the change resulting in a negative impact on learners experiences and outcomes.</p>	<p>Head of *Adult and Social Care; Head of *Development; Chief Operating Officer *Education; Chief *Executive; Director *Health and Social Care; Chief Officer *Place; Executive Director *Place; Chief Officer Corporate Solutions; Chief Finance Officer; Chief Officer Young People and Partnerships</p>	<ol style="list-style-type: none"> Digital Centre of Excellence at Newbattle Community High School Partnership agreement with the University of Edinburgh Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets Accelerating our ambition – Digital Strategy Review of Digital team to support Digital Centre for Excellence 	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status	
SRP.O P.A.07.01	Research and development	Q1 23/24: CivTech project successfully completed the pre-contractual agreement stage. Further grant funding from SFT has enabled continuation of development of the platform and insights in Midlothian schools and expansion to incorporate monitoring and insights into Dalkeith office buildings. The project has been selected to present again at the Learning Places Scotland conference and is engaging with the Scottish AI Alliance.	Executive Director Children, Young People & Partnerships;	31-Aug-2024		0%
SRP.O P.A.07.03	Equipped for Learning	Q4 23/24; Digital strategy is complete. Next stage is the development of the digital curriculum. MACO launches on 3 June 2024. Q3 23/24: Refresh digital strategy, development of digital curriculum, development and implementation of MACO.	Executive Director Children, Young People & Partnerships;	01-Mar-2025		0%

Annual Treasury Management Report 2023/24

Report by David Gladwin, Chief Financial Officer & Section 95 Officer

Report for Decision

1 Recommendations

The Audit Committee is invited to consider this report before the final report is presented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2023/24.

2 Purpose of Report/Executive Summary

The purpose of the report is to inform members of the Audit Committee of the Treasury Management activity undertaken in 2023/24 and the year-end position.

Date: 10/06/2024

Report Contact:

Gary Thomson, Senior Finance Business Partner

gary.thomson@midlothian.gov.uk

3 Background

The main points arising from treasury activity in 2023/24 were:

- The pooled internal loans fund rate for General Fund and HRA was 2.08% in 2023/24, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
- Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.41%, this would have generated loan charges in 2023/24 of £22.3 million. The Council's actual 2023/24 loan charges for General Services and HRA were £17.3 million, representing a cash saving (compared to the Scotland weighted average) of £5.0 million in 2023/24;
- Total long term borrowing maturing in the year amounted to £0.882 million, comprising the following:-
 - £0.053 million of PWLB Annuities of various tenors and interest rates;
 - £0.664 million of Annuity and EIP, and £0.165 million of interest free loans.
- Total new long term borrowing taken in the year amounted to £20.000m, this being two £10.000 million maturity loans from PWLB drawn on 28 March 2024 with loan tenors of 3 and 4 years and at interest rates of 4.54% and 4.37% respectively, drawing down long term loan funding to de-risk the funding of the Council's 2023/24 capital plans in line with the Treasury Management and Investment Strategy approved by Council on 27 February 2024;
- The remainder of the 2023/24 borrowing requirement was funded through the utilisation of the Council's working capital balances;
- The Council were under-borrowed by £60.974 million (15% of the borrowing Capital Financing Requirement) at 31 March 2024. This means that the Council has funded the majority (85%) of its underlying borrowing requirement as at 31 March 2024. This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications;
- The average rate of interest paid on external debt was 3.00% in 2023/24, down marginally from 3.01% in 2022/23;

- Fixed Term Deposits were placed during the year in line with the Council's approved creditworthiness process as outlined in the "*Treasury Management and Investment Strategy 2023/24 & Prudential indicators*" (TMSS 23/24) report approved by Council on 21 February 2023. These fixed term deposits were placed with high credit worthy banks. The Council's deposit portfolio at 31 March 2024 is outlined in Table 2 below and in detail in Table 11 in Appendix 1;
- The average rate of return on deposits was 4.86% in 2023/24 (exceeding the benchmark¹ of 4.42% for the twentieth year in succession) with total interest earned on deposits totalling £4.590 million and reflecting the approved strategy of cash backing the Council's useable reserves;
- The majority (£56.618m) of the Council's useable reserves of £84.532 million at 31 March 2024² are fully cash backed.
- No debt rescheduling was undertaken during 2023/24.

A detailed report "*Annual Treasury Management Review 2023/24*" on the activity during 2023/24 is attached as Appendix 1.

The Treasury Portfolio at the start and end of the financial year is shown in Tables 1 and 2 below.

¹ 4.5 month backward uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

² Excluding Service Concessions

Table 1: Loan Portfolio at 1 April 2023 and 31 March 2024

Loan Type	Principal Outstanding 1 Apr 2023 £000's	Principal Outstanding 31 Mar 2024 £000's	Movement £000's
PWLB Annuity	505	452	-53
PWLB Maturity	284,128	304,128	+20,000
LOBO	20,000	20,000	0
Other Market Loans	16,885	16,221	-664
Salix Loans	235	70	-165
Total Loans	321,753	340,871	+19,118
CFR	347,661	401,845	+54,184
Over/(Under) Borrowed	-25,908	-60,974	-35,066

Table 2: Deposits at 1 April 2023 and 31 March 2024

Deposit Type	Principal Outstanding 1 Apr 2023 £000's	Principal Outstanding 31 Mar 2024 £000's	Movement £000's
Bank Call Accounts	2	1,518	+1,516
Money Market Funds	15,980	25,100	+9,120
Bank Fixed Term Deposit Accounts	96,000	30,000	-66,000
Other Local Authorities	2,000	0	-2,000
Total Deposits	113,982	56,618	-57,364
Useable Reserves	90,582	84,532	-6,050

Throughout 2023/24, all counterparties that the Council placed deposits with met their obligations in respect of the return of the deposited funds and interest receivable in full and on the required dates.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

Treasury Management activity during the year, in accordance with the approved strategy, has once again been effective in minimising loan charges through minimising the cost of borrowing and maximising the return on deposits within the parameters set by the strategy for the year.

Although benefits from Treasury Management activity continue to accrue there are no direct financial implications or other resource issues arising from this report.

The loan charges associated with Capital Expenditure and Treasury Management activity during 2023/24 are reported in the Financial Monitoring 2023/24 – General Fund Revenue report and HRA 2023/24 Outturn report elsewhere on the Council agenda for 25 June 2024.

5.2 Digital

None.

5.3 Risk

As the Council follows the requirements of the new CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include full written Treasury Management Practices, which define the responsibilities of all staff involved, and which were updated during the 2023/24 financial year to reflect the provisions of the new Prudential and Treasury Management Codes and approved by Audit Committee.

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

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

5.5 Additional Report Implications

See Appendix A

Appendices:-

Appendix 1: Annual Treasury Management Review 2023/24

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

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

A.6 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 placement of deposits. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Appendix 1

Annual Treasury Management Review 2023/24

Midlothian Council
June 2024

Contents

- 1 The Council's Capital Expenditure and Financing 2023/24
- 2 The Council's overall borrowing need
- 3 Treasury Position as at 31 March 2023
- 4 The Strategy for 2023/24
- 5 The Economy and Interest Rates
- 6 Borrowing Rates in 2023/24
- 7 Borrowing Outturn for 2023/24
- 8 Deposit Rates in 2023/24
- 9 Deposit Outturn for 2023/24
- 10 Performance Measurement
- 11 Conclusion

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the updated CIPFA Code of Practice on Treasury Management, (the Code), and the updated CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 21 February 2023);
- a mid-year, (minimum), treasury update report (Council 19 December 2023);
- an annual review following the end of the year describing the activity compared to the strategy, (this report);

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they are reported to the full Council.

1. The Council's Capital Expenditure and Financing 2023/24

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 1: Capital Expenditure + Financing			
	2022/23	2023/24	2023/24
	Actual	Budget	Actual
	£000	£000	£000
General Fund			
Capital Expenditure	23,337	86,289	47,656
Available Funding	18,627	35,091	27,445
Borrowing Required	4,710	51,198	20,211
HRA			
Capital Expenditure	51,710	94,897	50,411
Available Funding	9,932	7,991	6,724
Borrowing Required	41,778	86,906	43,687
General Fund and HRA			
Capital Expenditure	75,047	181,186	98,067
Available Funding	28,559	43,082	34,169
Borrowing Required	46,488	138,104	63,898

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Scheduled Debt Amortisation (or loans repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the minimum loan repayment each year through an additional revenue charge.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

Table 2: Council's Underlying Borrowing Requirement			
	31-Mar-23	2023/24	31-Mar-24
CFR:	Actual	Budget	Actual
	£000	£000	£000
Opening balance	£ 307,247	£ 343,626	£ 347,661
Add Borrowing Required	£ 46,488	£ 138,104	£ 63,898
Less scheduled debt amortisation	£ (6,074)	£ (9,068)	£ (9,714)
Closing balance	£ 347,661	£ 472,662	£ 401,845

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next three financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR (excluding PFI schemes). The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-23	2023/24	31-Mar-24
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 321,753	£ 472,662	£ 340,871
CFR	£ 347,661	£ 472,662	£ 401,845

The authorised limit – this Council has kept within its authorised external borrowing limit as shown by the table below. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2023/24
Authorised limit - borrowing	£ 534,105
Operational boundary - borrowing	£ 534,105
Maximum gross borrowing position	£ 340,871
Average gross borrowing position	£ 321,962

3. Treasury Position as at 31 March 2024

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2023/24 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position						
	31 March 2023 Principal	Rate/ Return	Average Life (Yrs)	31 March 2024 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 284,633	2.92%	32.25	£ 304,580	3.02%	29.40
Market	£ 22,120	2.98%	28.89	£ 21,291	3.01%	28.34
Total Fixed Rate Debt	£ 306,753	2.92%	32.01	£ 325,871	3.02%	29.33
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	27.71	£ 15,000	4.63%	26.71
Total Variable Rate Debt	£ 15,000	4.63%	27.71	£ 15,000	4.63%	26.71
Total debt/gross borrowing	£ 321,753	3.00%	31.81	£ 340,871	3.09%	29.22
CFR	£ 347,661			£ 401,845		
Over/ (under) borrowing	£ (25,908)			£ (60,974)		
Deposits						
Fixed Rate Deposits						
In House	£ 98,000	3.77%	0.31	£ 30,000	5.12%	0.83
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Deposits	£ 98,000	3.77%	0.31	£ 30,000	5.12%	0.83
Variable Rate Deposits						
In House	£ 15,982	3.96%	0.01	£ 26,618	5.28%	0.01
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Deposits	£ 15,982	3.96%	0.01	£ 26,618	5.28%	0.01
Total Deposits	£ 113,982	3.80%	0.27	£ 56,618	5.20%	0.45

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio					
	31-Mar-23		2023/24	31-Mar-24	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Under 12 months	£ 812	0%	0% to 50%	£ 1,426	0%
12 months to 2 years	£ 1,496	0%	0% to 50%	£ 1,263	0%
2 years to 5 years	£ 2,795	1%	0% to 50%	£ 22,323	7%
5 years to 10 years	£ 45,136	14%	0% to 50%	£ 45,106	13%
10 years to 20 years	£ 32,239	10%	0% to 50%	£ 32,365	9%
20 years to 30 years	£ 39,691	12%	0% to 50%	£ 51,505	15%
30 years to 40 years	£ 84,584	26%	0% to 50%	£ 81,883	24%
40 years to 50 years	£ 110,000	34%	0% to 50%	£ 100,000	29%
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	1%
Total	£ 321,753	100%		£ 340,871	100%

The maturity structure of the Council's deposits was as follows:

Table 7: Maturity Structure of Deposit Portfolio		
	31-Mar-23	31-Mar-24
	£000	£000
Deposit		
Under 1 Year	£ 113,982	£ 56,618
Over 1 Year	£ -	£ -
Total	£ 113,982	£ 56,618

The exposure to fixed and variable interest rates on debt was as follows:-

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-23		2022/23	31-Mar-24	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Fixed Interest Rate Exposure	£ 306,753	95%	0% to 100%	£ 325,871	96%
Variable Interest Rate Exposure	£ 15,000	5%	0% to 30%	£ 15,000	4%
Total	£ 321,753	100%		£ 340,871	100%

4. The Strategy for 2023/24

At the outset of the financial year, the Council were under borrowed by £25.908 million and holding £156.367 million in instant access accounts and fixed term deposits.

Interest rate forecasts within the 2023/24 Treasury Management & Investment Strategy suggested that interest rates were expected to plateau before gradually falling in the 2nd half of the year and throughout the forthcoming 2 financial years.

Link Interest Rate forecasts at time of TMIS 2023/24 setting (February 2023)

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Link Interest Rate forecasts at end of 2023/24 Financial Year (March 2024)

Link Group Interest Rate View	25.03.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

With interest rates on new borrowing remaining elevated throughout much of 2023/24, borrowing was deferred until the final quarter of the year. Borrowing undertaken in March 2024 amounted to £20.000 million of PWLB maturities with short term tenors of 3 and 4 years to allow the Council to navigate past the expected hump in interest rates.

This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications.

At 31 March 2024, the Council was under-borrowed by £60.974 million. This means that the majority (85%) of the capital borrowing need, (the Capital Financing Requirement), is fully funded with loan debt.

The majority of useable reserves of £84.532 million at 31 March 2024 are fully cash backed.

5. The Economy and Interest Rates

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance.

The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target.

However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now expected to continue to fall and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics; albeit the Bank of England still needs some convincing on that score. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%; although it remains to be seen how the General Election will impact this.

After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA Economy

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen \$16 trillion balance sheet at some point. Just because the \$ is the world's foremost reserve currency (China owns over \$1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025...but how many and when?

EZ Economy

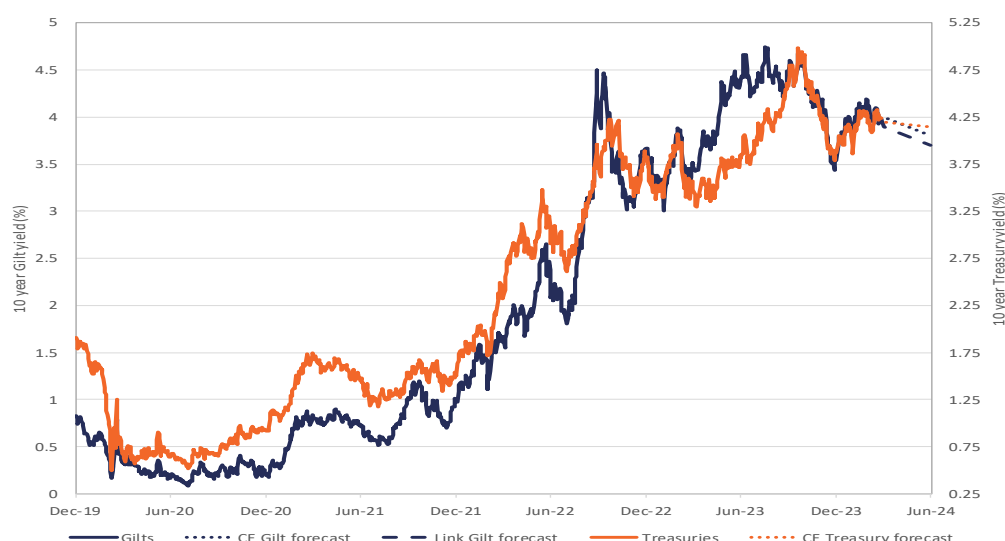
Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

6. Borrowing Rates in 2023/24

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of 10 year UK gilt yields v. US treasury yields



Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

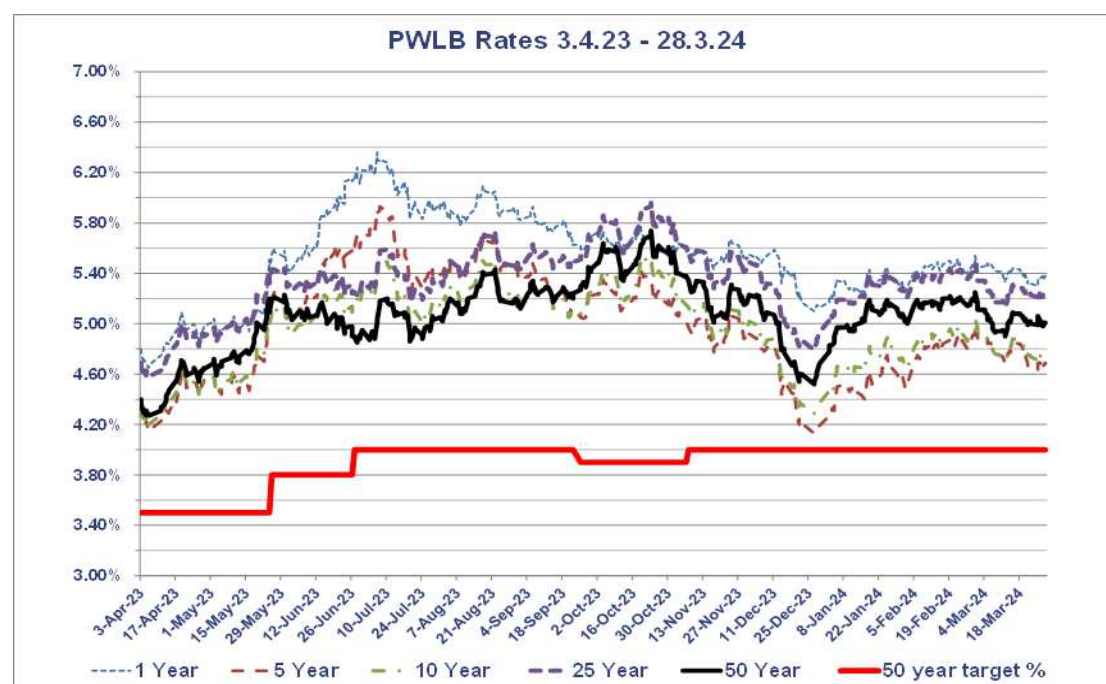
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing Rate** is gilt plus 40bps (G+40bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Low Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023

High	6.36%	5.93%	5.53%	5.96%	5.74%
High Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

7. Borrowing Outturn for 2023/24

New Treasury Borrowing:-

The following table gives details of new external treasury loans drawn during the year:-

Table 9: New Loans Taken in Financial Year 2023/24						
Lender	Date Taken	Principal £000's	Interest Rate	Fixed/ Variable	Maturity Date	Term (Yrs)
PWLB Maturity	28 Mar 2024	£ 10,000	4.54%	Fixed	28 Mar 2027	3.00
PWLB Maturity	28 Mar 2024	£ 10,000	4.37%	Fixed	28 Mar 2028	4.00
Total		£ 20,000				

Maturing Debt:-

The following table gives details of treasury debt maturing during the year:-

Table 10: Maturing Debt in Financial Year 2023/24						
Lender	Date Repaid	Principal £000's	Interest Rate	Fixed/ Variable	Date Originally Taken	Original Term (Yrs)
PWLB Annuities	Various	£ 53	7.75%-9.50%	Fixed	02 Aug 1968 to 15 May 1972	56-60 years
Salix	Various	£ 165	0.00%	Fixed	Various	7-8 years
Deutsche Pfandbriefbank	Various	£ 357	2.63%	Fixed	29 Jun 2017	28.00
Deutsche Pfandbriefbank	Various	£ 307	2.73%	Fixed	15 Nov 2018	25.50
Total		£ 882				

Rescheduling:-

No rescheduling was done during the year.

Summary of debt transactions:-

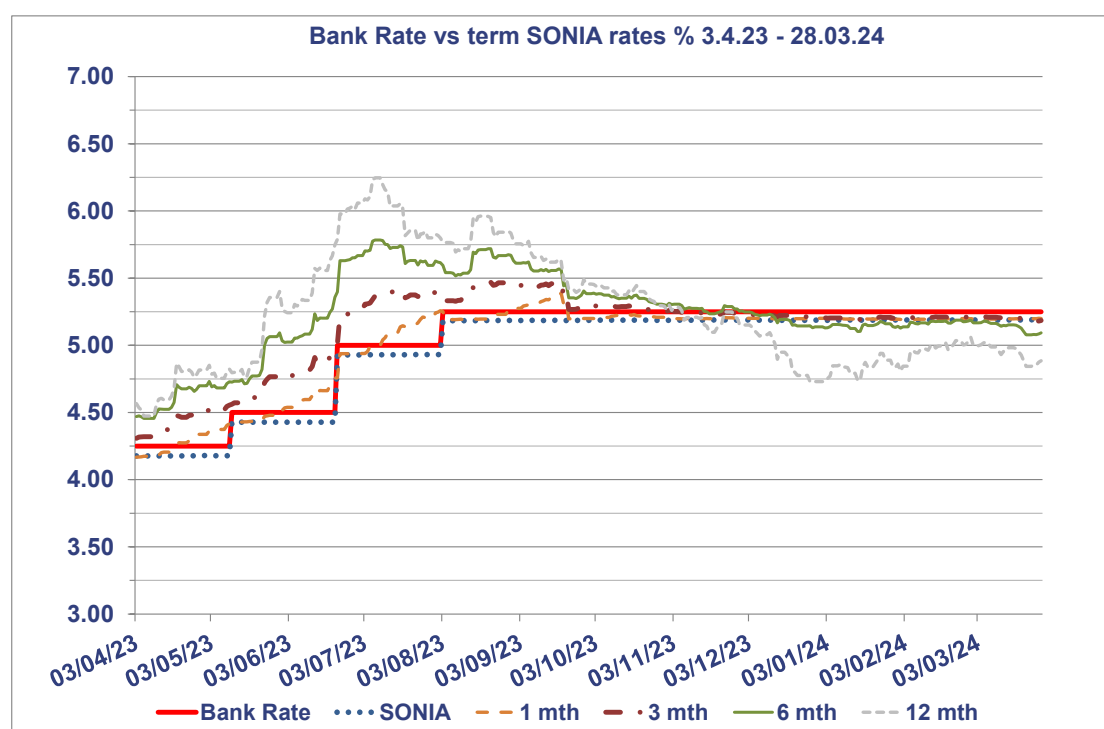
The average interest rate payable on external debt remained steady throughout the year, averaging 3.00% for the 2023/24 financial year (opening rate of 3.00% with closing rate of 3.09%). The average life of debt within the loan portfolio dropped from 31.81 years to 29.22 years.

8. Deposit Rates in 2023/24

Investment returns increased throughout the early part of 2023/24 to c. 5.25% before plateauing for the remainder of the year.

Money market fund rates started the year at 3.92-3.96%, increasing throughout the early part of the year in line with movements in Bank of England Base Rates, ending the year at 5.26-5.29%, with money market funds and instant access call accounts being utilised to manage the Council's day to day liquidity needs.

HIGH/LOW/AVERAGE BANK AND SONIA RATES FOR 2023/24



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
Low	4.25%	4.18%	4.17%	4.31%	4.46%	4.47%
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
High	5.25%	5.19%	5.39%	5.48%	5.78%	6.25%
High Date	03/08/2023	28/3/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Average	5.03%	4.96%	5.02%	5.13%	5.23%	5.2%
Spread	1.00%	1.01%	1.22%	1.17%	1.33%	1.77%

Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated.

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes.

While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

9. Funds on Deposit Outturn for 2023/24

Deposit Policy:-

The Council's policy for placing deposits is governed by Scottish Government Investment Regulations, and the requirements of the CIPFA Prudential and Treasury Management Codes, which have been implemented in the annual investment strategy approved by the Council on 21 February 2023. This policy sets out the approach to the considerations when placing deposits, specifically security, liquidity and then yield (in that order) and sets out the approach for choosing counterparties based on their credit strength, and for financial institutions is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The position at 31 March 2024 was as follows:-

Table 11: Breakdown of Deposits by Counterparty at 31 March 2024						
Counterparty	Principal Outstanding 31 Mar 2024 £000's	Security Long/Short Term Rating (Colour)	Liquidity		Yield	UK Local Authority Investment £000's
Bank of Scotland	1,498	A+/F1 (Red)	Instant Access Call Account		5.14%	203,653
Royal Bank of Scotland	2	A+/F1 (Blue)	Instant Access Call Account		3.25%	21,857
Handelsbanken	19	AA/F1+ (Orange)	Instant Access Call Account		5.09%	209,263
MMF - Aberdeen Liquidity Fund	216	AAAmmf (Yellow)	Instant Access Money Market Fund		5.26%	689,417
MMF - Federated	10,548	AAAmmf (Yellow)	Instant Access Money Market Fund		5.29%	1,086,498
MMF - LGIM	14,335	AAAmmf (Yellow)	Instant Access Money Market Fund		5.29%	399,681
National Westminster Bank plc	20,000	A+/F1 (Blue)	27-Mar-24	27-Mar-25	5.06%	558,629
Handelsbanken	10,000	AA/F1+ (Orange)	27-Mar-24	27-Sep-24	5.25%	209,263
Total Deposits	56,618				5.20%	2,943,488

* As at 31 March 2024

Deposits placed by the Council:-

The Council maintained an average balance of £94.298 million of instant access and fixed term deposits, earning an average rate of return of 4.86%. The comparable performance indicator³ is 4.42%.

³ 4.5 month backward uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities.

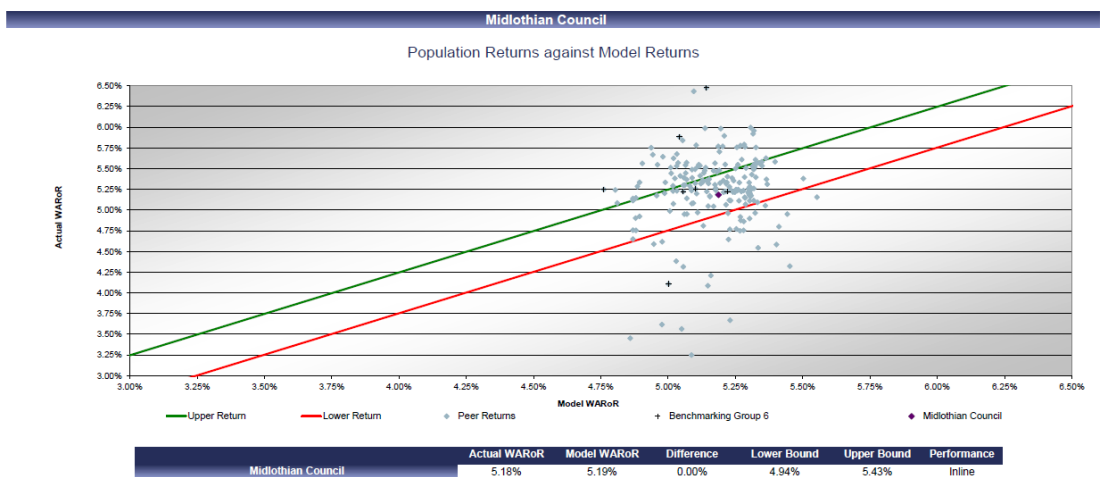
Loans Fund Rate

Combining the interest paid (earned) on external debt (deposits) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian’s result of 2.41% for 2022/23 was the lowest Loans Fund Rate amongst all mainland authorities in Scotland, as reported previously to Council.

The comparative Loans Fund Rate for 2023/24, of 2.08%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Deposit Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Link. This service provided by Link provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council’s funds on deposit as at 31 March 2024, the Weighted Average Rate of Return (WARoR) on deposits of 5.20% against other authorities is shown in the graph below:-



As can be seen from the above graph, Midlothian is performing above the Link model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Debt Performance

Whilst deposit performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. In this respect, the relevant figures for Midlothian are incorporated in the table in Section 3.

11. Conclusion

The Council's overall cost of borrowing continues to benefit significantly from the approved strategy and the proactive Treasury Management activity undertaken.

The cost of long term borrowing has been maintained throughout the year, with the benefit of long term borrowing in December 2021 allowing the Council to defer borrowing at higher than forecast rates during the 2023/24 financial year.

A better than average return on deposits has been achieved for the eighteenth consecutive year and Midlothian continues to perform above the Link model benchmarks and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Overall Midlothian's Loans Fund Rate of 2.08% for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

Scotland's Public Finances: Challenges and Risks

Report by David Gladwin, Chief Financial Officer and S95 Officer

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Consider the Accounts Commission report; and
- Note the Council's position in relation to the key messages.

2 Purpose of Report / Executive Summary

The purpose of this report is to provide Audit Committee with sight of the Accounts Commission Local Government in Scotland Financial Bulletin 2022/23 published in January 2024, which is appended to this report, and opportunity to consider how key messages and recommendations in the report are embedded in ongoing Council work.

The main messages in the report include funding challenges through real terms reductions and ring-fencing, balancing of budgets becoming increasingly reliant on savings, one-off measures and use of reserves, an increase in Council earmarked reserves and an extremely challenging financial outlook.

Date Thursday 25 April 2024

Report Contact:

David Gladwin, Chief Financial Officer and S95 Officer

David.Gladwin@midlothian.gov.uk

3 Background

- 3.1** The Bulletin provides a high-level independent analysis of the financial performance of councils during 2022/23. It is part of a series of outputs produced by the Accounts Commission which together provide an independent overview of the Local Government Sector.

Key Messages

- 3.2** Total revenue funding and income for Councils fell by 2.8% in real terms in 2022/23 compared to the previous year and an increasing proportion of Scottish Government funding is formally ring-fenced or provided with the expectation it will be spent on specific services. Over the last decade the proportion of the Scottish Budget allocated to local government has been reduced.
- 3.3** Almost all Councils reported budget gaps in 2022/23 and have been reliant on making recurring savings and utilisation of reserves or other one-off measures to set balanced budgets. Clarity of reporting is key.
- 3.4** Capital Expenditure has increased mainly funded by increased borrowing which in turn adds pressure to revenue budgets.
- 3.5** Council's useable reserves increased in 2022/23. The majority of the increase related to earmarked reserves.
- 3.6** As demand for council services continues to rise, councils have reduced spending on unprotected services to balance budgets. The Verity House Agreement contains a commitment to a default position of no ring-fencing or direction.

Report Recommendations

- 3.7** Table 1 below shows Midlothian Council's position against each of the recommendations in the report.

Table 1: Report Recommendations and Midlothian position

Report Recommendation	Midlothian position
<i>Councils should:</i>	
Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.	The Transformation Blueprint is the initial vehicle to closer align recurring expenditure and income. Updated Medium Term Financial Strategy (MTFS) projections will be presented to Council in June 2024 along blueprint savings options. At this point an assessment can be taken on the need and timing of additional savings measures that may be required.
Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned	The content and quality of Midlothian's Management Commentary is on a journey of continuous improvement with positive feedback from External Audit.

savings targets.	The Business Transformation Steering Group (BTSG) have asked for a six-monthly financial monitoring report focussing exclusively on delivery of approved savings. The next one will be presented to BTSG in June 2024 thus providing a full year position for 2023/24.
Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts.	Commentary on reserves is included in each financial monitoring report and in MTFS projections. Reserves policy was approved by Council in 2019 and will be refreshed in 2024.
Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.	Community engagement took place for savings proposals presented to Council in advance of setting the 2023/24 budget. Further engagement is a core part considering new proposals.
Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of Council's medium and long-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.	Financial indicators are prepared as part of the prudential framework and reported to Audit Committee and Council. The use of resilience indicators in supporting financial management and planning is a developing area and is being considered as part of a refresh of financial strategy.
Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.	Engagement with the Scottish Government to consider Midlothian's unique and very challenging position as the fastest growing council in Scotland has taken place and will continue. Discussions on what a Fiscal Framework would look like and how it would work continue in national forums with CoSLA, SoLACE and Local Authority S95 Officers represented.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

None

4.2 Digital

None

4.3 Risk

None

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

None

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Local Government in Scotland. Financial Bulletin 2022/23

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Not applicable

A.5 Involving Communities and Other Stakeholders

Not applicable

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting Sustainable Development

Not applicable

APPENDIX B**Local Government in Scotland. Financial Bulletin 2022/23**

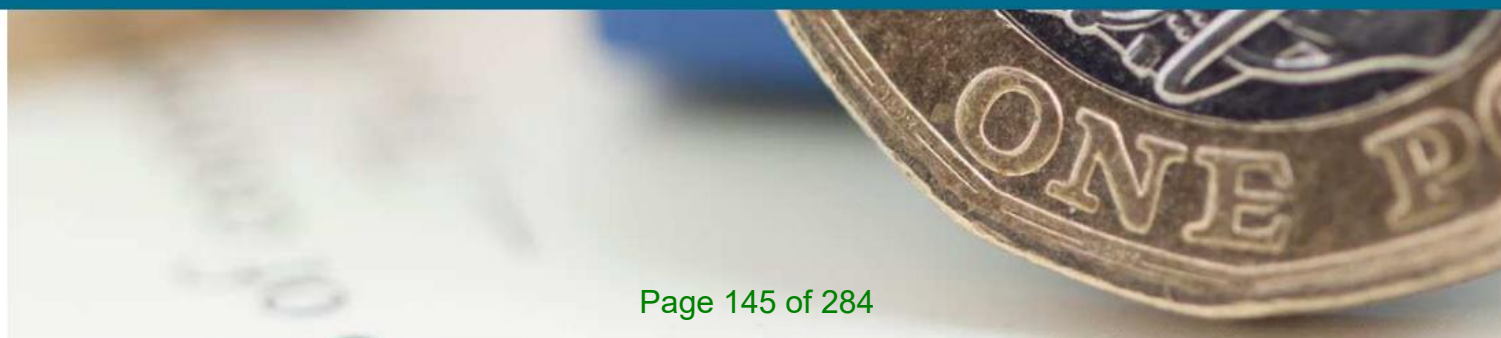
Local government in Scotland

Financial bulletin 2022/23



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
January 2024



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Accessibility

You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility.

Key messages

Funding and outturn in 2022/23

- 1** Despite councils receiving more funding and income in cash terms, due to high inflation in 2022/23 total revenue funding from all sources fell by £619 million (2.8 per cent) in real terms to £21.3 billion compared to 2021/22.
- 2** Councils received more core revenue funding from the Scottish Government than in 2021/22, rising from £12.1 billion to £12.2 billion (0.7 per cent) in real terms. However, an increasing proportion is ring-fenced or provided with the expectation it will be spent on specific services. This means that the amount of funding available for councils to spend freely on local priorities is reducing. There are commitments in the Verity House Agreement to move to a default position of removing ring-fencing or direction of funding wherever possible.
- 3** There is pressure on all public-sector capital budgets, and this presents risks to the viability of local government capital programmes, many of which impact on key services (eg, the construction and maintenance of schools, libraries, roads). Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade. Driven by increased borrowing councils' capital expenditure increased in 2022/23 by 16 per cent in cash terms to £3.6 billion. Borrowing costs have reduced in recent years as many councils have used permitted financial flexibilities to reprofile debt payments. While helping with immediate budget pressures, these decisions defer costs to later years and do not tackle the underlying challenges to financial sustainability. Additional borrowing also places further pressure on revenue budgets over the longer term.
- 4** At the time of setting their 2022/23 budgets, councils anticipated budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Achievement of savings targets was good in 2022/23 and improved on 2021/22. Greater transparency is required in the reporting of financial outturn in council accounts, including savings performance. This transparency and timely public engagement are essential as councils make increasingly difficult decisions to reduce or stop services to help balance budgets.

Councils' financial position and outlook from 2023/24

- 5 Despite the financial pressures of recent years, half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion. This is driven by growth in committed reserves. Some of this is remaining Covid-19 funding, some is attributable to the permitted use of financial flexibilities for the repayment of longer-term debt but there are also indications councils are building up reserves to manage the known financial challenges in future years. However, the lack of transparency in some councils' annual accounts makes it difficult to draw firm conclusions on councils planned use of reserves.
- 6 Local appointed auditors did not identify any councils in Scotland as being financially unsustainable in the short term. However, the financial outlook is extremely challenging with Scottish councils facing unprecedented financial and service demand pressures which present real risks for the future. Although Scottish Government core funding increased in cash and real terms in 2023/24, councils reported a significant increase in the total budget gap to £725 million.
- 7 Councils' medium- and longer-term financial plans demonstrate a clear recognition of the difficult financial context and the need to continue to innovate at pace and make difficult decisions to become more financially sustainable. But some councils are already experiencing significant resistance when seeking to make service reductions to balance budgets. This reinforces the need for effective consultation and engagement with communities on planned local service changes.
- 8 The Verity House Agreement includes a commitment to offer councils longer-term funding and greater local financial flexibility. These proposed changes will be important, in providing greater financial certainty to support better long-term planning and more flexible direction of resources to meet local need. However, the recent announcement of a proposed council tax freeze significantly reduces discretion and flexibility at individual council level. The impact this will have on financial sustainability is not yet known, but councils have placed an increased reliance on raising council tax to help deliver a balanced budget over the past two years.

Recommendations

Councils should:

- Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability ([paragraph 29](#)).
- Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets ([paragraph 46](#)).
- Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability ([paragraph 55](#)).
- Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget ([paragraph 73](#)).
- Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability ([paragraph 83](#)).
- Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years ([paragraph 89](#)).

About this report

1. This bulletin provides a high-level independent analysis of the financial performance of councils during 2022/23. The bulletin considers:

- councils' funding and expenditure in 2022/23
- councils' financial position at the end of 2022/23 and the financial outlook
- some of the potential impacts of the Verity House Agreement (New Deal with Local Government) made between COSLA and the Scottish Government in June 2023.

2. This bulletin is part of a series of outputs produced by the Accounts Commission which together provide an independent overview of the local government sector. In Spring 2024 we will publish a budget briefing examining the 2024/25 budgets set by councils, including analysis of anticipated budget gaps and actions to set a balanced budget.

Methodology

3. Our primary sources of information for this bulletin are councils' 2022/23 accounts, a data request issued to auditors in October 2023 and Scottish Government budget documents.

4. The analysis of accounts is based on audited accounts where available. As at our 6 November 2023 deadline, 18 councils' accounts were still to be certified; therefore, the analysis in this bulletin is based on 14 sets of audited accounts and 18 sets of unaudited accounts.

5. We received 30 data requests back from auditors. In places our analysis is therefore based on a sample rather than the full population. Returns were not received for two councils.

6. Scottish Government funding analysis uses the spring revision funding position unless otherwise stated.

7. When looking at trends, we convert some financial data to real terms using GDP deflators. This adjusts financial information from past and future years to prices for the year under review, ie 2022/23. This is to take account of inflation so that the trend information is comparable. Any financial trend data (both capital and revenue) relating to funding, income or expenditure will be shown in real terms. The exception to this is that any financial information from the councils' accounts' balance sheet remains in cash terms, even when looking at a trend. This includes reserves, debt and borrowing. These are not adjusted to real terms as they are already subject to revaluation to reflect changes in prices.

1. Funding and outturn

Revenue funding and income

Total funding and income fell by 2.8 per cent in real terms in 2022/23 compared to the previous year

8. In 2022/23, Scotland's 32 councils received a total of £21.3 billion in revenue funding and income (funding for day-to-day spending). In cash terms this is £757 million more than the year before but in real terms (that is adjusting for inflation) it represents a real-terms decrease of 2.8 per cent (£619 million).

9. Revenue funding and income comes from a variety of sources. Almost 60 per cent of total revenue funding comes from the Scottish Government ([Exhibit 1](#)).

Exhibit 1.

Sources of funding and income 2022/23 compared to 2021/22, real terms (£ billion)

2021/22	2022/23		2021/22	2022/23
		Interest receivable	0.03	0.11
		Housing Revenue Account rents	1.42	1.36
		Customer and client receipts	1.85	1.82
		Council tax	2.82	2.75
		Grants including Scottish Government and other sources	4.01	3.56
		Non-domestic rates	2.23	2.77
		Cost of living award grant	0.00	0.28
		General revenue grant Covid-19 funding	0.55	0.00
		General revenue grant	9.09	8.72
Total funding and income (£ billion)			22.00	21.38

Source: Councils' annual accounts 2022/23 (audited and unaudited) and 2021/22 (audited)

10. The source of the largest increase in funding was non-domestic rates, although levels are still below pre-pandemic levels ([Exhibit 16, page 28](#)).

11. The largest decreases were to grants, which fell by 11 per cent in real terms compared to 2021/22, and housing rents which, despite a cash increase of 2.3 per cent, fell by 4.1 per cent in real terms.

12. Council tax is an important source of income for councils, accounting for 13 per cent (£2.7 billion) of total funding in 2022/23. Councils received more income from council tax, due to an overall increase of 4.5 per cent in the amount of council tax billed and an increase in in-year collection rates of 0.5 per cent (from 95.7 per cent to 96.2 per cent). However, the amount received has not kept pace with inflation and in real terms this represents a fall in income of 2.5 per cent compared to 2021/22.

Core revenue funding from the Scottish Government to councils increased in cash and real terms from 2021/22 to 2022/23

13. Scottish Government core revenue funding to councils amounted to £12.2 billion in 2022/23. This is an increase to core funding in both cash and real terms from the previous year ([Exhibit 2](#)).

Exhibit 2.

Scottish Government core revenue 2021/22 and 2022/23

Scottish Government revenue funding	Cash terms			Real terms		
	2021/22 £ million	2022/23 £ million	change %	2021/22 £ million	2022/23 £ million	change %
Core revenue	11,384	12,231	7.4%	12,144	12,231	0.7%
General revenue grant	8,489	8,679	2.2%	9,056	8,679	-4.2%
Non-domestic rates	2,090	2,766	32.3%	2,230	2,766	24.1%
Specific revenue grants	805	786	-2.4%	859	786	-8.5%

Source: Scottish Government budget documents (spring revision)

14. The increase in core revenue funding was driven by a significant increase in income from non-domestic rates. The general revenue grant and specific revenue grants both fell in real terms.

15. In 2021/22, councils received an additional £0.5 billion in non-recurring revenue funding from the Scottish Government to support their Covid-19 response. When this is included, councils experienced a real terms reduction of 3.6 per cent in revenue funding from the Scottish Government in 2022/23 compared to 2021/22. In 2022/23,

a one-off grant of £278 million was received by councils, to distribute the £150 Cost of Living Award to eligible households.

An increasing proportion of Scottish Government funding is formally ring-fenced or provided with the expectation it will be spent on specific services

16. Specific revenue grants funding totalled £786 million in 2022/23 and must be used to fund specific policies or initiatives such as for early learning and childcare expansion and the pupil equity fund.


17. In addition to specific revenue grants, other funding received by councils is directed for national policy initiatives. Though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.

18. Examples of directed funding in 2022/23 include: £140 million for Local Government pay deals, £145 million for additional teachers and support staff and £234 million for the annual pay uplift to social care staff in commissioned services.

19. We calculate that ring-fenced and directed funding increased to 25.7 per cent in 2022/23 ([Exhibit 3](#)).

Exhibit 3.

Proportion of Scottish Government funding to local government that is ring-fenced or directed

 Source	2021/22 £ million	2022/23 £ million
From initial allocation		
Specific revenue grant	805	786
Directed funding within general revenue grant	347	475
Directed funding from transfers from other portfolios	488	648
From in year allocations		
Directed funding from budget revisions and recalculations	1,061	1,236
Total ring-fenced or directed funding	2,701	3,145
Total revenue funding	11,384	12,231
Percentage ring-fenced or directed	23.7%	25.7%

Note: We have updated our methodology from last year. This changes the total ring-fenced amount for 2021/22 from 23.1% to 23.7%.

Source: Scottish Government budget documents and financial circulars

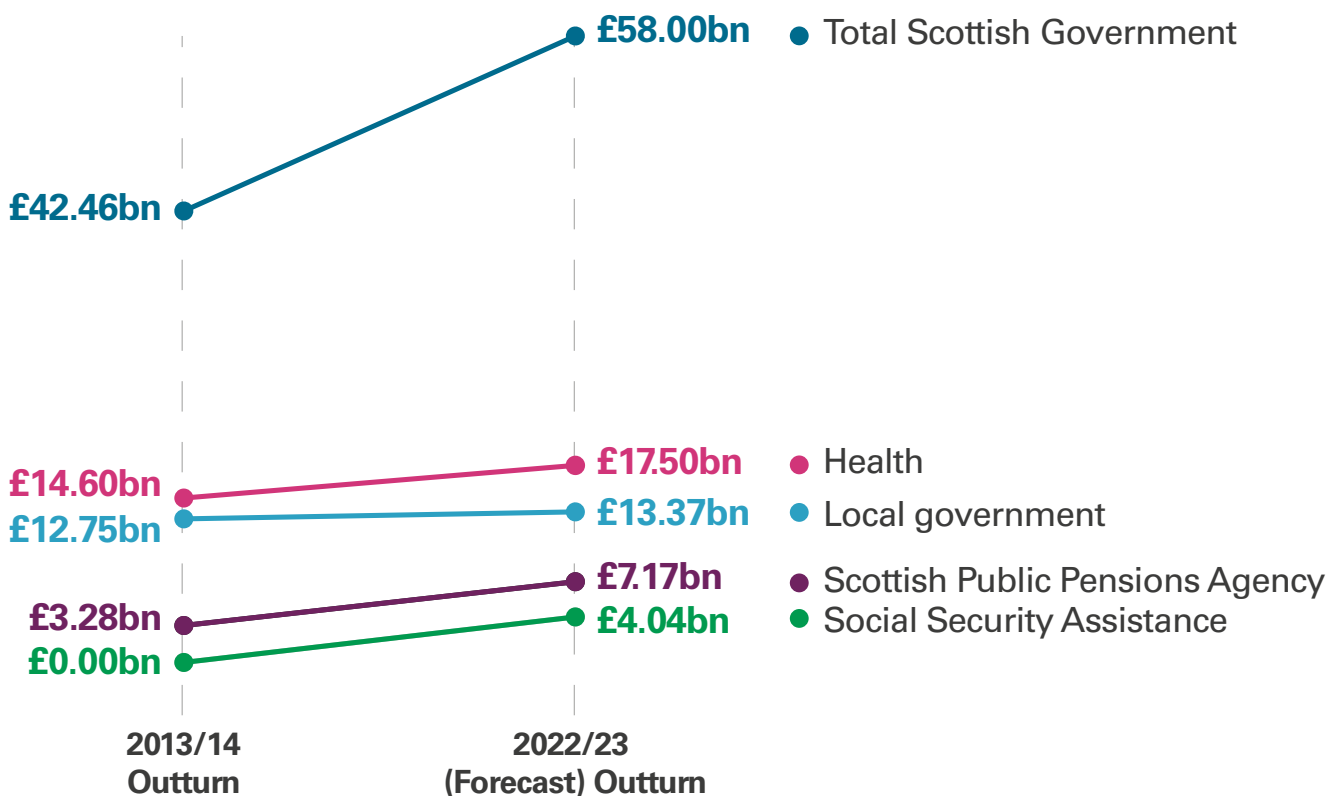
20. While directed funding is important to help deliver national priorities, it restricts councils from making decisions about how funds can be used at a local level to meet local need. The Verity House Agreement, signed in June 2023, includes a commitment to a default position of ending ring-fencing or directed funding unless there is a clear joint understanding of the rationale for such arrangements. We discuss this further in [Part 2](#) of the report.

Over the last decade, the proportion of the Scottish Budget allocated to local government has been reduced

21. Local government is the second largest area of Scottish Government spending; however, this proportion has reduced over the last decade. In 2013/14 local government (capital and revenue) accounted for 30 per cent of the total spend. In 2022/23, it had fallen to 23 per cent. Over this period, local government spend has been relatively static in real terms while total Scottish Government spend increased by 37 percent. Areas of growth include health and social security ([Exhibit 4](#)).

Exhibit 4.

Local government spend (outturn) compared to other areas of the Scottish Budget, 2013/14 to 2022/23, real terms



Source: Scottish Budget 2023/24, Annex D: Outturn Comparison 2013/14 to 2021/22 and Scottish Budget 2024/25, Annex H: Outturn Comparison 2014/15 to 2022/23

Council budget-setting

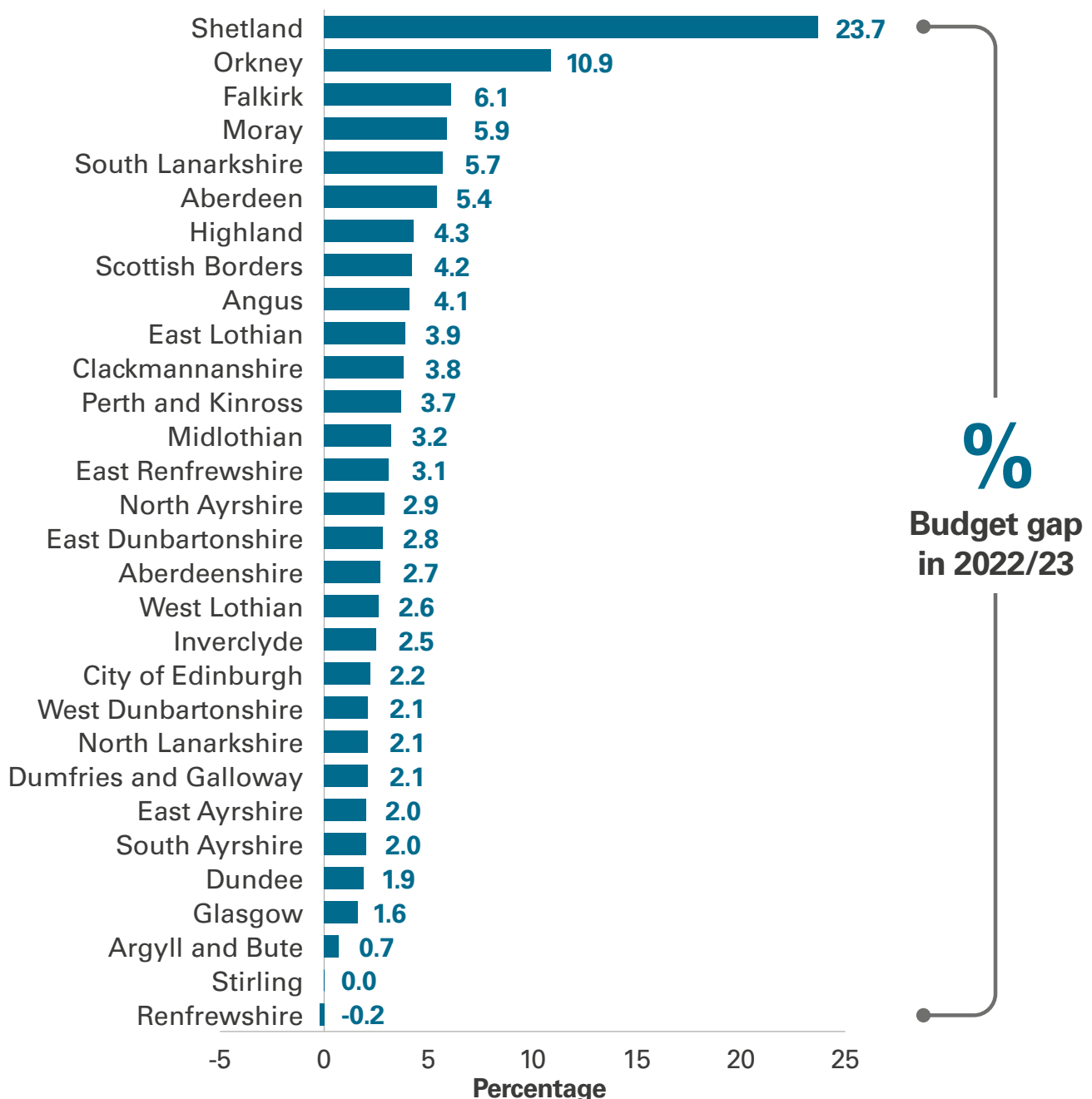
At the time of setting their 2022/23 budgets, councils in our sample identified budget gaps of over £476 million for the year

22. At the time of budgeting, the 30 councils in our sample identified **budget gaps** totalling £476 million for 2022/23, compared to £350 million for the same sample of councils for 2021/22. This represents a budget gap of 2.9 per cent of the net cost of services ([Exhibit 5](#)).

Budget gaps reflect a point in time when councils begin to set their budgets and is the difference between anticipated expenditure and funding and income.

Exhibit 5.

Budget gap as a percentage of net cost of services, 2022/23

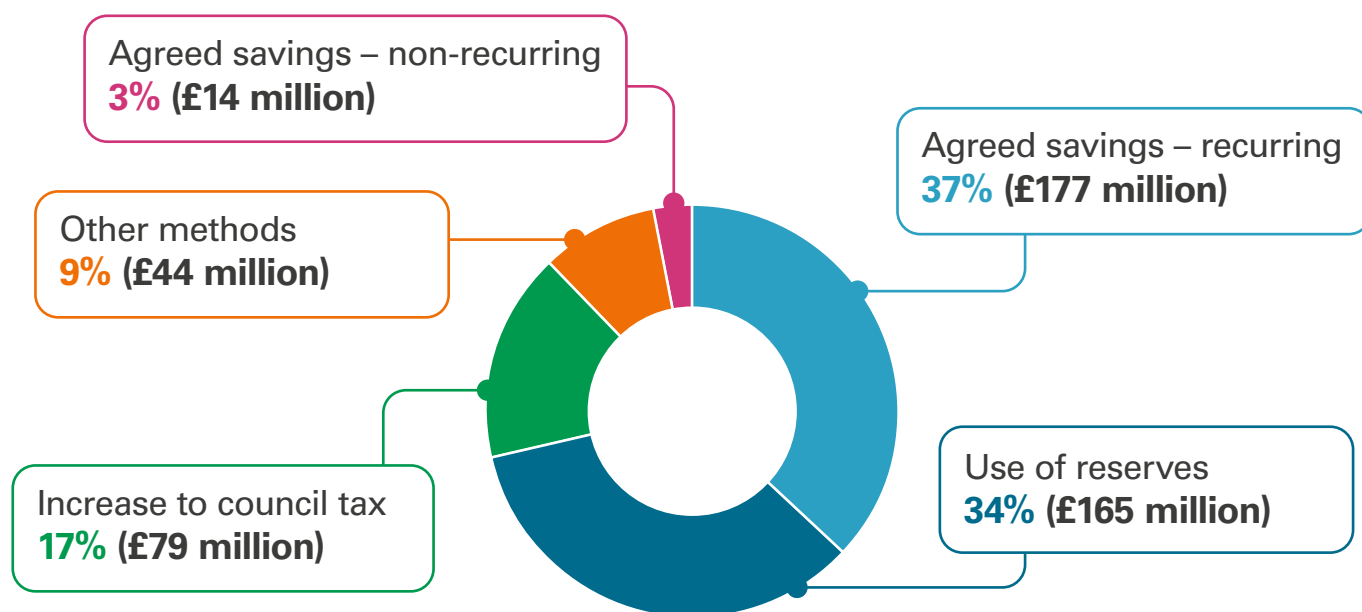


23. Within our sample, the budget gap for 2022/23 ranged from a surplus of £1.1 million (0.2 per cent of net cost of services) in Renfrewshire to a gap of £53 million (5.7 per cent net cost of services) in South Lanarkshire. Shetland had the largest budget gap as a proportion of net cost of services, at 23.7 per cent (with a value of £34 million). One council, Stirling, reported no budget gap.

Councils largely relied on reserves and making recurring savings to deliver a balanced budget

24. From our sample of 30 councils, a range of bridging actions were used to set balanced budgets for 2022/23 ([Exhibit 6](#)).

Exhibit 6. Councils' bridging actions to set their 2022/23 budget



Note: The chart elements add up to £479 million which is higher than the total anticipated budget gap. This is because Dundee identified bridging actions of greater value than their budget gap to allow for additional expenditure in priority areas.

Source: Auditor data returns (30 councils in the sample)

25. Use of reserves and making **recurring savings** were expected to bridge 71 per cent (£342 million) of the budget gap. The relative use of reserves to bridge the budget gap has doubled from 17 per cent in 2021/22 to 34 per cent in 2022/23.

26. Examples of other bridging actions include the use of:

- fiscal flexibilities for service concessions and capital receipts
- additional Scottish Government funding
- increased service charges
- non-recurring Covid-19 funding
- a reduction in IJB funding.

These actions are largely non-recurring and therefore not sustainable.

Outturn

Achievement of savings targets was high, but improvements are required in the transparency of reporting

27. From our sample of 30 councils, the aggregate savings target for 2022/23 was £216 million.¹ Three councils did not have a savings target.

28. Twenty-five councils provided information about savings performance in 2022/23. Fourteen councils (56 per cent) achieved their savings target in full or more and a further eight councils (32 per cent) achieved over 80 per cent. Overall, 98 per cent of the aggregate savings target was met. This compares to 92 per cent across all councils in 2021/22 ([Exhibit 7, page 14](#)).

29. Where we have a breakdown of how savings were achieved, 82 per cent (£126 million), were achieved on a recurring basis, which is higher than the 76 per cent achieved across all councils in 2021/22.



Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

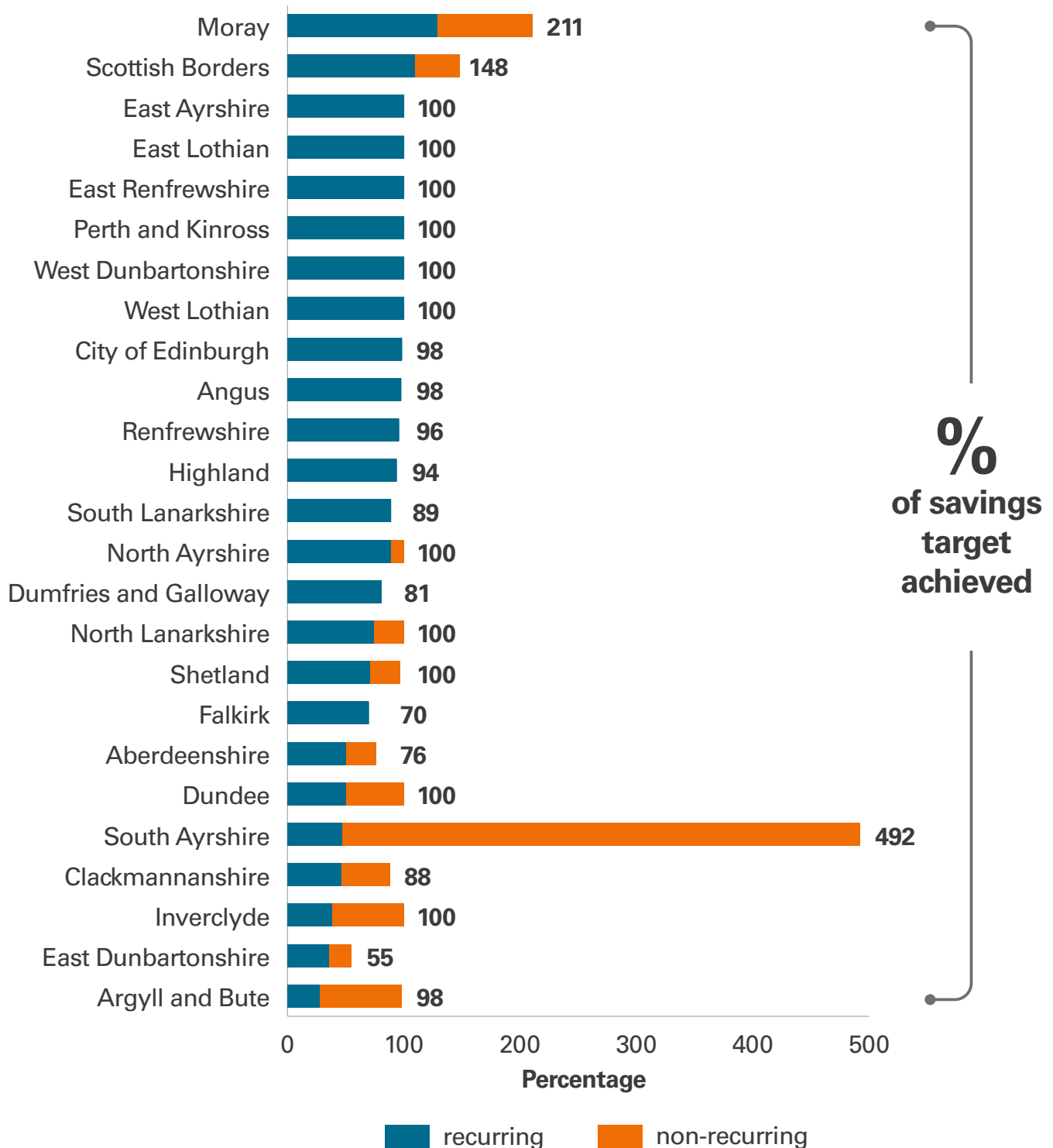
Recommendation

Councils should prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.

¹ This savings target does not match the planned savings (recurring and non-recurring combined) identified as bridging actions in Exhibit 6. Savings identified during budget setting may be further revised before a savings target is agreed.

Exhibit 7.

Percentage of savings target achieved, split by recurring and non-recurring, 2022/23



Note: Information on the split of savings achieved was not available for Dundee. South Ayrshire's savings performance was 492% due to a large (non-recurring) underspend. Five councils within the sample are not included in the chart: Midlothian, Orkney and Stirling did not have a savings target in place for 2022/23. Information on savings performance was not available for Glasgow and Aberdeen.

Source: Auditor data returns (30 councils in the sample)

30. A review of councils' management commentaries identified that 66 per cent of council accounts provided no or insufficient commentary on performance against savings targets. Further detail on the transparency of management commentaries is included at [paragraphs 44–46](#)).

Over half of councils used financial flexibilities in 2022/23

31. In recent years, the Scottish Government has introduced a number of financial flexibilities to help alleviate ongoing financial and funding pressures.

32. The three main flexibilities available are:

- The use of capital receipts for revenue costs.
- The ability to apply for revised loans repayments.
- Changes to service concession arrangements which allow councils to write off the debt costs associated with these schemes over the expected lives of the respective assets rather than over the contract period of each arrangement.

33. Of our sample of 30 councils, 18 (60 per cent) reported that they used some of the financial flexibilities allowed by the Scottish Government in 2022/23.

34. Using flexibilities to meet immediate spending pressures may help councils to balance their budgets, but it defers costs to later years and does not tackle the underlying challenges to financial sustainability.

Capital funding and expenditure

Increases in capital expenditure were driven by increased borrowing

35. Councils' **capital expenditure** in 2022/23 was £3.6 billion. This is a 16 per cent (£0.5 billion) increase in cash terms compared to 2021/22.

36. The increase in capital expenditure in 2022/23 was driven by a 52 per cent increase in borrowing. At £1.41 billion, this was the largest source of capital financing, surpassing government grants which accounted for £1.35 billion of capital expenditure. The higher costs associated with borrowing place further pressure on revenue budgets over the longer term ([Exhibit 8, page 16](#)).

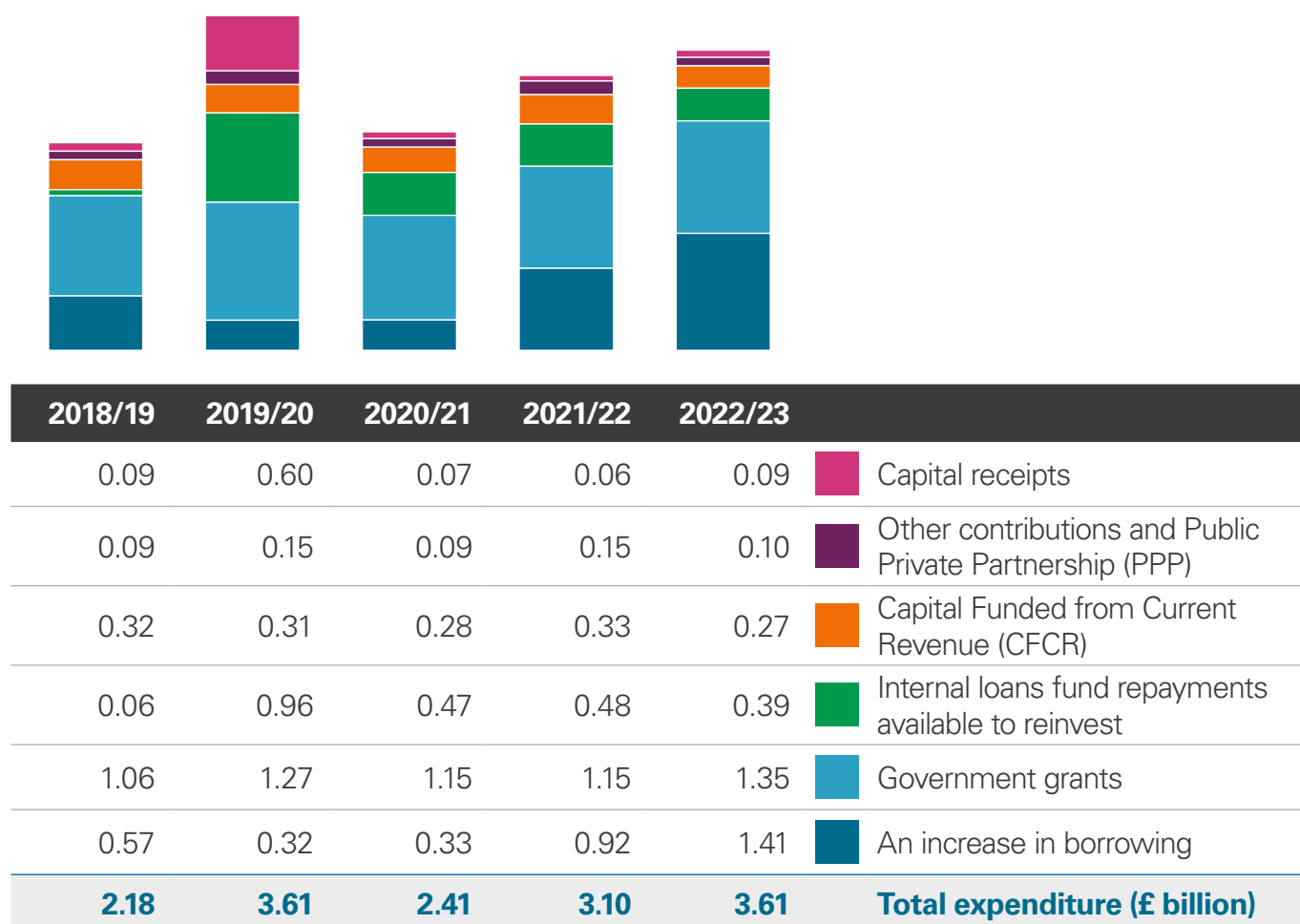
37. Twenty-two councils reported higher capital expenditure than in 2021/22. At a council level, year-on-year movement ranged from a £207 million increase (Glasgow) to a £54 million decrease (Angus).



Capital expenditure is the money spent by councils to maintain or improve their assets, for example school buildings and roads. It cannot be used on day-to-day running costs.

Exhibit 8.

Capital expenditure split by sources of finance in cash terms, 2018/19 to 2022/23 (£ billion)



Source: Councils' annual accounts 2018/19 to 2022/23 (audited and unaudited)

38. Slippage against capital projects was noted by auditors in some Annual Audit Reports for 2022/23. Factors included higher costs for goods and services including utilities, fuel and labour; and wider economic circumstances including inflation, war, Covid-19, interest rates and pay awards.

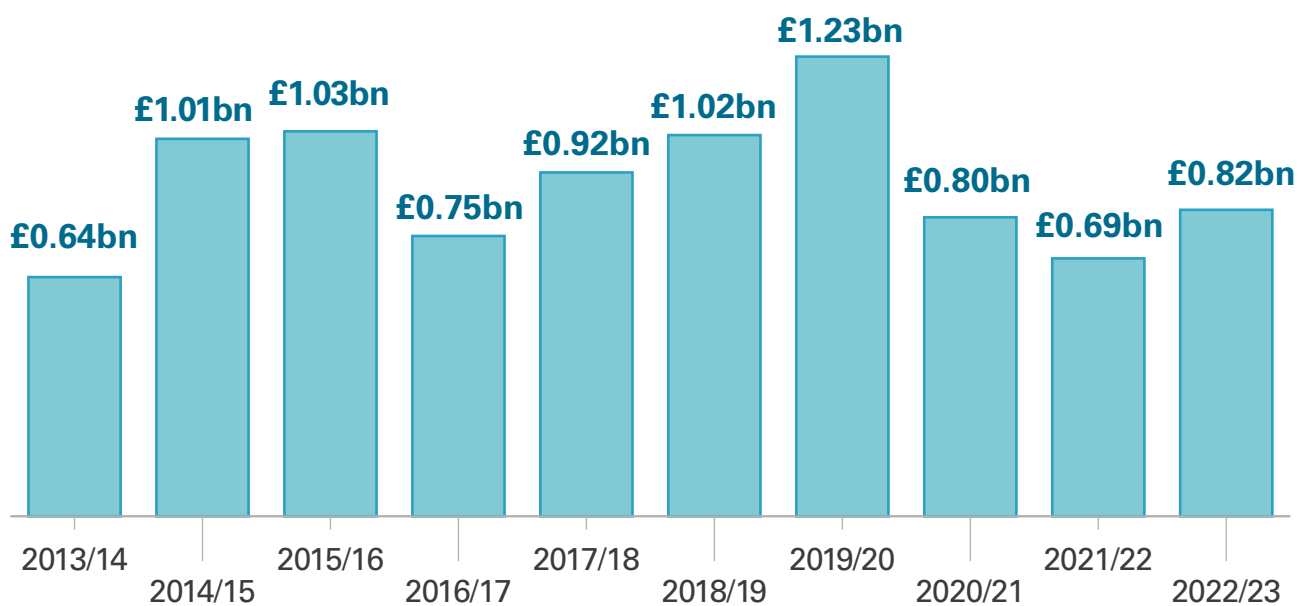
Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic

39. Councils receive capital funding from the Scottish Government in the form of the capital grant, distributed by means of a funding formula based largely on population and road-length.

40. In 2022/23 capital funding from the Scottish Government rose by 19 per cent in real terms to £0.82 billion compared to 2021/22. However, it remains lower than many of the years leading up to the Covid-19 pandemic ([Exhibit 9](#)).

Exhibit 9.

Scottish Government capital funding to local government 2013/14 to 2022/23, real terms



Source: Scottish Government budget documents (spring revision)

41. Some capital funding is directed towards specific policies. For example, in 2022/23 around £120 million was allocated to support the local government pay deal in 2022/23 and £30 million to fund expansion of free school meals.

42. Scottish Government capital funding is volatile. Some of the more significant movements can also be attributed partly to reallocation of capital funding payments from one financial year to another, as agreed between the Scottish Government and COSLA. For example, the 2016/17 figure excludes £150 million that was reallocated and included in the 2019/20 capital settlement.

Reporting on financial outturn in management commentaries

Councils could improve the transparency of their reporting on financial outturn and progress against savings plans

43. A management commentary is a report by the council, set out within its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council over the year.

We undertook a review of councils' management commentaries to assess the transparency of their reporting against three elements that the Accounts Commission has previously recommended should be included:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

44. Twenty councils included commentary related to outturn against budget including the main reasons for the variances. Of the remaining, nine provided insufficient detail or no commentary on variances and three lacked clarity on the outturn against budget.

45. Half of councils provided a table within the management commentary which showed the reconciliation of outturn to the movement on the general fund. Of the remaining, 12 did not provide sufficient detail within the management commentary to demonstrate a reconciliation of the general fund against reserves and four did not provide any information.

46. Eleven councils outlined progress against savings targets to some extent, with some providing a table of savings performance trends and/or links to other documents. Of the remaining, 12 provided generic statements or insufficient detail, seven provided no information and two referred only to previous or future savings plans.

Recommendation

Councils should ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets.

2. Councils' financial position and outlook

2022/23 financial position

In 2022/23, councils increased their total usable reserves by £0.31 billion to £4.46 billion

47. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource, so councils need to plan carefully for their use. In doing so, they should consider the strategic, operational, and financial risks facing the council.

48. In 2022/23, councils increase their total usable reserves by £0.31 billion, from £4.15 billion to £4.46 billion ([Exhibit 10, page 20](#)).

49. Revenue reserves increased by 2.2 per cent (£80 million) and capital reserves increased by 40 per cent (£232 million). The increase in capital reserves may be linked to slippage against capital projects ([paragraph 38](#)).

50. Half of councils increased their usable reserves in 2022/23. A review of management commentaries for those councils with the greatest increases found these were largely attributable to accounting adjustments related to the permitted use of financial flexibilities for the repayment of longer-term debt. Some councils are also committing reserves to contingency or financial sustainability funds to cushion the impact of known financial challenges in the years ahead or to help fund transformation, potential workforce reconfiguration or pay settlements.

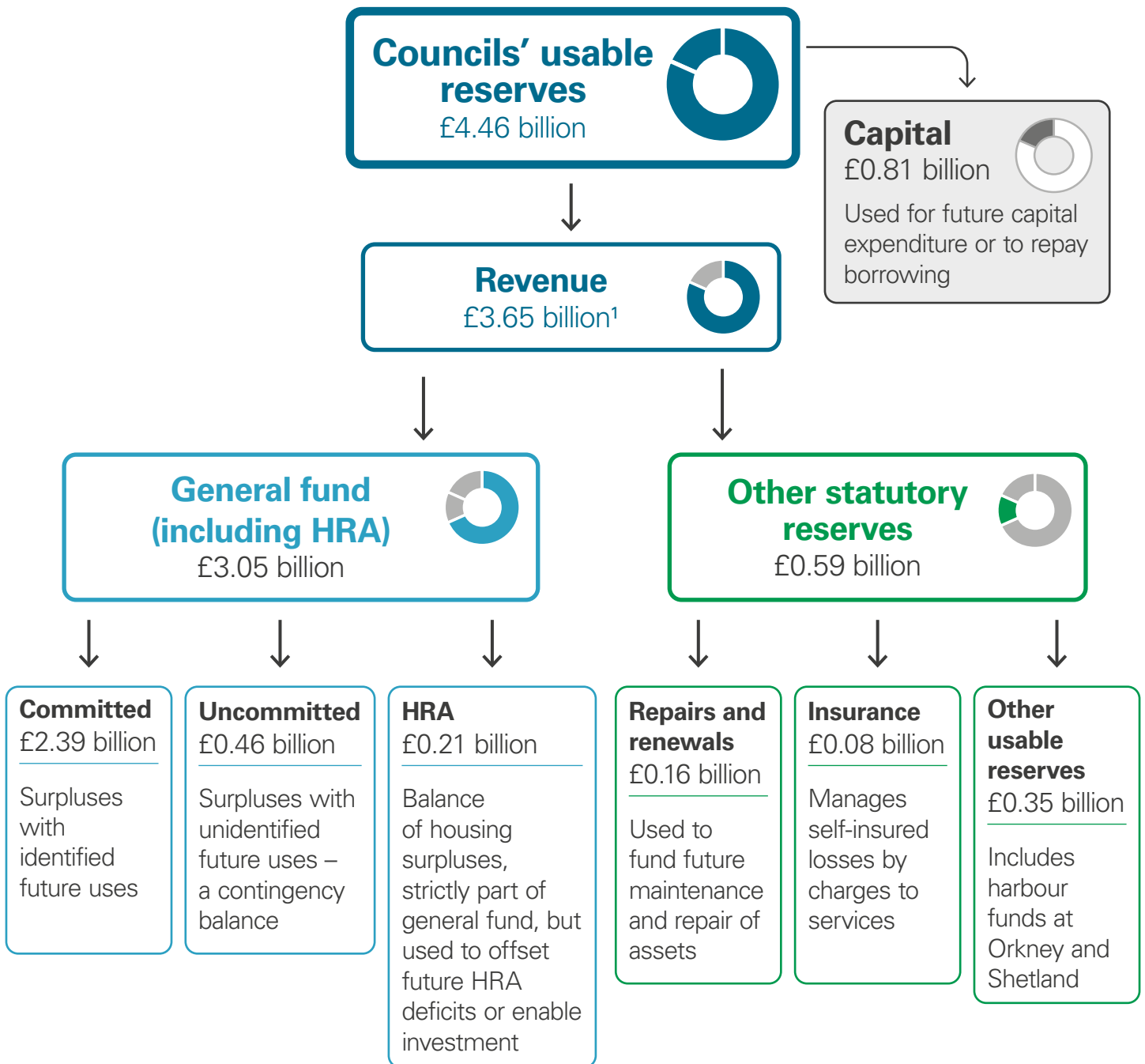
The level of reserves as a proportion of total net revenue expenditure is higher in 2022/23 than before the pandemic

51. In 2022/23, the total usable reserves across all councils as a proportion of total net revenue expenditure was 27.3 per cent compared to 20.4 per cent in 2019/20 before the pandemic ([Exhibit 11, page 21](#)).

52. In 2022/23, no council had usable reserves that were less than ten per cent of net revenue expenditure compared to four councils in 2019/20. Twenty councils had reserves that were over 20 per cent of net revenue expenditure, compared to nine in 2019/20.



Looking at the level of **reserves as a proportion of total net revenue expenditure** is one way of assessing financial sustainability. A low figure may suggest that a council will struggle financially if it experiences a financial shock or is unable to deliver a budget where income matches expenditure.

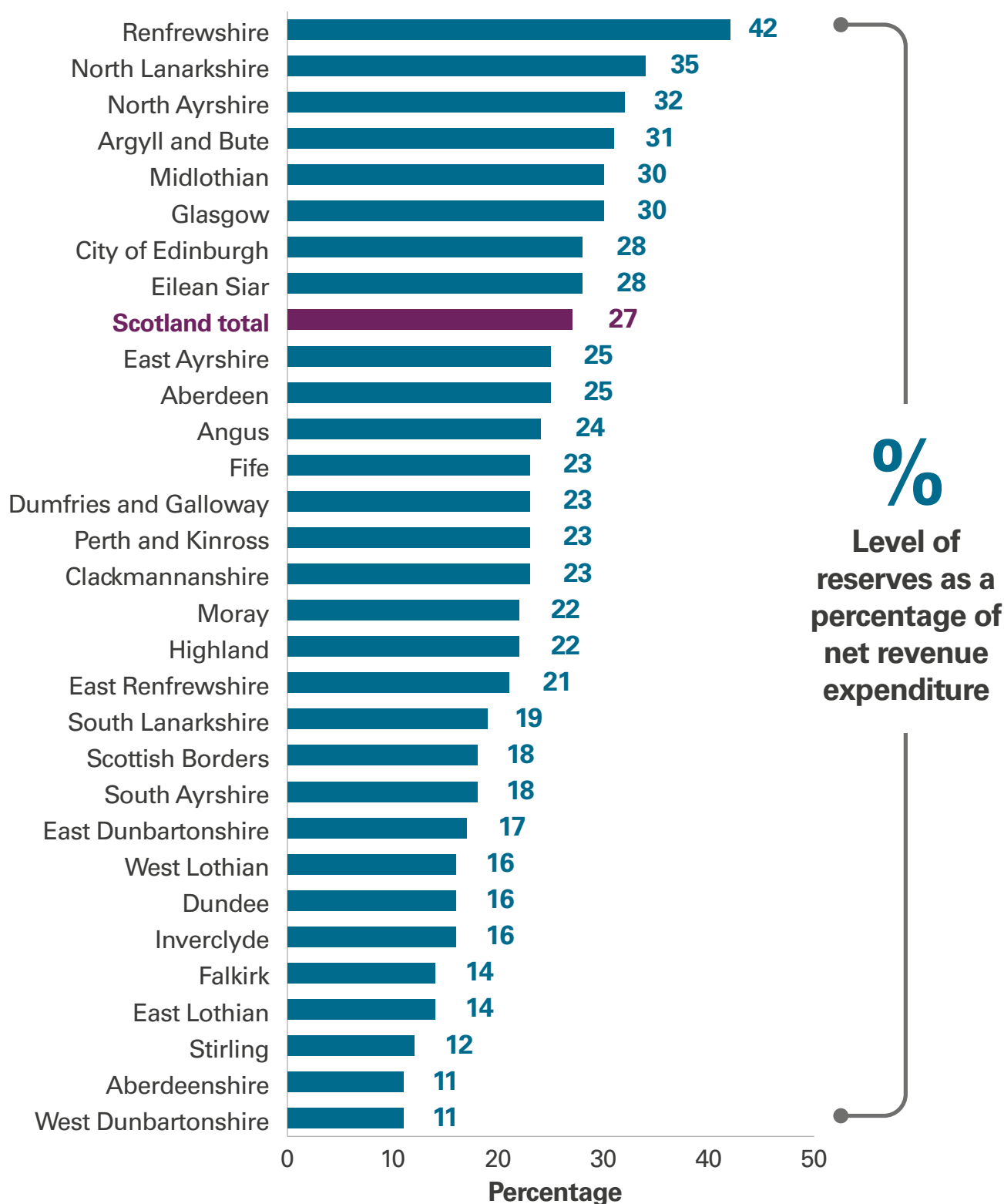
Exhibit 10.**The nature and value of councils combined usable reserves, 2022/23**

Note 1. Total figure doesn't match subtotals due to rounding.

Source: Councils' annual accounts 2022/23 (audited and unaudited)

Exhibit 11.

Level of usable reserves as a proportion of net revenue expenditure, split by council, 2022/23



Note: Orkney and Shetland are excluded from this chart as both hold large reserves (over 200 per cent of net cost of services) related to oil, gas and harbour related activities.

Source: Councils' annual accounts 2022/23 (audited and unaudited)

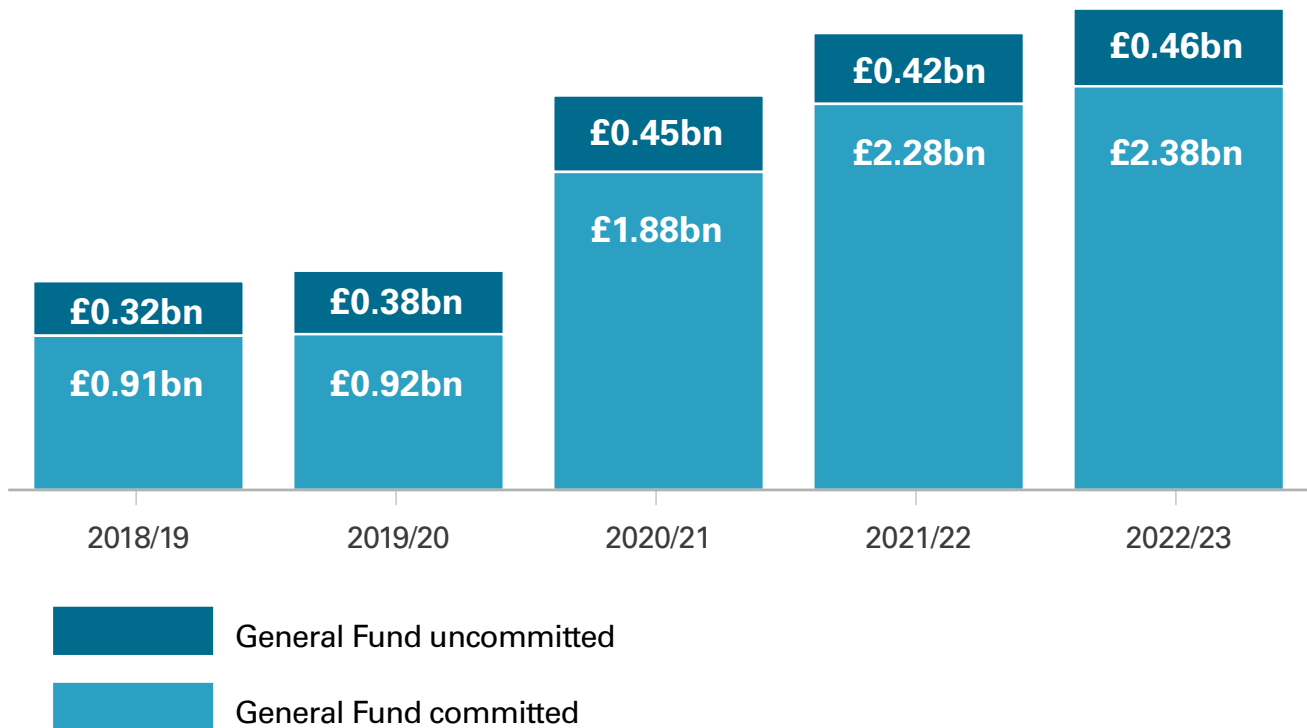
Councils increased their general fund reserves, but this is driven by growth in committed funds

53. In 2022/23, councils increased their total General Fund reserves (excluding any HRA element which not all councils have) by £0.1 billion (4.8 per cent) to £2.84 billion compared to 2021/22.

54. Committed funds have increased by £0.1 billion (4.6 per cent) since 2021/22 and by £1.47 billion (159 per cent) since 2019/20 ([Exhibit 12](#)).

Exhibit 12.

National General Fund balance, 2018/19 to 2022/23, cash terms



Note: This chart excludes HRA.

Source: Councils' annual accounts (audited and unaudited)

55. Paragraph 50 outlines some of the reasons for growth in committed funds in the past year. Based on data extracted from 2022/23 accounts, we calculate that remaining Covid-19 funding makes up around nine per cent of the total committed General Fund balance, but it is difficult to provide an exact figure for this and it may actually be higher. The continued lack of consistent transparency and detail in annual accounts around what and when reserves are committed for, and their associated spending plans, makes conclusions in this area difficult to draw.

Recommendation

Councils should provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability.

Some councils hold very low levels of uncommitted reserves but have specific reserves earmarked for contingency instead

56. Councils have reserves policies in place that set out the rationale for the minimum reserves levels set by the council. Most councils plan to maintain uncommitted reserves at around 2 to 4 per cent of net budgeted expenditure as a contingency to respond to unforeseen events and associated cost pressures.

57. In 2022/23, five councils had an uncommitted reserve balance below two per cent of net budgeted expenditure. Low levels of uncommitted reserves present a risk as it limits a council's ability to cushion the impact of uneven cash flows, unexpected events or emergencies. However, a review of 2022/23 annual accounts for those with the lowest uncommitted balances found that these were planned decisions with specific reserve funds earmarked for contingency.

Councils' total net debt increased by £1 billion (six per cent) between 2021/22 and 2022/23

58. Total net debt (total debt less cash and investments) increased by £1 billion from £16.4 billion in 2021/22 to £17.4 billion in 2022/23 ([Exhibit 13, page 24](#)).

59. At a council level, net debt increased in 24 councils between 2021/22 and 2022/23. This compares to an increase in net debt in 15 councils in 2021/22, and eight in 2020/21.

Exhibit 13.

Councils' total net debt, 2018/19 to 2022/23



	2018/19	2019/20	2020/21	2021/22	2022/23
Net debt (£ billion)	15.7	17.1	16.2	16.4	17.4
Year-on-year % change		9.1%	-5.3%	1.4%	5.8%

Note: Orkney is excluded from the total net debt analysis as it has net investments.

Source: Councils' annual accounts (audited and unaudited)

60. There is significant variation between councils. Some councils have experienced very large increases in their net debt, with the highest increases being in South Ayrshire (29 per cent) and East Dunbartonshire (21 per cent). Both these councils were also among those with the highest increases in the previous year. West Dunbartonshire saw the largest decrease between these years, at seven per cent.

61. Glasgow City Council had the highest net debt at £2.1 billion, which represents a 10 per cent increase on the previous year. Shetland had the lowest net debt, but this had increased by 14 per cent compared to the previous year.

Councils' borrowing costs have reduced over the past nine years. However, decisions to reschedule debt repayment in recent years may create financial pressure in the longer-term

62. LGBF financial sustainability data for 2022/23 shows that the proportion of councils' general fund revenue budget being used to service debt has fallen from 8.4 per cent in 2013/14 to 5.4 per cent in 2022/23.

63. A key contributory factor to this has been the decision by councils to re-profile principal repayments over a longer period, in line with 2016 Loans Fund regulations. Some councils also used the financial flexibility afforded by the Scottish Government that permitted a reduction in the statutory repayment of debt in 2020/21, 2021/22 and 2022/23.

64. Although borrowing costs have reduced, the long-term affordability of these payments is an important element of councils' financial sustainability. There is a risk that decisions to reschedule debt repayments may add pressure on future budgets as it defers costs to later years and does not tackle the underlying challenges to financial sustainability.



Financial sustainability indicators included within the Local Government Benchmarking Framework (LGBF)

consider the affordability of councils' borrowing costs. The ratio of borrowing costs to net revenue budget highlights the revenue implications of existing and proposed capital expenditure. The indicator included in the LGBF identifies the proportion of the general fund revenue budget that is required to meet the cost of borrowing.

Scottish Government funding for 2023/24

Revenue funding to local government from the Scottish Government in 2023/24 saw a cash and real-terms increase on 2022/23

65. The initial core revenue funding settlement for local government in 2023/24 was £10.9 billion. At the 2023/24 autumn revision, an additional £1.5 billion in general revenue grant funding increased total funding to £12.5 billion. This is a 13.5 per cent increase in cash terms and a 7.0 per cent increase in real terms (in 2022/23 prices) on the 2022/23 position. Almost £1 billion was transferred from health to support social care and integration, over £0.25 billion was additional funding for school staff pay and £0.2 billion was transferred from education. ([Exhibit 14](#)).

Exhibit 14.

Scottish Government revenue funding (autumn budget revision), 2023/24 compared to 2022/23, in real terms

Scottish Government revenue funding	Cash terms			Real terms		
	2022/23 £ million	2023/24 £ million	change %	2022/23 £ million	2023/24 £ million	change %
Core revenue	10,999	12,482	13.5%	10,999	11,765	7.0%
General revenue grant	7,458	8,683	16.4%	7,458	8,184	9.7%
Non-domestic rates	2,766	3,047	10.2%	2,766	2,872	3.8%
Specific revenue grants	775	752	-3.0%	775	709	-8.5%

Note: Real terms calculation uses 2022/23 as base year.

Source: Scottish Government budget documents (autumn revision)

66. Over the past decade, the total value of specific revenue grants has steadily increased – see [Exhibit 16 \(page 28\)](#) for further details. However, at the latest 2023/24 budget revision (autumn) it decreased in both cash terms and real terms.

Councils' capital funding allocation for 2023/24 represents a real-terms decrease on 2022/23

67. The initial capital funding settlement for local government in 2023/24 was £747 million. At the autumn revision, capital funding was increased to £767 million. This represents a 2.6 per cent fall in cash terms and an 8.2 per cent fall in real terms compared to the same position in 2022/23.

68. Some capital funding is directed for specific policies. For example, £50 million capital to help with the expansion of the Free School Meals policy.

69. The capital funding outlook for the whole Scottish public sector is challenging and the Scottish Government is currently undertaking a programme of reprioritisation of capital projects. The continued pressure on capital budgets presents risks to local government capital programmes, many of which impact on key services (eg, schools, libraries, roads, etc). However, councils did increase their capital reserves by 40 per cent in 2022/23.

Councils' budget-setting for 2023/24

Councils' budget gaps increased significantly in 2023/24 compared to 2022/23

70. At the time of budgeting, from our sample of 30 councils, a total budget gap of £725 million was identified for councils' 2023/24 budgets, a significant increase on the £476 million identified in 2022/23. This represents 4.2 per cent of the net cost of services (in real terms) compared to 2.9 per cent in 2022/23.

71. All but three councils (East Lothian, Dundee and Highland) in the sample reported a higher budget gap in 2023/24 than 2022/23. The budget gaps for 2023/24 ranged from £5 million in Highland (0.6 per cent of net cost of services) to £77 million in South Lanarkshire (7.8 per cent of net cost of services). The wide range may be in part due to different approaches to budgeting rather than significant differences in cost and service pressures.

72. The most common bridging actions taken to set balanced budgets in 2023/24 were recurring savings (33 per cent), the use of reserves (27 per cent) and increases to council tax (18 per cent) ([Exhibit 15, page 27](#)).

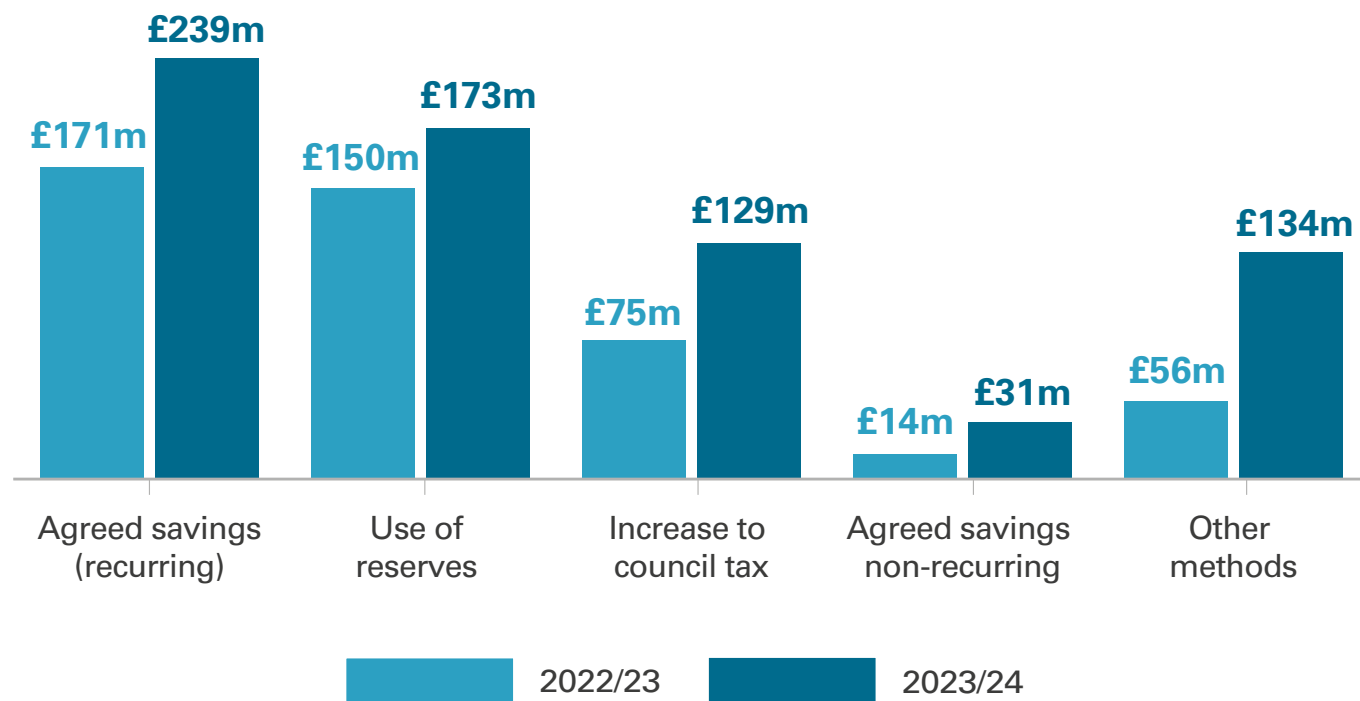
73. Some councils have already taken difficult decisions to address budget gaps through implementation of recurring savings options. However, in the face of public opposition, some councils have reversed decisions that related to the reduction or cessation of services as part of savings put forward for 2024/25. This illustrates the increasing challenges that councils are facing in delivering balanced budgets and highlights the need for proper and timely consultation over budget proposals.

Recommendation

Councils should ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.

Exhibit 15.

Councils' bridging actions to set their 2023/24 budget compared to 2022/23



Note: The chart elements for 2023/24 add up to £733 million which is higher than the total anticipated budget gap for 2023/24. This is because Dundee and North Lanarkshire reported bridging actions of greater value than their budget gap.

Source: Auditor data returns (30 councils in the sample)

Financial sustainability

In real terms, councils' core revenue funding is similar to levels a decade ago. However, over that time, councils' have experienced periods of reduced budgets and increasingly ring-fenced funding

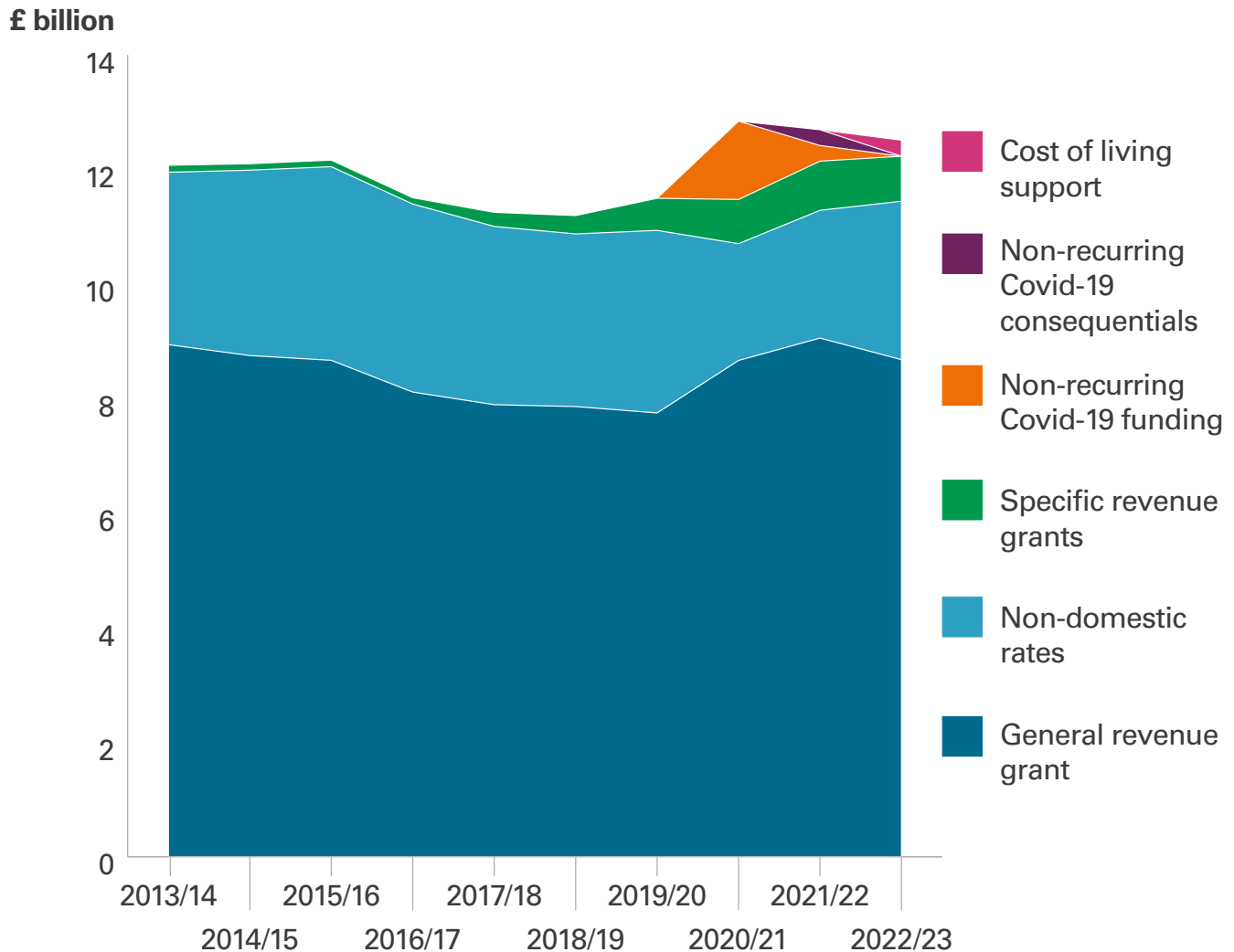
74. The £12.2 billion core allocation received by councils in 2022/23 compares to a real-terms value of £12.1 billion in 2013/14, a 1.3 per cent increase ([Exhibit 16, page 28](#)).

75. Over this period, in real terms the general revenue grant decreased year-on-year until 2020/21 and non-domestic rates also fell over the same period. During the pandemic, councils received additional core and specific non-recurring Covid-19 funding.

76. In real terms, the general revenue grant in 2022/23 is 2.9 per cent (£262 million) lower than in 2013/14 and income from non-domestic rates is 8.1 per cent (£244 million) lower.

Exhibit 16.

Scottish Government revenue funding to local government, real terms, 2013/14 to 2022/23



Source: Scottish Government budget documents (spring revision) for 2014/15 to 2022/23 and actual figures for 2013/14 (from 02/2014 circular) as budget documents were not available

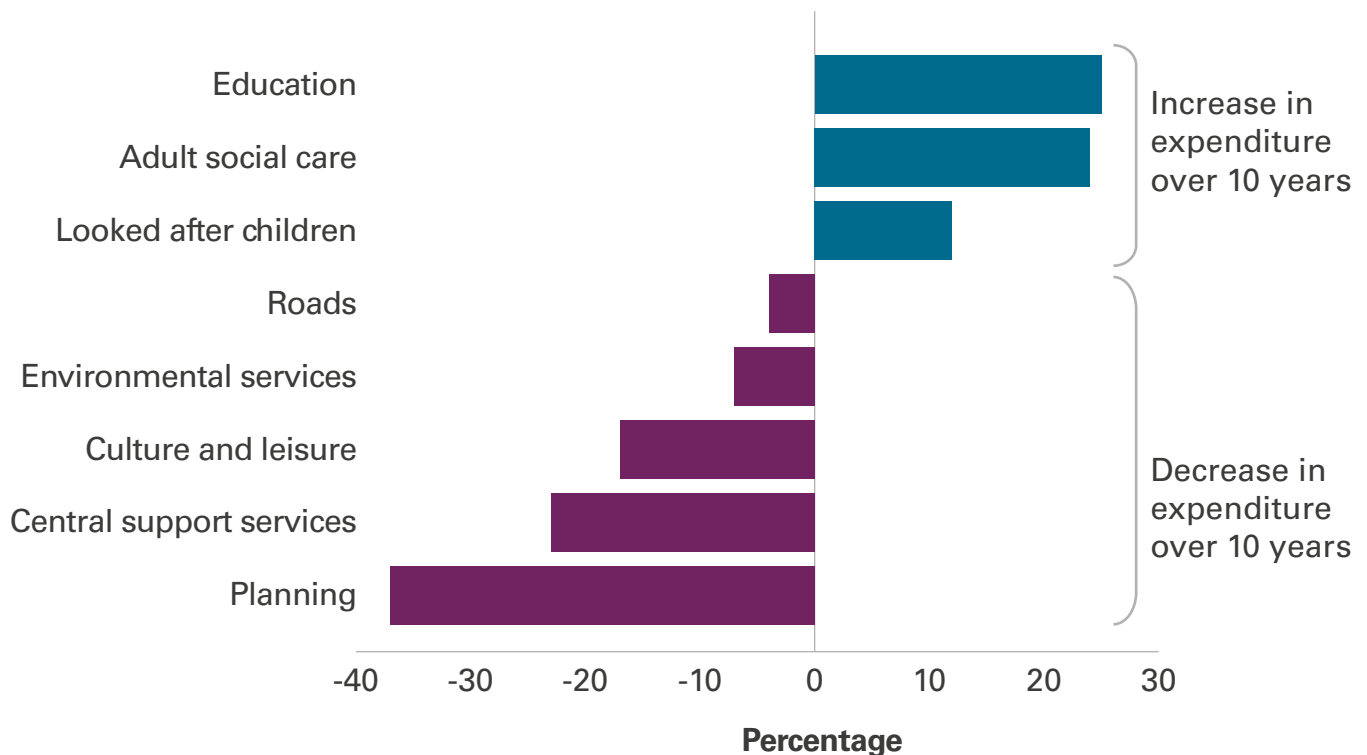
77. Specific revenue grants have increased by over 500 per cent (£663 million) across the same period in real terms (although there was a reduction in 2022/23). This significant increase has been a key contributory factor in keeping the overall local government budget at a similar level. These grants are to support the delivery of specific national policies, for example the expansion of early learning and childcare, rather than provision of flexible funding for councils to use at their discretion.

As demand for council services continues to rise, councils have reduced spending on 'unprotected' services to balance budgets

78. As we reported in our [Local government in Scotland: Overview 2023](#) report in May 2023, over the last decade, there is a clear divergent pattern of spending on council services. Spending on children's services (education and looked after children) and adult social care has been protected and increased because of increased demand and national policy directives. This means that the remaining 'unprotected' services have borne a disproportionate level of spending reductions ([Exhibit 17](#)).

Exhibit 17.

Percentage change in expenditure (in real terms) over ten years, 2012/13 to 2021/22



Source: Improvement Service

Councils' medium- and longer-term financial plans demonstrate a clear recognition of the significant financial challenges that lie ahead

79. Councils' medium- and longer-term financial plans provide a clear picture of the challenging and volatile financial landscape that they face. Significant pressures resulting from increased demand for services, inflation, and legislative reform, as well as the continuing financial impacts of the Covid-19 pandemic and cost of living crisis, feature strongly.

80. Generally, these plans also set out projected budget gaps over the medium and longer term, highlighting the scale of the challenge and the level of savings required to continue to deliver balanced budgets in the years ahead.

81. As the whole public sector faces the most difficult financial outlook seen for many years, councils are having to make increasingly difficult choices about their spending priorities and need to balance short-term pressures with robust planning for long-term financial sustainability.

Some councils use indicators to assess their financial resilience but the extent to which they are used and their effectiveness varies

82. From a sample of 30 councils, an assessment of financial resilience arrangements found all but five use the **financial sustainability indicators** from the local government benchmarking framework (LGBF) in local reporting. Of the same sample, only six use the CIPFA Resilience Index. The extent of this reporting also varies. Some councils provide regular reports to elected members, while others include detail on a less frequent basis in other documents, such as service plans or strategies.

83. Auditor returns indicated that in some cases, financial resilience indicators are not used to any great extent by councils on a regular basis. Financial resilience is instead built into day-to-day financial processes and strategies. In other cases, auditors highlighted the use of key financial ratios recommended by CIPFA Directors of Finance within the management commentary of the accounts or reporting upon financial resilience monitoring in their medium-term financial plans.



Financial sustainability indicators are a helpful tool for councils to measure performance and resilience on an ongoing basis. Councils have adopted different approaches to how they use indicators to monitor financial resilience.

Recommendation

Given the scale of the challenges, councils should strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium- and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.

The pensions' triennial funding valuation as at 31 March 2023 is not yet complete, but preliminary results suggest a potential positive impact on finances at some councils in the short term

84. The most recent triennial funding valuation took place across Local Government Pension Scheme pension funds at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

85. Preliminary results across some pension funds show an improved funding position. An improved funding position may allow the fund to retain a surplus, change the investment strategy, take less funding risks, or reduce employer contributions.

86. Reducing employer contributions has the potential to create a 'windfall' effect for some councils, thus potentially reducing some of the cost pressures likely to be faced in 2023/24. This may allow councils some additional flexibility to manage immediate financial pressures while taking steps to enhance financial sustainability over the longer term. This will however require careful consideration at a local level. It is likely that auditors will monitor this closely as part of 2023/24 audits.

The Verity House Agreement and looking to the future

87. In June 2023, a new partnership agreement, the Verity House Agreement, was agreed between the Scottish Government and COSLA.

88. The partnership committed to:

- **From June 2023, a default position of no ring-fencing or direction of funding unless there is a mutual understanding of the reasons for a ring-fenced funding arrangement.** A reduction in the level of ring-fencing is likely to have a positive impact on the efficient and effective use of resources at a local level. Councils will experience increased local flexibility, providing greater scope to respond well to local needs in a targeted manner. However, good accountability for the use of public funds remains crucial. It is important therefore that the Scottish Government and COSLA work together to establish the right balance between direction and flexibility.
- **By the end of October 2023, undertake a joint review of specific grants and in-year transfers to local government.** The purpose of the review is to identify what funding can be baselined into the General Revenue Grant or General Capital Grant from the 2024/25 financial year to create more flexibility for councils in terms of their spending.
- **By the end of September 2023, agree a new fiscal framework which will govern the allocation of funding for local authorities and provide councils with increased control over their budget-setting processes. This includes multi-year settlements wherever possible to support strategic planning and investment.** The Accounts Commission has previously highlighted the importance of longer-term certainty in funding for councils, and the ongoing need for effective and robust financial management. This commitment in the Verity House Agreement is a welcome development.

89. Work in these areas remains ongoing, although at mid-December 2023 these milestones had not been met.

Recommendation

Councils should work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.

90. In October 2023, the First Minister unexpectedly announced a council tax freeze for 2024/25 and the postponement of Scottish Government proposals to increase the council tax multipliers for properties in bands E to H, by 7.5 per cent, 12.5 per cent, 17.5 per cent and 22.5 per cent. This was done without consultation with COSLA. Following greater reliance on increasing council tax to help deliver a balanced budget over the past two years, indications were that many councils were planning to increase council tax again for 2024/25.

91. The [Fraser of Allander Institute](#) modelled that 'if councils were planning increases that mirrored last year's (5.4 per cent), fully funding the freeze and cancellation of the multipliers would cost £329 million – £148 million for the former and £182 million for the latter'.

92. In the Scottish Budget on 19 December 2023, £144 million was allocated to 'fully fund' the council tax freeze, with the Scottish Government stating this is equivalent to a five per cent increase. Details on what this means for individual councils were not available at this time.

93. The impact of the freeze on councils' financial sustainability is not yet known and we will monitor this in our future audit work. However, even when 'fully funded' a council tax freeze suppresses the growth of the council tax base over that period and the income generated when the freeze is lifted is potentially lower than if councils were able to make tax raising decisions at a local level. The latest council tax freeze follows decisions by the Scottish Government to freeze council tax between 2008/09 and 2016/17 and in 2021/22, as well as cap increases at three per cent in 2017/18 and 2018/19.

94. The Scottish Government published their single year 2024/25 budget on 19 December 2023. The 2024/25 initial core revenue and capital settlement for local government is £12.3 billion which is a 1.7 per cent cash increase on the 2023/24 initial settlement. An additional £144 million has been allocated to fund the council tax freeze. A number of elements that were previously specific grants have been baselined into the general revenue grant including early learning and childcare expansion and the Living Wage funding. We will examine the implications of the Scottish Budget for councils' own budget setting in a budget briefing in spring 2024.

Local government in Scotland

Financial bulletin

2022/23



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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Unaudited Annual Accounts 2023/24

Report by David Gladwin, Chief Financial Officer and Section 95 Officer

Report for Information

1 Recommendation

- 1.1 In accordance with The Local Authority Accounts (Scotland) Regulations 2014 set out in section 3.2 of this report and specifically sections 8 (9) and 8 (10), Audit Committee are asked to consider the unaudited annual accounts for 2023/24.

2 Purpose of Report / Executive Summary

- 2.1 The purpose of this report is to outline material changes in the value of net assets as at 31st March 2024 and to facilitate Audit Committee consideration of the Council's unaudited annual accounts for 2023/24.
- 2.2 At the time of writing this report a final review of the document is ongoing.

Date: 18 June 2024

Report Contact:

David Gladwin: 0131 271 3113
David.gladwin@midlothian.gov.uk

3 Background

- 3.1 The unaudited annual accounts for 2023/24 are in the final stages of preparation with work on track to complete the document in advance of the statutory deadline of 30th June. A draft copy of the accounts will be issued to Committee members in advance of the meeting and will be published online once signed after Audit Committee consideration.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited annual accounts by 31st August 2024.

Published Accounts and Audit

8.—(1) A local authority must ensure that its Annual Accounts are prepared in accordance with these Regulations and, so far as compatible with these Regulations, in accordance with proper accounting practices.

(2) The Annual Accounts must include, in addition to the financial statements required by proper accounting practices, the following statements, which are to be prepared in accordance with proper accounting practices and recognised guidance—

- (a) a management commentary;
- (b) a statement of responsibilities;
- (c) an annual governance statement;
- (d) either—
 - (i) a remuneration report in the style set out in the Schedule to these Regulations, or
 - (ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.

(3) The Annual Accounts must also include such of the following statements and disclosures as are relevant to the functions of the local authority—

- (a) a housing revenue account;
- (b) a non-domestic rate account;
- (c) a council tax account;
- (d) any other statement relating to statutory funds which is required by any statutory provision.

(4) The remuneration report referred to in paragraph (2)(d)(i) must contain the information set out in the Schedule to these Regulations.

(5) The proper officer must ensure that—

- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
- (b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

(6) Once the proper officer is satisfied as to the matters set out in paragraph (5), the proper officer must certify these matters by signing and dating the statement of responsibilities and the balance sheets contained within the Annual Accounts and then submit the Annual Accounts to the auditor.

(7) The Annual Accounts must be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate.

(8) The local authority must publish a copy of the Annual Accounts submitted to the auditor, clearly identified as an unaudited version, on a website of the authority from the date they are submitted until the date on which the audited Annual Accounts are published in accordance with regulation 11.

(9) A local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor.

(10) The meeting referred to in paragraph (9) must be held no later than 31st August immediately following the financial year to which the Annual Accounts relate.

- 3.3 As required by paragraph 6 and 7 of the regulations the unaudited annual accounts will be signed by the Chief Financial Officer on or before the 30th June 2024 and immediately submitted to Audit Scotland, the Council's appointed external auditors.
- 3.4 The regulations also provides for public inspection and this will run from 1st July 2024 to 19th July 2024.
- 3.5 Separately, on the Council agenda for 25th June 2024, are the year-end financial monitoring reports which provide commentary on the in-year spend against budget and reserves positions for the following account areas:
- Financial Monitoring 2023/24 General Fund Revenue;
 - Housing Revenue Account Revenue and Capital Final Outturn 2023/24; and
 - General Services Capital Plan Outturn 2023/24.

4 Financial Statements Presentation

- 4.1 There continues to be refinements to the format and presentation of the annual accounts as part of a continuous improvement approach.
- 4.2 There have been no changes to the accounting code for 2023/24 that impact materially on the Council's accounts.

5 Long Term Assets

- 5.1 The total value of Long Term Assets increased during the year by £40 million reflecting further investment in the asset base and changes to the value of the Council's asset base.
- 5.2 For the School estate the Council's valuation methodology applies published Scottish Futures Trust (SFT) metrics intrinsic in the Learning Estate Investment Programme (LEIP) alongside evidence on the cost of school builds in Midlothian in recent years.
- 5.3 In 2020/21 the Council amended the valuation basis for its shareholding in Lothian Buses Ltd to exclude any impact from the volatility of IAS 19 Pension valuation methodology. This basis of valuation remains in 2023/24. Excluding pension valuations, Lothian Buses Ltd accounts to 31st December 2023 show a reduction in net assets of £3.011 million.
- 5.4 The Council have a 5.47% shareholding in Lothian Buses Ltd valued in the accounts at £5.594 million. This is a decrease of £0.165 million from that in the 2022/23 accounts.
- 5.5 Council approved a capped level of investment in Midlothian Energy Limited of £8.6 million to support work on the initial Shawfair project. During 2023/24 there was no further drawdown with investment to 31st March of £5.6 million.

- 5.6 The requirement of International Accounting Standard (IAS) 19 – Employee Benefits requires an annual actuarial valuation for accounting purposes of the council's share of Lothian Pension Fund. There can be significant volatility between annual valuations.
- 5.7 IAS 19 valuation results as at 31st March 2024 show a net asset for the Council's share of Lothian Pension Fund of £186.529 million. This is very much in line with the equivalent figure at 31st March 2023 of £188.463 million.
- 5.8 However, the accounting standard imposes a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet and this limit depends on factors unique to each employer. The limitation on valuation is based on the remaining future working lifetime of active staff and the present value of accruing service cost less value of cash contributions.
- 5.9 Application of this methodology results in the derecognition of all the pension asset. However, the accounting standard requires inclusion of the liability in relation to the present value of unfunded obligations. At the 31st March this is £7.612 million being a £0.188 million reduction on the figure as at 31st March 2023.
- 5.10 Funding of pension obligations is determined by a full triennial valuation and the 2023 triennial valuation showed an increase in the overall funding position to 158% of assets relative to liabilities. In response the contribution rate that the Council pay for employee members of Lothian Pension Fund reduced from 22.2% in 23/24 to 17.6% for 2024/25 to 2026/27. The next triennial revaluation is in 2026.

6 Current Assets

- 6.1 At 31st March 2023, the combined value of short-term investments and cash and cash equivalents shown in the Balance Sheet was £115.8 million. The comparable figure at 31st March 2024 is £57.5 million. The position at 31st March 2024 reflects an under borrowed position of £61 million which is in line with approved Treasury Strategy related to interest prospects for longer term Public Works Loans Board borrowing.

7 Long term Liabilities

- 7.1 As the Council's Public Private Partnership (PPP) and similar contracts move a year closer to expiry there is reduction of £3.9 million in the outstanding long-term liability.
- 7.2 Despite maintaining the Treasury Strategy of delaying longer term borrowing whilst interest rates remain high it was appropriate towards the end of the financial year to take some very short dated long term borrowing to the value of £20 million.

8 Audit and Consideration of audited Accounts

- 8.1 Audit Scotland are well underway with the initial phase of the 2023/24 audit. Plans for the substantive phase of the audit over the summer months are in place with a clearance meeting expected during October 2024.
- 8.2 Thereafter, the audited annual accounts are scheduled to be presented to Audit Committee on Monday 25th November 2024 together with the Audit Scotland annual audit report which will also go on to Council in December.
- 8.3 The Local Authority Accounts (Scotland) Regulations 2014 also set out the requirements for completion, approval and signing of the audited accounts as follows.

Consideration and Signing of Audited Annual Accounts

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

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

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

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

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

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

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

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

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

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

- 8.4 Exceptions to statutory deadlines that were implemented during the pandemic remain in place. Audit Committee on 25th November must consider, in accordance with paragraphs 1 and 2, whether the accounts are ready for signature and if so the Leader, Chief Executive and the proper officer (S95 officer) will sign the accounts before submission to the Accounts Commission.

9 Report Implications

9.1 Resource

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

9.2 Digital

There are no IT implications arising from this report.

9.3 Risk

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

9.4 Ensuring Equalities

There are no equality implications arising directly from this report.

9.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

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

This report does not directly impact Midlothian Council's key priorities but a key message within the Accounts Commission report is that the way Council's respond to the financial challenge will inevitably impact on how they can deliver of key priorities and outcomes.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

The 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.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.



MIDLOTHIAN COUNCIL UNAUDITED ANNUAL ACCOUNTS

2023/24



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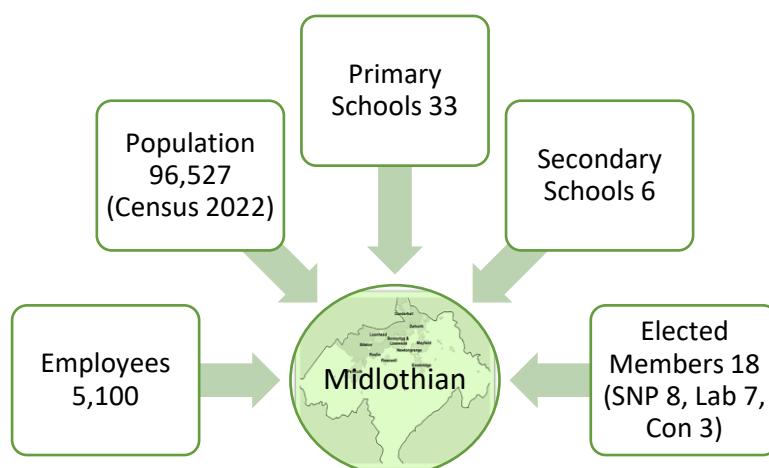
Management Commentary

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

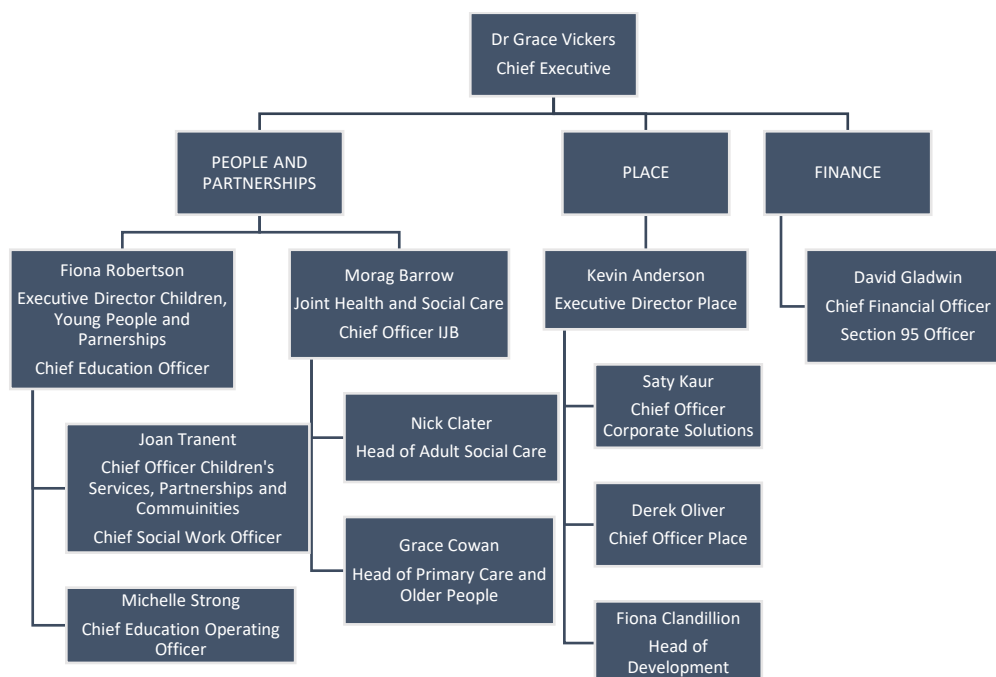
The Annual Accounts present the financial position and performance of the Council demonstrating the stewardship of funds that support the Council's vision and key priorities. The format and content of the Annual Accounts are prepared in accordance with *Code of Practice in Local Authority Accounting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

About Midlothian Council

Midlothian Council is located south of Edinburgh centred on the main towns of Penicuik, Dalkeith, Bonnyrigg and Lasswade. One of the smaller local authority areas, but also the fastest growing, it has emerged as a world centre for the Bioscience industry. Midlothian population has grown by 16.1% between Census 2011 and 2022. Projections show a continued increase by a further 9.1% to 2043. Key facts about Midlothian are:



Council Service Structure



Key Priorities and Objectives

Midlothian Council's key priorities and objectives are set out in the [Single Midlothian Plan 2023-2027](#) (SMP). These priorities are delivered through the Community Planning Partnership (CPP), which sets out how we collaborate with communities and partners to deliver our vision for Midlothian to be a "Great Green Place to Grow."

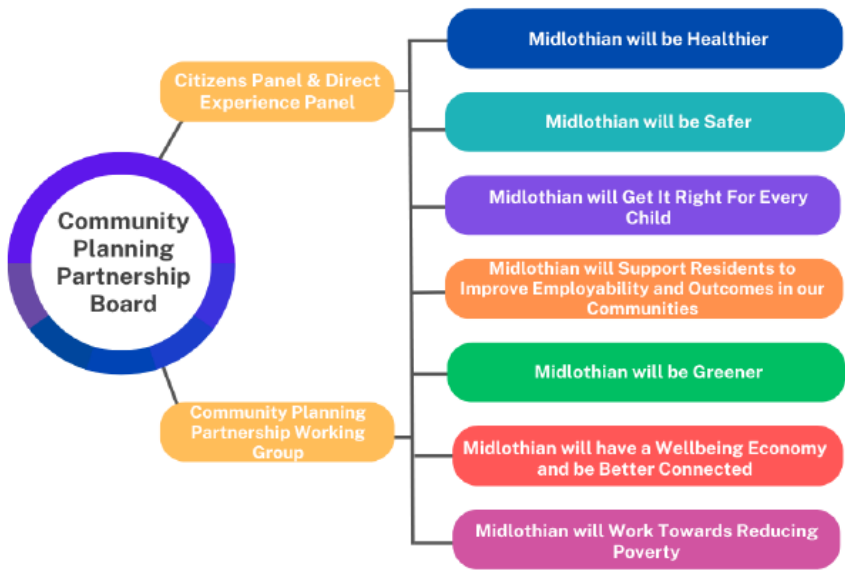
The Single Midlothian Plan has identified its three main outcomes for the next four years:

- Individuals and communities have improved health and skills for learning, life and work;
- No child or household living in poverty;
- Considerable progress is made towards net zero carbon emissions by 2030.

These form the common and strategic guidance for the Council and its partners to encourage plans and measures to be developed to work towards enabling individuals and communities being able to lead healthier, safer and greener lives by 2030.

The Community Planning Partnership is led by the Community Planning Board, on which a number of organisations sit and work together to achieve key actions towards seven thematic priorities across the four years, with a more focused approach in reducing poverty and collaborating with communities to increase wealth, reflecting the wellbeing and circular economy principles using a place based model.

How we work together:



The annual Balanced Scorecard measures progress towards these outcomes and is used to demonstrate ongoing improvements and reflect the ongoing challenges within Midlothian. The full detail behind the performance indicators measured by the balanced scorecard for 2023/24 can be found on the Council’s website [Midlothian Council/Performance and spending](https://www.midlothian.gov.uk/performance-and-spending).

Key Achievements and Highlights for 2023/24

Achievement	Commentary
Lasswade High School and Lawfield Primary School being awarded the Gold School Sport Award for 2023-25.	Led by Midlothian Active Schools Team, Sport Scotland School Sport Award is an assessment and planning tool which encourages schools to demonstrate an on-going commitment to increase young people's opportunities and engagement in physical education, school sport and leadership and provide clear pathways to life-long participation in sport. Lasswade is the first of Midlothian's High Schools to achieve the award. The gold school sport award is recognition of the school's achievements in putting sport at the heart of schools planning, practice and ethos and is achieved through a combined team effort from the school's Physical Education Departments, Midlothian Active Schools, the School Sports Council and the young people of the schools.
£2.2 million grant award from Zero Waste Scotland	Zero Waste Scotland is administering a £70 million Recycling Improvement Fund on behalf of Scottish Government, of which £2.2 million was offered to Midlothian Council. The grant will provide significant capital injection to affect service and transformational change. Neighbourhood Services colleagues have developed options for change to present to Council which address the population growth, the need to improve waste recycling rates and the need to reduce our carbon footprint.
Learning Places Scotland national award for Midlothian's Equipped for Learning Project	This national award is for transforming learning, teaching and the curriculum. The council's £10.5 million investment in equipping all young people with the digital skills they need for learning, life and work has seen more than 14,000 pupils benefit from a device for learning. Judges heard the project is changing lives and the good news is Midlothian families will also now be able to download free literacy support software to their own devices for free thanks to a world-first partnership between Midlothian Council and digital software supplier, Texthelp. This support, which is called Free for Families was launched during the financial year and you can find out more by watching this video .
Midlothian Community Respiratory Team (CRT) and Midlothian Performance Team who won the Asthma/ Chronic Obstructive Pulmonary Disease (COPD) Project of the Year at the Scottish Healthcare Awards 2023	Their innovative project focussed on the use of data to provide a deeper understanding of the teams' functioning and their patient cohort. It also enabled the team to illustrate the benefits of having a CRT proactively support people who previously had not been known to the team and provided a platform of information on which to grow. The team provided evidence of the contribution made by CRTs to help people with COPD to stay at home safely, reducing admissions and bed days
Provision of Affordable Housing	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in October 2023. To address the need for affordable housing the SHIP details potential sites for 2,115 new affordable homes to be built during 2024-29. During 2023/24 136 new Council Houses were completed, this brings the total completed to 1,655 over the past 17 years, net of demolitions and disposals. In addition, twenty-seven properties were purchased during the year to add to the overall housing stock.

Financial Performance for 2023/24

Financial information is part of the Council's Performance Management Framework with the General Fund and Housing Revenue Account (HRA) financial performance regularly reported to Council. This section summarises our financial performance for 2023/24. Full details of the Council's financial performance were reported to Council on 25 June 2024 and is available on the [Council's website](#).

Usable Reserves

The Council holds funds in a number of Useable Reserves for various purposes. Details of the balances and prior year comparatives are shown in the table below, more detail can be found in the Movement in Reserves Statement on Page 35:

Useable Reserve	Purpose	2023/24 £000	2022/23 £000
General Fund Non-Earmarked Reserve	Funds held as a general contingency. Service Concession Retrospection. Anticipated Settlement of VAT Claim.	9,318 16,370 0	9,877 0 6,839
General Fund Earmarked Reserve	Funds held for specific purposes (<i>note 8</i>).	20,650	18,247
Housing Revenue Account	Funds held for investment in the Council's housing stock.	33,182	32,143
Capital Fund	Funds set aside for major capital developments or asset purchases.	17,242	20,107
Repairs and Renewals Fund	Funds held for specific types of repairs and maintenance work.	4,113	4,138

General Fund Performance

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

Actual outturns against budget for each of the Council's General Fund Service areas as follows:

General Fund Revenue Outturn 2023/24			
Service Area	Revised Budget £000	Net Expenditure £000	(Under)/Overspend £000
Management and Members	1,822	1,911	89
Place:			
Corporate Solutions	25,291	24,855	(436)
Place	41,917	44,850	2,933
Central Costs	0	387	387
People & Partnerships:			
Midlothian Integration Joint Board	57,416	57,416	0
Adult Health & Social Care – Non-Delegated	664	615	(49)
Children's Services, Partnerships and Communities	18,606	18,610	4
Education	129,720	129,876	156
Lothian Valuation Joint Boards	582	562	(20)
Non-distributable Costs	899	808	(91)
General Services Net Expenditure	276,917	279,890	2,973
Loan Charges	4,435	1,591	(2,844)
NDR Discretionary Relief	70	78	8
Investment Income	(286)	(209)	77
Allocations to HRA, Capital Account etc.	(5,433)	(5,771)	(338)
Total Expenditure	275,703	275,579	(124)
Less Funding			
Scottish Government Grant	199,023	198,835	188
Council Tax	62,836	62,977	(141)
Transfer from Housing Revenue Account	2,014	2,071	(57)
Utilisation of Reserves	11,830	11,696	(134)
Reserve Movement	Opening Balance	Movement	Closing Balance
General Fund Reserve (MIRS)	(34,963)	4,996	(29,967)
Service Concessions	(20,463)	4,092	(16,371)
Total	(55,426)	9,088	(46,338)

The most significant areas contributing to the favourable variances against budget in Council service areas were in relation to:

- Volume and value of school pupil transport invoices were higher than budget by £1.157 million. A root and branch review of Council transport is underway as part of the Transformation Blueprint and the 2024/25 budget for pupil transport has increased in recognition that time is required to reduce existing costs;
- Ageing fleet vehicles and higher volumes of external contracting than planned alongside external vehicle hire to support service continuity resulted in an overspend of £0.909 million. A Fleet maintenance review is underway;
- Works to complete the Alpine coaster as part of the Destination Hillend project were not completed during the financial year due to external delays impacting on civil engineering works, resulting in an income shortfall of £0.483 million. The project team have since accelerated the coasters construction and are on target for opening in the coming weeks;
- Unit prices for electricity in 2023/24 as provided by Scotland Excel during the budget setting process are higher than budgeted, resulting in an overspend in energy costs of £0.444 million.
- Loan Charges underspent by £2.844 million in 2023/24. There are three main factors:
 - Higher than forecast and more sustained periods of surplus cash related directly to timing of capital expenditure thus providing opportunity to generate some deposit income;
 - Delays in longer-term borrowing due to availability of existing funding to support capital programmes in 2023/24; and
 - Higher than budgeted deposit income from cash-backed reserves due to a significant increase in interest rates during 2023/24 from those expected when the budget was set.

Full details of all other variances affecting the Final Outturn position can be found in the 25 June Council report [Financial Monitoring 2023/24 - General Fund Revenue](#).

Summary Position

The Council approved a Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve of 2% of net expenditure (excluding resources delegated to Midlothian Integrated Joint Board), which now equates to £4.4 million. In 2023/24 there was an increase of £9.087 million in the General Fund Reserve comprising the £0.134 million underspend detailed above, planned utilisation of reserves of £24.123 million, service concession accounting, application of Business Transformation funding of £0.433 million and budgets to be carried forward for use in 2024/25 of £15.335 million. Further details are provided in the Movement in Reserves Statement on Page 35.

Housing Revenue Account Performance

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The Housing Revenue Account records all income and expenditure relating to the Council's own housing stock. Rents paid by tenants' funds the revenue expenditure on housing management, repairs and maintenance and in part financing of capital expenditure. The table below provides analysis of financial performance for 2023/24:

Housing Revenue Account Outturn 2023/24	Revised Budget £000	Net Expenditure £000	(Under)/Overspend £000
Expenditure:			
Repairs & Maintenance	8,389	9,306	917
Administration and Management	5,433	5,771	338
Loan Charges	14,484	13,345	(1,139)
Other Expenses	2,808	3,702	894
Total Expenditure	31,114	32,124	1,010
Income:			
Council House Rents	(32,819)	(32,322)	497
Other Rents & Recharges	(812)	(841)	(29)
Total Income	(33,631)	(33,163)	468
Net Expenditure (Income)	(2,517)	(1,039)	1,478
Reserve Movement	Opening Balance	Movement	Closing Balance
HRA Reserve	(32,143)	(1,039)	(33,182)

Overall, the HRA showed an overspend at the year-end mainly due to:

- Additional spend on repairs and maintenance in order to address Scottish Housing Quality Standard (SHQS) indicators, sustain continual improvement in void turnaround times and respond to an increase in dampness reports;
- An increase in rechargeable costs in the General Fund resulted in increased administration and management costs of £0.338 million within the Housing Revenue Account;
- An increase in levels of outstanding rent debt and an assessment of the collectability of this debt has resulted in an increase the provision for voids and irrecoverable rents of £0.375 million;
- The provision for new claims in relation to winter and fire damage has resulted in an increase in the insurance liability of £0.227 million;
- Reflection of latest New Social Housing delivery Programme resulting in lower than budgeted rental income of £0.497 million;
- Lower overall borrowing requirements during 2023/24 and deferral of any borrowing until the latter part of the year, resulting in a reduction of debt costs of £1.139 million.

The closing balance on the Housing Revenue Account reserve is £33.182 million which is committed to fund the Council's ambitious capital investment plan currently running to 2038/39, to build further new housing stock and continue to improve and upgrade its existing stock, particularly through SHQS improvement and Energy Efficiency Standard for Social Housing (ESSH) works. The majority of this plan is funded through prudential borrowing with costs of borrowing met from rental income and planned utilisation of the HRA reserve, which is projected to reduce to approximately £2 million by the end of the plan.

Reconciliation of General Fund and Housing Revenue Account Monitoring to the EFA

The table below provides a reconciliation to assist users of the accounts to navigate from the Midlothian Council Budget Monitoring position on page 7 to the first column in the Expenditure and Funding Analysis (EFA) on page 32. The Expenditure and Funding Analysis provides the link between the Final Outturn reports and the figures in the Comprehensive Income and Expenditure Statement (CIES) by removing the various statutory adjustments required under generally accepted accounting practices.

Final Outturn to EFA Reconciliation			
Service Area	Final Outturn Net Expenditure £000	Internal Reporting Adjustments (see table below) £000	Figure Reported in EFA £000
Management and Members	1,911	(27)	1,884
Place:			
Corporate Solutions	24,855	(8,051)	16,804
Place	44,850	(3,057)	41,793
Central Costs	387	(74)	313
People & Partnerships:			
Midlothian Integrated Joint Board	57,416	0	57,416
Adult Health & Social Care – Non-Delegated	615	(1)	614
Children's Services, Partnerships and Communities	18,610	1	18,611
Education	129,876	(9,890)	119,986
Lothian Valuation Joint Board	562	0	562
Non-distributable Costs	808	0	808
Add Back:			
Housing Revenue Account	0	(14,717)	(14,717)
Net Expenditure	279,890	(35,816)	244,074
Loan Charges	1,591	21,263	22,854
Investment Income	(209)	0	(209)
Allocations to HRA, Capital Account etc.	(5,771)	5,771	0
HRA Transfer	(2,071)	2,071	0
NDR Discretionary Relief	78	(78)	0
Scottish Government Grant	(198,835)	79	(198,756)
Council Tax	(62,977)	5,671	(57,306)
Service concessions	0	(2,608)	(2,608)
Other Income and Expenditure	(268,194)	32,169	(236,025)
Utilisation of Reserves	11,696	(3,647)	8,049

Internal Reporting Adjustments					
Service Area	HRA £000	PPP £000	Council Tax Reduction £000	Other £000	Total £000
Management and Members <i>Place:</i>	(27)	0	0	0	(27)
Corporate Solutions	(2,380)	0	(5,671)	0	(8,051)
Place	(3,031)	300	0	(326)	(3,057)
Central Costs	0	0	0	(74)	(74)
<i>People & Partnerships:</i>					
Education	0	(9,890)	0	0	(9,890)
Adult Health & Social Care	0	0	0	(1)	(1)
Children's Services, Partnerships and Communities	0	0	0	1	1
Add Back:					
Housing Revenue Account	(14,717)	0	0	0	(14,717)
Net Expenditure	(20,155)	(9,590)	(5,671)	(400)	(35,816)
Loan Charges	11,274	9,590	0	399	21,263
NDR Discretionary Relief	0	0	0	(78)	(78)
Allocations to HRA, Capital Account etc.	5,771	0	0	0	5,771
HRA Transfer	2,071	0	0	0	2,071
Scottish Government Grant	0	0	0	79	79
Council Tax	0	0	5,671	0	5,671
In-year Service Concessions	0	0	0	(2,608)	(2,608)
Other Income and Expenditure	19,116	9,590	5,671	(2,208)	32,169
Utilisation of Reserves	(1,039)	0	0	(2,608)	(3,647)

Capital Expenditure 2023/24

Capital expenditure represents the money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The difference between capital and revenue expenditure is that the Council receives the benefit from capital expenditure over a period exceeding one year. In 2023/24 the final budget for General Services capital investment was £47.509 million (2022/23 £23.291 million), which was overspent by £0.147 million. The table below identifies actual capital spend during the financial year for key projects:

2022/23 Revised Budget	2022/23 Actual Spend		2023/24 Revised Budget	2023/24 Actual Spend
£000	£000	General Fund Capital Spend	£000	£000
5,254	5,300	School Estate	26,047	26,241
5,833	5,833	Roads, Pavements and Street Lighting	2,007	2,007
1,059	1,059	Regeneration & Development	6,263	6,263
1,911	1,911	Fleet Replacement and Upgrades	5,137	5,137
1,869	1,869	Digital Assets	2,824	2,824
551	551	Transport, Energy and Infrastructure	2,358	2,340
837	837	Centralised Property Upgrades	599	599
5,977	5,962	Other Capital Projects	2,274	2,245
23,291	23,322	Total Spend	47,509	47,656

The table below demonstrates the breakdown of the Housing Revenue Account Capital Spend for 2023/24:

2022/23 Revised Budget	2022/23 Actual Spend		2023/24 Revised Budget	2023/24 Actual Spend
£000	£000	Housing Capital Spend	£000	£000
42,142	42,142	New Social Housing and Market Purchases	39,215	39,215
8,785	8,785	SHQS Improvement Works	9,837	9,837
826	783	Other Small Capital Projects	1,396	1,360
51,753	51,710	Total Spend	50,448	50,412

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

Treasury Management and Investment

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

Financial Indicator	2022/23	2023/24	Commentary
Capital financing requirement – underlying need to borrow (excluding PFI/PPP/DBFM)	£339.033m	£401.845m	Reflects the Council's underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Authorised Debt Limit	£472.662m	£534.105m	This represents the maximum amount that the authority may borrow and is set at a level that reflects capital expenditure plans but includes headroom to allow for unusual cash movements.
Actual external borrowing	£321.753m	£340.871m	The actual external debt and long-term liabilities position of the Council. The actual figures should never exceed the Council's Authorised Debt Limits, which are calculated in line with the requirements of the Prudential Code for Capital Finance in local authorities.
Under / (Over) Borrowed	£17.280m	£60.974m	This demonstrates that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital to support capital programmes whilst interest rates on long-term fixed rate borrowing are high.
Ratio of finance costs to net revenue stream – General Fund	0.38%	0.60%	This is a measure of how affordable the Council's capital plans are. It takes actual finance costs as a % of net revenue spend.
Ratio of finance costs to net revenue stream – HRA	36.03%	40.24%	As above excluding loans fund principal repayment holiday applied in 2022/23.
External Loans Fund Interest Rate	3.01%	3.00%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	2.41%	2.08%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average 'loans fund rate' figure for the council.

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

Balance Sheet

The table below summaries the Council's Balance Sheet as at 31 March 2024. The Balance Sheet brings together assets and liabilities, year-end balances, money owed to and by the Council and reserves. More information on the balance sheet is provided on page 36.

	31 March 24 £000	31 March 23 £000	Change £000
Long-term Assets	1,246,936	1,207,334	39,602
Current Assets	101,135	158,690	(57,555)
Current Liabilities	(96,423)	(107,711)	11,288
Long-term Liabilities	(432,401)	(418,029)	(14,372)
Net Assets	819,247	840,284	(21,037)

The main areas of movement in the net assets of the Council relate to the following areas.

Pension Obligation

The impact of the Local Government Pension Scheme and Scottish Teachers Superannuation Scheme on the Council's accounts have been disclosed in **Notes 34** and **35** to the accounts. As at 31 March 2024, the Council's share of Lothian Pension Fund shows a net pension asset of £186.529 million (2022/23 pension asset £188.463 million). However, under the International Financial Reporting Interpretations Committee Standard 14 – The Limit of a Defined Benefit Asset (IFRIC 14) the actuary has calculated that the net present value of the future contributions of £1.485.912 billion exceeds the value of the future service costs of £1.398.119 billion, a negative contribution. As a result of this calculation, IFRIC 14 advises that no defined benefit plan asset should be recognised in the Council's Balance Sheet and there is no requirement to recognise the £87.793 million difference as a liability, however, the Council is required to reflect the liability in relation to present value of unfunded obligations of £7.612 million and this figure is contained in the Balance Sheet.

Formal actuarial valuations are conducted every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The most recent formal valuation was March 2023 with the subsequent results based on a roll forward from the formal valuation. The movements in the pension valuation is due to a combination of applying the actual Pensions Increase order of 6.7% to the benefits, a slight increase in the discount rate of 0.05% and changes in demographic assumptions by the actuary.

Long-term Assets

Long-term Assets have increased in value by £39.602 million. This is primarily related to continued investment in new assets across the Council and increases in the value of our existing assets which have been revalued as part of our five-year rolling revaluation programme. Further details of these movements can be found in **Notes 14-17** of the annual accounts.

Current Assets – A reduction in short-term and liquid deposits within current assets to £57.522 million reflecting an increased level of internal borrowing in line with the Council's Treasury Strategy.

Long-term Liabilities – Long-term Borrowing

Increase in the Council's longer term borrowing of £18.481 million.

Risk and Uncertainties Facing the Council

Like all local authorities Midlothian Council is facing a period of unprecedented change and financial challenge with many factors affecting the need to adapt as an organisation. These pressures on demand for Council services are only likely to increase as it reacts to future challenges which have been exacerbated by the recent pandemic and a growing cost of living crises. Some of the challenges the Council face include:

Risk and Uncertainty	Commentary
Continued Demographic Pressures	Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. Increasing financial hardship is also expected due to the cost-of-living crisis resulting in an increase in the level of poverty rates. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures.
Requirement to maintain the physical condition of major capital assets	The Council continues to monitor the impact on its capital programmes arising from supply chain difficulties and rising inflation, resulting in longer lead times and increased development costs.
Social Care Reform	Although the Scottish Government proposal is still in the early stages, such a major transformation will risk a diversion from tackling immediate challenges within the Social Care sector. There is still concern about the destination of the policy and future of funding for Councils.
Long-term impact on the local economy following the Covid-19 pandemic and leaving the European Union	It is difficult to untangle the combined impacts of leaving the European Union and Covid-19, however both have contributed to a supply shock leading to the Council facing higher prices and shortages of key resources, particularly in the construction and care sectors. The Council remains uncertain about the long-term effect of leaving the European Union and Covid-19 but are continuing to monitor the impact on its services and citizens.
Climate Change	The Council recognises that climate change is an urgent issue and has committed to be carbon neutral by 2030, this is an ambitious target and will require significant investment and resource to achieve this by the specified deadline.
Financial Pressures	Pay, other inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2023/24, and again for 2024/25, the Scottish Government published a one-year budget and grant settlement. In respect of grant support to Councils indications are that settlements will remain at, or close to, a cash flat level through to 2027/28. This represents a challenging outlook for local government with a real term's reduction in grant income at a time when costs and service demands continue to rise. There are a number of factors, which will continue to influence the actual level of grant support the Council might expect. Among these will be a range of economic factors which will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government.

Whilst an assessment of economic factors can be made at this time, based on various sets of published information the impact of Scottish Government's tax and spending priorities will only become apparent when the Scottish Government's 2025/26 budget is published later in 2024.

In February 2024, the Council set a balanced budget for 2024/25 which included a council tax freeze for the financial year and use of one-off fiscal flexibilities relating to service concessions. In the context of reduced real terms external funding and growth in demand for services, the Council has a considerable challenge to ensure its future expenditure plans are financially sustainable. Updated Medium Term Financial Strategy (MTFS) forecasts show a budget gap of £20.6 million for the period to 2028/29. Further infrastructure requirements, some of which will prove essential, will increase the gap further.

How the Council Manages Risk

Action	Commentary
Service Risk Registers	The service Risk Registers contain operational risks and are managed by each Service Management Team. The Risk Management Group provides further scrutiny of service risks and significant risks are added to the corporate risk register.
The Corporate Risk Register	The Corporate Risk Register managed by the Corporate Management Team provides assurance through scrutiny and challenge and ensures that the significant risks facing the Council have been identified and effective treatment actions are implemented. The Corporate Risk Register is then submitted to Audit Committee for approval which provides effective scrutiny and challenge as part of the Council's corporate governance arrangements.
Development of a Medium-Term Financial Strategy	The Council's Long Term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 27 Feb 2024 Council agreed a Medium-term Financial Strategy 2024/25-2028/29 , which set out budget projections for 2024/25-2028/29 and showed a budget gap over the period of £20.9 million. Projections continue to be refined on a regular basis with the latest figures showing a gap of £9.4m in 2025/26 rising to £20.6m by 2027/28. The MTFS sets out cost projections for pay inflation, price inflation, debt charges and the impact of demographic changes together with projections of income. As a framework to address the financial challenge, Council approved a Transformation Blueprint which contains five main strategic themes of Following the Money, 21 st Century Workforce, Commercialisation and Income Generation, Workplaces of the Future and Multi-Agency Transformation. Within each theme sits a number of individual projects phased over the next two financial years with eight having commenced in quarter 1 of 2023/24. Council will also continue to explore any options to increase external funding including ongoing discussion with the Scottish Government on funding fast growing Councils.

Looking Ahead

Economic performance has a significant impact on the availability of funding and demand for public services. The February 2024 Bank of England monetary report states that although services price inflation and wage growth have fallen, key indicators of inflation persistence remain elevated. As a result monetary policy will need to remain restrictive for the sufficiently long to return inflation to the 2% target sustainability in the medium term in line with the Monetary Policy Committees remit.

In addition, Midlothian Council also faces additional pressure being the fastest growing local authority in Scotland, resulting in greater demand for services with future funding for Local Government likely to remain severely constrained. The Council's Capital Plan remains under pressure but contains further major investment in the following areas over the coming years:

Capital Expenditure	Commentary
School Infrastructure	<ul style="list-style-type: none"> Equipped for Learning Programme; Wide-ranging school building, extension and refurbishment programme; A replacement of Beeslack Community High School and refurbishment of Penicuik High School; Replacement schools for Mayfield Campus and Lasswade Primary.
Provision of Care Services	A new care facility in Bonnyrigg which will provide accommodation for those in need of high quality care.
Carriageway and footway infrastructure	<ul style="list-style-type: none"> Continuing investment in improved roads, footpaths and lighting across Midlothian; As part of the Edinburgh and South East Scotland City Region Deal major investment is also planned in the new A701 Relief Road and A702 link which will support planned investment in new research and technology facilities at Easter Bush.
Social Housing	<ul style="list-style-type: none"> A continuation of the new build housing programme and upgrading of existing housing.

The Council has recognised the need for a strategic step change in the form of the Medium-Term Financial Plan together with resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

The Council continues to regularly monitor its financial position and provide full financial updates to the Corporate Management Team and the elected members as appropriate, including options on addressing any new budgetary and spending pressures. This may include further use of reserves, reallocation of committed reserves, changes to capital spend, or other cost savings. Management is continuing to engage with Scottish Government and COSLA on providing sustainable funding going forward.

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

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

Conclusion

Budget constraints and increasing cost pressures are putting Scotland's councils' finances under a severe strain; a point recently recognised by Audit Scotland in a report to the Accounts Commission on Local Government Budget 2024/25. COSLA have continued to highlight that funding in the Local Government Finance Settlement falls short of the amount required to protect local services. Adding to the challenge of constrained funding, Midlothian Council continues to face the impacts of a global pandemic as well as long-standing and growing demographic pressures and a cost-of-living crisis thus placing increasing pressures on Council resources and demand for its services. Despite these pressures, the Council made significant improvements across a range of service areas and continued to invest for the future in its asset base to provide essential infrastructure to support the growing population. It is important to appreciate these improvements.

We have concluded the year in a period of unprecedented uncertainty, facing enormous financial challenge but with a focus on meeting the financial and service challenges identified in the Medium-Term Financial Strategy and Transformation Blueprint to ensure the Council has longer term financial sustainability.

Acknowledgements

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

David Gladwin

Chief Financial Officer

Dr Grace Vickers

Chief Executive

Councillor Kelly Parry

Leader of the Council

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

I certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.

Councillor Kelly Parry
Leader of the Council

The Chief Financial Officer Responsibilities

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

In preparing these Annual Accounts, the Chief Financial Officer has:

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

I certify that the financial statements present a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the Council (and its group) for the year ended 31 March 2024.

David Gladwin
Chief Financial Officer

Annual Governance Statement

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2024, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), and was approved by Council in March 2021.

The Council's Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council's Medium Term Financial Strategy and Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan. In June 2023, the Council also approved a transformation blueprint 2023-2028 to support the Medium Term Financial Strategy and help bridge the projected five-year funding gap.

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

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

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

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

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

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

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

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

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

The Elected Members Induction Programme took place following elections in May 2022 and is periodically supplemented by training events, seminars and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit.

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

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

The Council updated its Risk Management policy and strategy in August 2022 whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public. Internal Audit's assessment in March 2024 was that assurance is substantial in relation to the Council's Risk Management Policy and application of the policy at a strategic level.

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

The Council's system of internal financial control is based on a framework of financial regulations (updated in June 2022), regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. This remains reliant on the staff within the framework to ensure management supervision and accountability are diligently enforced.

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

A Medium Term Financial Strategy was approved by Council in June 2019. The 2022/23 budget was approved by Council in February 2022. Given the significant fiscal challenges which lie ahead,

work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £30 million for the Council over the next 5 years will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets.

The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. The Chief Officer Corporate Solutions identified six areas requiring improvement from his review of the CIPFA FM code. Actions identified included improving the resourcing of the Procurement team (Ongoing), updating the Council's Financial Regulations and Directives (Complete – approved at June 2022 Council), putting in place a multi-year financial plan (Ongoing – action relevant to two sections of the FM Code), improving the Council's approach to lessons learned from completed projects (Ongoing), and improving the Council's risk management arrangements (Ongoing). No further Committee update has been provided within the 2023/24 financial year.

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2023/24. This is based on work carried out by an in-house team, with supplementary support from an outsourced partner, including shared services resources from East Lothian Council, in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

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

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

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out. The output is this Annual Governance Statement which is presented to the Audit Committee.

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

In respect of the implementation of the remaining Best Value Audit Actions (nos. 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value. These actions are now all materially completed. The Council however recognises improvements are required in the areas presented below.

Improvement Areas of Governance

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

- 1) The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. One of the actions identified was putting in place a multi-year financial plan. The Council's subsequently approved a 2023-2028 Strategic Blueprint in June 2023, aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. Current assessment of a budget gap of approximately £20 million for the Council over the next 5 years requires putting in place an approved multi-year financial plan key to developing the Council on a sustainable basis. Dedicated Financial Management CMT meetings have been implemented on a quarterly basis to challenge and scrutinise budgets in order to improve financial discipline.
- 2) Improvements in the Procurement Service staff capacity have been made during the year. With increased team capacity issues of off contract spend and non-contracted spend within the organisation are being progressed, however further purchasing and procurement issues continue to be noted. Expired contracts and off contracts spend is being managed through regular review at Budget Boards who work to ensure that the risk is managed and the appropriate remedial action is being taken; with oversight from the Executive Director and Chief Officers. In addition as part of the Council's Blueprint under theme1 follow the money a sprint looking at contract management and a review of transport is being progressed.
- 3) Capital Plan Affordability review continues as the paper that was approved by Council on 27 February 2024, detailed that the Loan Charges arising from capital expenditure within the General Services Capital Plan, including planned Learning Estate Programme projects that are under development is expected to exceed the Loan Charges levels as per the Council's approved Medium Term Financial Strategy over the period 2024/25 to 2028/29. Work continues to establish an approved affordable and financially sustainable Capital Plan for the Council moving forward. Whilst approval for fully funded learning estates projects has been progressed delays in decision to critical projects may result in breaches of capacity to provide education provision across the council area.

- 4) Workforce planning to address appropriate resource requirements, recruitment, retention, training, leadership development and resilience is taking place. However, it has been noted that there is a lack of resource within the Compliance Team to deliver the Council's statutory responsibilities under the Data Protection Act 2018. CMT approved a paper to identify additional resource on 5 June and these requirements are now being implemented along with support for the Council tax and Procurement teams to meet identified control needs and in both cases, this is a continuing process. It is the responsibility of service managers and Chief Officers to ensure that service risk registers are up to date, this is now being prioritised in order to ensure that all registers are up to date.

Conclusion and Opinion on Assurance

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

Dr Grace Vickers
Chief Executive

Kelly Parry
Leader of the Council

Remuneration Report

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

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

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

Remuneration of Councillors

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

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2023/24 the Regulations set the salary for the Leader of Midlothian Council £33,503 (2022/23 £32,622) and the salary for the Provost was set at £25,128 (2022/23 £24,467), the maximum level.

The Regulations also set out the remuneration that may be paid to Senior Councillors and total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. For 2023/24, the maximum salary which could be paid to a Senior Councillor was £25,128 (2022/23 £24,467) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors (excluding the Provost and the Leader) should not exceed £180,905 (2022/23 £176,150). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

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

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

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

Councillor Name and Responsibility	Salary	Expenses	Total Remuneration 2023/24	Total Remuneration 2022/23
Senior Councillor (Apr 23 – Mar 24)				
K Parry: Council Leader	£33,503	£23	£33,526	£30,758
D McCall: Provost	£25,128	£128	£25,256	£23,881
D Virgo: Group Leader	£22,614	£145	£22,759	£19,824
D Alexander: Cabinet Member	£22,614	£178	£22,792	£21,826
C McManus: Cabinet Member (1)	£22,686	£110	£22,796	n/a
E Scott: Cabinet Member	£22,614	£105	£22,719	£19,846
S McKenzie: Cabinet Member	£22,614	£0	£22,614	£21,679
D Milligan: Group Leader	£22,614	£338	£22,952	£23,189
R Imrie: Chair of Planning Committee	£22,614	£210	£22,824	£22,186
C Cassidy: Deputy Leader and Group Leader	£22,614	£32	£22,646	£22,174
Total	£239,615	£1,269	£240,884	£205,363

Notes

- (1) On 21 Mar 2023 D Bowen resigned as Cabinet Member and assumed the role of Deputy Provost, the vacant Cabinet post was subsequently filled by C McManus.

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2023/24 was £0.402 Million (2022/23 £0.391 million). Detailed figures for these costs are available on the Council's website, [members' remuneration details for 2023/24](#).

Remuneration of Employees

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

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

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

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

Senior Employee Name and Responsibility	Total Salary, Fees and Allowances 2023/24	Total Remuneration 2022/23
Full Year (Apr 23-Mar 24)		
G Vickers: Chief Executive	£133,135	£125,540
G Vickers: Returning Officer	£0	£3,007
M Barrow: Joint Director: Health and Social Care (1)	£55,822	£52,699
K Anderson: Executive Director: Place	£116,353	£109,715
F Robertson: Executive Director: Children, Young People and Communities	£116,353	£109,715
J Tranent: Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	£98,349	£92,738
D Gladwin: Chief Financial Officer (S95 Officer)	£95,000	£81,928
A Turpie: Legal Services Manager (Monitoring Officer)	£76,661	£70,312
Total	£691,673	£645,654

Notes:

- (1) Post joint funded with NHS Lothian, M Barrow Full time Equivalent £111,644.

Subsidiary Entities

None of our subsidiaries have remunerated employees.

Pension Benefits

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

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

The tiers and contribution rates are as follows:

Pensionable Pay 2023/24	Contribution Rate
On earnings up to and including £25,300	5.5%
On earnings above £25,301 and up to £31,000	7.25%
On earnings above £31,001 and up to £42,500	8.5%
On earnings above £42,501 and up to £56,600	9.5%
On earnings above £56,601	12%

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

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

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

The pension entitlements for Senior Councillors for the year to 31 March 2024 are shown in the tables below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Senior Councillors In-Year Pension Contributions

Councillor Name and Responsibility	Year to 31 Mar 2024	Year to 31 Mar 2023
Senior Councillor (Apr 23-Mar 24)		
K Parry: Council Leader	£7,438	£6,822
D McCall: Provost	£5,578	£5,274
D Virgo: Group Leader	£5,020	£4,368
D Alexander: Cabinet Member	£0	£631
C McManus: Cabinet Member (1)	£5,036	n/a
E Scott: Cabinet Member	£5,020	£4,388
S McKenzie: Cabinet Member	£5,020	£4,809
R Imrie: Chair of Planning Committee	£3,347	£4,883
C Cassidy: Depute Leader and Group Leader	£5,020	£4,915
Total	£41,479	£36,090

Notes:

- On 21 Mar 2023 D Bowen resigned as Cabinet Member and assumed the role of Depute Provost, the vacant Cabinet post was subsequently filled by C McManus.

Senior Councillors Accrued Pension Benefits

	Pension at 31 March 2024	Lump Sum at 31 March 2024	Pension Difference from 31 March 2023	Lump Sum Difference from 31 March 2023
Senior Councillor	£000	£000	£000	£000
K Perry	4	0	0	0
D McCall	3	0	0	0
D Virgo	1	0	1	0
C McManus (2)	0	0	0	0
E Scott (2)	0	0	0	0
S McKenzie	1	0	0	0
R Imrie (1)	8	2	1	0
C Cassidy	3	0	0	0
Total	20	2	2	0

- Member still active in post but out of the scheme due to scheme regulations, CARE pay used to calculate employer contributions £15,076;
- Member has less than 2 years' service so there is no pension liability.

The pension entitlements for Senior Employees for the year to 31 March 2024 are shown in the tables below, together with the contribution made by the Council to each Senior Employees (as defined in the regulations) pension during the year.

Senior Employees In-Year Pension Contributions

Senior Employee Name and Responsibility	Year to 31 March 2024	Year to 31 March 2023
Full Year (Apr 23-Mar 24)		
G Vickers: Chief Executive	£29,556	£28,537
M Barrow: Joint Director: Health and Social Care	£0	£3,097
K Anderson: Executive Director: Place	£25,830	£24,357
F Robertson: Executive Director: Children, Young People and Communities	£25,830	£24,357
J Tranent: Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	£21,834	£20,588
D Gladwin: Chief Financial Officer (S95 Officer)	£21,210	£18,188
A Turpie: Legal Services Manager (Monitoring Officer)	£17,019	£15,609
Total	£141,279	£134,733

Senior Employees Accrued Pension Benefits

	Pension at 31 March 2024	Lump Sum at 31 March 2024	Pension Difference from 31 March 2023	Lump Sum Difference from 31 March 2023
Senior Employee	£000	£000	£000	£000
G Vickers	22	0	3	0
K Anderson	70	115	5	6
F Robertson	16	0	3	0
D Gladwin	44	59	6	8
J Tranent	43	48	5	5
A Turpie	42	64	4	6
Total	237	286	26	25

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

Remuneration of Other Employees by Pay Bands

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or above, this information is detailed in bands of £5,000 in the table below:

Total Employees 2022/23	Remuneration Band	Non-Teaching Employees 2023/24	Teaching Employees 2023/24	Total Employees 2023/24
79	£50,000-£54,999	27	53	80
92	£55,000-£59,999	21	86	107
46	£60,000-£64,999	23	40	63
20	£65,000-£69,999	4	56	60
11	£70,000-£74,999	12	35	47
4	£75,000-£79,999	4	16	20
2	£80,000-£84,999	0	5	5
3	£85,000-£89,999	2	2	4
4	£90,000-£94,999	0	2	2
2	£95,000-£99,999	6	1	7
2	£105,000-£109,999	0	0	0
0	£110,000-£114,999	0	2	2
0	£115,000-£119,999	2	0	2
1	£130,000-£134,999	1	0	1
266	Total	102	298	400

Exit Packages

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

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

The cost incurred by the Council for voluntary redundancy packages in 2023/24 was £0 (2022/23 £0).

Trade Union Facility Time

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

For the reporting year 2023/24, the equivalent of 5.6 FTE employees (across fourteen individuals) of paid time facility was made available. The proportion of their working hours spent on facility time is as follows:

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

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

Total cost of facility time	£237,087
Total Pay Bill	£193,444,518
Percentage total	0.12%

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

Councillor Kelly Parry
Leader of the Council

Dr Grace Vickers
Chief Executive

Independent Auditor's Report

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

Under arrangements approved by the Commission for Local Authority Accounts in Scotland, the auditor with responsibility for the audit of the annual accounts of Midlothian Council for the year-end 31 March 2024 is:

Claire Gardiner
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

The certified Annual Accounts will be presented to Audit Committee for approval on completion of the audit.

Expenditure and Funding Analysis

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

2022/23				2023/24		
Net expenditure chargeable to the General Fund and HRA Balances £000	Adjustments (see Note 6) £000	Net expenditure in the CIES £000		Net expenditure chargeable to the General Fund and HRA Balances £000	Adjustments (see Note 6) £000	Net expenditure in the CIES £000
1,968	130	2,098	Management & Members	1,884	(37)	1,847
18,025	741	18,766	Childrens Services, Partnerships & Communities	18,611	(53)	18,558
110,003	29,648	139,651	Education	119,986	20,849	140,835
(4,821)	792	(4,029)	Adult Health & Social Care – Non-Delegated	614	565	1,179
56,612	3,572	60,184	Midlothian Integrated Joint Board	57,416	2,464	59,880
35,756	14,793	50,549	Place	41,793	9,433	51,226
18,411	(2,002)	16,409	Corporate Solutions	16,804	832	17,636
(15,957)	30,270	14,313	Housing Revenue Account	(14,717)	54,528	39,811
565	0	565	Joint Boards	562	0	562
210	84	294	Central Costs	313	74	387
773	(11)	762	Non-distributable Costs	808	(23)	785
221,545	78,017	299,562	Net Cost of Services	244,074	88,632	332,706
(228,555)	(35,031)	(263,586)	Other Income & Expenditure	(236,000)	(53,656)	(289,656)
(7,010)	42,986	35,976	(Surplus) or deficit	8,074	34,976	43,050
(60,516)			Opening General Fund & HRA Balance	(87,569)		
(7,010)			Less/plus (Surplus) or Deficit on General Fund & HRA balance in Year	8,074		
420			Transfers to/from Other Statutory Reserves	(25)		
(67,106)			Closing General Fund and HRA Balance at 31 March*	(79,520)		

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

Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2024 and its cash flows. The annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code), which is based on International Financial Reporting Standards (IFRSs). Every effort has been made to use plain language; where technical terms are unavoidable, they have been explained in the Glossary.

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

- Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the *Expenditure and Funding Analysis* and the *Movement in Reserves Statement*.
- Movement in Reserves Statement** – this shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves.' The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund balance and Housing Revenue Account (HRA) balance movements in the year following those adjustments.
- Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the *Movement in Reserves Statement* line 'adjustments between accounting basis and funding basis under regulations.'
- Cash Flow Statement** – this shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Group and Council Comprehensive Income and Expenditure Statement

2022/23					2023/24				
Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure	Service	Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure	Notes
£000	£000	£000	£000		£000	£000	£000	£000	
2,121	(23)	2,098	2,098	Management and Members	1,852	(5)	1,847	1,847	EFA
22,014	(3,248)	18,766	18,766	Children's Services, Partnerships and Communities	20,388	(1,830)	18,558	18,558	EFA
159,645	(19,994)	139,651	139,651	Education	163,522	(22,687)	140,835	140,835	EFA
7,464	(11,493)	(4,029)	(4,029)	Adult Health and Social Care – Non-Delegated	1,596	(417)	1,179	1,179	EFA
140,264	(80,080)	60,184	60,184	Midlothian Integration Joint Board	150,449	(90,569)	59,880	59,880	EFA
85,697	(35,148)	50,549	50,549	Place	110,295	(59,069)	51,226	51,226	EFA
41,707	(25,298)	16,409	16,409	Corporate Solutions	30,854	(13,218)	17,636	17,636	EFA
45,176	(30,863)	14,313	14,313	Housing Revenue Account	71,771	(31,960)	39,811	39,811	EFA
565	0	565	565	Lothian Valuation Joint Board	562	0	562	562	EFA
294	0	294	294	Central Costs	387	0	387	387	EFA
762	0	762	689	Non-Distributable Costs	785	0	785	782	EFA
505,709	(206,147)	299,562	299,489	Cost of Services	552,461	(219,755)	332,706	332,703	
		0	5,738	Associates and Joint Ventures accounted for on an Equity Basis			0	6,393	38
		338	338	Other Operating (Income) or Expenditure			(70)	(70)	9
		12,568	12,568	Financing and Investment Income and Expenditure			31	31	10
		(276,492)	(276,492)	Taxation and Non-specific Grant Income and Expenditure			(289,617)	(289,617)	11
		35,976	41,641	(Surplus) or Deficit on Provision of Services			43,050	49,440	13
		(63,840)	(63,840)	Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets			(36,256)	(36,256)	
		(1,117)	(1,117)	Surplus or deficit on Financial Assets Measured at Fair Value through Other Comprehensive Income			165	165	
		(66,774)	(66,774)	Remeasurement of the Net Defined Benefit Liability/(Asset)			11,373	11,373	
		1,911	465	Other (Gains)/Losses			2,705	(3,504)	
		(129,820)	(131,266)	Other Comprehensive (Income) and Expenditure			(22,013)	(28,222)	
		(93,844)	(89,625)	Total Comprehensive (Income) and Expenditure			21,037	21,218	

Group and Council Movement In Reserves Statement

	General Fund	Housing Revenue Account	Capital Fund	Repairs & Renewals Fund	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Councils Share of Reserves of Associates, Subsidiaries & Joint Ventures	Total Group Reserves
Current Year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2023	(34,963)	(32,143)	(20,107)	(4,138)	(91,351)	(748,933)	(840,284)	(6,948)	(847,232)
Opening Balance Adjustment – Service concessions	(20,463)	0	0	0	(20,463)	20,463	0	7	7
Revised Balance 31 March 2023	(55,426)	(32,143)	(20,107)	(4,138)	(111,814)	(728,470)	(840,284)	(6,941)	(847,225)
Movement in Reserves during 2023/24									
Total comprehensive income and expenditure	(4,092)	47,142	2,865	0	45,915	(24,878)	21,037	181	21,218
Adjustments between accounting basis and funding basis under regulations (Note 7)	15,276	(50,252)	0	0	(34,976)	34,976	0	0	0
Transfers to/(from) other statutory reserves	(2,096)	2,071	0	25	0	0	0	0	0
(Increase)/Decrease in Year	9,088	(1,039)	2,865	25	10,939	10,098	21,037	181	21,218
Balance at 31 March 2024 Carried Forward	(46,338)	(33,182)	(17,242)	(4,113)	(100,875)	(718,372)	(819,247)	(6,760)	(826,007)
Comparative Year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2022	(32,432)	(28,084)	(22,178)	(3,718)	(86,412)	(660,028)	(746,440)	(11,203)	(757,643)
Movement between Group Unaudited and Audited Accounts	0	0	0	0	0	0	0	36	36
Revised Balance 31 March 2022	(32,432)	(28,084)	(22,178)	(3,718)	(86,412)	(660,028)	(746,440)	(11,167)	(757,607)
Movement in Reserves during 2022/23									
Total comprehensive income and expenditure	15,518	20,458	2,071	0	38,047	(131,891)	(93,844)	4,219	(89,625)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(16,400)	(26,586)	0	0	(42,986)	42,986	0	0	0
Transfers to/(from) other statutory reserves	(1,649)	2,069	0	(420)	0	0	0	0	0
(Increase)/Decrease in Year	(2,531)	(4,059)	2,071	(420)	(4,939)	(88,905)	(93,844)	4,219	(89,625)
Balance at 31 March 2023 Carried Forward	(34,963)	(32,143)	(20,107)	(4,138)	(91,351)	(748,933)	(840,284)	(6,948)	(847,232)

Group and Council Balance Sheet

31 Mar 23	31 Mar 23		31 Mar 24	31 Mar 24	
Midlothian Council £000	Group £000		Midlothian Council £000	Group £000	Notes
1,155,972	1,155,972	Property, Plant and Equipment	1,192,254	1,192,254	14
34,819	34,819	Infrastructure Assets	38,423	38,423	15
458	458	Heritage Assets	456	456	16
202	202	Intangible Assets	104	104	17
4,190	4,137	Long-term Debtors	4,171	4,113	18/19
11,693	6,082	Long-term Investments	11,528	5,918	19
0	12,450	Share of net assets of associates & joint ventures	0	12,258	38
1,207,334	1,214,120	Long-term Assets	1,246,936	1,253,526	
20,122	20,122	Short-term Deposits	30,017	30,017	19
1,080	1,080	Assets Held for Sale	1,690	1,690	21
1,023	1,023	Inventories	972	972	22
40,811	40,861	Short-term Debtors	40,951	41,013	19/23
95,654	95,654	Cash and Cash Equivalents	27,505	27,505	24
158,690	158,740	Current Assets	101,135	101,197	
(3,195)	(3,195)	Short-term Borrowing	(3,797)	(3,797)	19
(58,546)	(58,434)	Short-term Creditors	(50,511)	(50,403)	19/25
(1,239)	(1,239)	Provisions	(1,294)	(1,294)	26
(44,731)	(44,731)	Grants Received in Advance	(40,821)	(40,821)	27
(107,711)	(107,599)	Current Liabilities	(96,423)	(96,315)	
(321,490)	(321,490)	Long-term Borrowing	(339,971)	(339,971)	19
		Other Long-term Liabilities			
(88,739)	(88,739)	• PPP Contracts	(84,818)	(84,818)	19/33
(7,800)	(7,800)	• Pension Liability	(7,612)	(7,612)	34/35
(418,029)	(418,029)	Long-term Liabilities	(432,401)	(432,401)	
840,284	847,232	Net Assets	819,247	826,007	
91,351	98,293	Usable Reserves	100,875	105,538	28
748,933	748,939	Unusable Reserves	718,372	720,469	29
840,284	847,232	Total Reserves	819,247	826,007	

The unaudited accounts were authorised for issue on ** June 2024.

I certify that the Balance Sheet presents a true and fair view of the financial position of the Council and its Group at 31 March 2024, and its income and expenditure for the year ended 31 March 2024.

David Gladwin

Chief Financial Officer

Group and Council Cash Flow Statement

2022/23 Midlothian Council £000	2022/23 Group £000		2023/24 Midlothian Council £000	2023/24 Group £000
(35,976)	(41,641)	Net surplus/(deficit) on the provision of services	(43,050)	(49,440)

		Operating Activities		
		Adjustments to the surplus or deficit on the provision of services for non-cash movements		
41,639	41,639	Depreciation	49,806	49,806
17,379	17,379	Impairment and downward valuations	43,161	43,161
171	171	Amortisation	124	124
(7,811)	(7,758)	(Increase)/decrease in debtors	113	175
2,372	2,261	Increase/(decrease) in creditors	(11,667)	(11,775)
(40)	(40)	(Increase)/decrease in inventories	51	51
20,414	20,414	Movement in pension liability	(11,561)	(11,561)
1,158	1,158	Carrying amounts of non-current assets sold or de-recognised	179	179
(2,071)	3,652	Other non-cash items charged to the net surplus or deficit on the provision of services	55	6,491
73,211	78,876	Total non-cash movements	70,261	76,651
		Adjustments to the surplus or deficit on the provision of services for investing and financing activities		
225,900	225,900	Proceeds from short- and long-term deposits	132,000	132,000
(991)	(991)	Proceeds from sale of property, plant, equipment and intangible assets	(249)	(249)
(27,824)	(27,824)	Any other items for which the cash effects are investing or financing cash flows	(33,554)	(33,554)
197,085	197,085	Total investing and financing activities	98,197	98,197
270,296	275,961	Net Cash Flows from Operating Activities	168,458	174,848

		Investing Activities		
(72,229)	(72,229)	Purchase of property, plant, equipment and intangible assets	(94,712)	(94,712)
(205,015)	(205,015)	Purchase of short- and long-term deposits	(142,000)	(142,000)
0	0	Other payments for investing activities	0	0
991	991	Proceeds from sale of property, plant, equipment and intangible assets	249	249
32,455	32,455	Other receipts from investing activities	27,322	27,322
(243,798)	(243,798)	Net Cash Flows from Investing Activities	(209,141)	(209,141)

		Financing Activities		
0	0	Cash receipts from short- and long-term borrowing	20,000	20,000
(3,484)	(3,484)	Cash payments for the reduction of the outstanding liabilities relating to on balance sheet PPP contracts	(3,694)	(3,694)
159	159	Other receipts from financing activities	160	160
(1,518)	(1,518)	Repayments of short- and long-term borrowing	(882)	(882)
(4,843)	(4,843)	Net Cash Flows from Financing Activities	15,584	15,584

(14,321)	(14,321)	Net Increase/(Decrease) in Cash and Cash Equivalents	(68,149)	(68,149)
109,975	109,975	Cash and Cash Equivalents at 1 April	95,654	95,654
95,654	95,654	Cash and Cash Equivalents at 31 March (Note **)	27,505	27,505

The cash flow for operating activities include the following items

£000	£000	Interest Paid and Received	£000	£000
3,161	3,161	Interest Received	4,590	4,590
(15,269)	(15,269)	Interest Paid	(16,244)	(16,244)
0	0	Dividend Received	175	175

Notes to the Accounts

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

The Council's Annual Accounts for 2023/24 have been prepared on a going concern basis. The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. The provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their annual accounts on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2023/24), the Council is required to prepare its annual accounts on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

1. Accounting Policies

i. General principles

The statement of accounts summarise the Council's transactions for the 2023/24 financial year and its position for the year-end of 31 March 2024. The Council is required to prepare an annual statement of accounts by the *Local Authority Accounts (Scotland) Regulations 2014*, which Section 12 of the *Local Government Scotland Act 2003* require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2023/24*, supported by International Financial Reporting Standards (IFRS) and the statutory guidance issued under section 12 of the 2003 Act.

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

ii. Accruals of income and expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on deposits and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and cash equivalents

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

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

iv. Prior period adjustments, changes in accounting policies, estimates and errors

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

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

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

v. Charges to revenue for non-current assets

Services and support services are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

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

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

vi. *Employee Benefits*

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future

payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate as advised by the actuary, Hymans Roberson LLP.
- The assets of Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - **Quoted securities** – current bid price;
 - **Unquoted securities** – professional estimate;
 - **Unitised securities** – current bid price;
 - **Property** – market value.

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

Service cost comprising:

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

Re-measurements comprising:

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

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

required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Pension Net Asset Restriction Calculation

The actuary has calculated the Council's IAS 19 defined benefit surplus for 2023/24 to be £185.529 million as detailed in Note 35 to the accounts. IAS 19 states that when an entity has a surplus in the defined benefit plan it should measure the net defined benefit of the asset as the lower of:

- The surplus in the defined benefit plan, and
- The asset ceiling, which the actuary has calculated as the present value of any economic benefits available in the form of reductions in future contributions to the plan.

For IFRIC 14 purposes, the actuary has calculated the net present value of the future contributions which exceeds the value of the future service costs resulting in a negative contribution. As a result of this calculation IFRIC 14 advises that no defined benefit plan asset should be recognised on the Council's Balance Sheet and there is no requirement to recognise the difference as a liability, however, is required to reflect the liability in relation to present value of any unfunded obligations.

Discretionary benefits

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

vii. Events after the reporting period

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

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

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

viii. Financial instruments

Financial Liabilities

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

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

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

Fair Value Measurement of Financial Assets

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

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

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

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

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

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

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

ix. *Government grants and contributions*

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

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

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

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

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

x. Heritage assets

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

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

xi. Intangible assets

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

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

xii. Interests in companies and other entities

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

xiii. Inventories

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

xiv. Allocation of Support Services

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

xv. *Property, plant and equipment*

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued as a minimum every five years to ensure their carrying amount is not materially different from their current value at year-end. As part of the Council's plan for revaluation, a move has been made to revalue all items in a specific category in the same

year, if one of the assets in the category has been revalued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise any unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to the service.

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Council policy is to only consider any asset with a gross book value of £1.5 million or above. The assessment of which components of these assets require to be recognised and depreciated separately is based on the cost of each of

component. Significance is determined by comparing the cost of components against the overall cost of the asset. This threshold is set at 15% or more of the overall cost of the asset.

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

Disposals and non-current assets held for sale

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

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

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

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

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

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

xvi. Infrastructure assets

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

xvii. Public Private Partnership (PPP) and similar contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under its schemes, and where ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge,

the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

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

xviii. *Provisions, contingent liabilities and contingent assets*

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xix. Reserves

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

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

xx. Revenue expenditure funded from capital under statute (Refcus)

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

xxi. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

xxii. Fair value measurement of non-financial assets

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

- In the principal market for the asset; or

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

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

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

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

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

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

2. Accounting Standards Issued, Not Yet Adopted

The code requires disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2024/25 code.

IFRS 16 Leases

Implementation of IFRS 16 Leases will be mandatorily implemented in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2024/25. Therefore, with effect from 2024/25 the Council will adopt this new accounting standard for Leases. This standard replaces IAS 17 Leases and removes the operating classification for leases where the Council acts as lessee, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts.

This means that, for lease arrangements previously accounted for as operating leases, a right-of-use (ROU) asset and a lease liability will be brought onto the balance sheet as at 1 April 2024. Exemptions are applicable for low value (under £10,000) and short-term leases (12 months or less).

IFRS 16 will be applied retrospectively, but with a cumulative effect being recognised as at 1 April 2024. Therefore, the ROU asset and lease liabilities will be calculated as if IFRS 16 had previously been applied but will only be recognised in 2024/25 with no prior year adjustments required. The material impact of adopting this standard is still to be determined.

Other

Other standards issued not yet adopted are:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16);

- Non-current Liabilities with Covenants (Amendments to IAS 1).

The changes will be effective from the 1st April 2024 and none are expected to have a material impact on the Council's financial statements.

3. Critical Judgements in Applying Accounting Policies

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

- **Uncertainty over future funding** - There is a high degree of uncertainty around future levels of funding for local government, which may significantly impact the Council's ability to maintain its property, plant and equipment. The council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a reduction in funding and subsequent required changes to investment and capital strategies
- **Public-Private Partnerships (PPP) and similar type contracts** - The Council has entered into PPP and similar type contracts for the provision of educational buildings and waste facilities as detailed in **Note 33**. For each of these contracts the Council has considered the tests under IFRIC 12 and concluded the following:

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

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

The Council has therefore recognised assets in relation to PPP and similar type contracts on the council's balance sheet at a net book value of £197.269 million, with a corresponding liability in relation to future payments to be made under the scheme of £88.738 million.

- **Associates** - The Valuation Joint Board is included within the group accounts under the wider definition of an "associate" although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place whereby the Council provides £0.562 million annually, and as such is considered to hold significant influence. Details of the impact on the Group accounts is provided in **Note 38**.

4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. The assumptions and other sources of estimation uncertainty disclosed below relate to the estimates that require the Council's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex. As a result, balances cannot be determined with certainty and actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2024 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>The valuation of the Council's property, plant and equipment which are subject to revaluation are subject to significant estimation due to several factors, including ongoing changes to estimates around the costs of replacing existing assets, the market value fluctuation of comparable assets used for valuation, the current condition and future maintenance costs of assets, changes to regulatory standards and the remaining useful economic lives of the assets. Given the material nature of the Council's assets, there is a high likelihood that changes in these estimates will result in material changes in the valuation of assets on the balance sheet. The total value of the Council's assets at 31 March 2024 is outlined and broken down by asset category at note 14.</p> <p>2023/24 Revaluations</p> <p>In 2023/24, revaluations were undertaken for the following assets:</p> <p>31 March - Housing stock discount factor, schools, community education properties, community centres and depots. The housing assets were revalued on a EUV-SH basis and totalled £508,765, the schools were revalued on a DRC basis and totalled schools £457,265, community education properties were revalued on a DRC basis and totalled £6,471, community centre properties were valued on a mix of market value and DRC basis and totalled £4,482, depots were valued on a DRC basis and totalled £7,449 with a valuation movement of (£47,746) for housing, £7,616 for schools, £99 for community education properties and £1,200 for community centres, £506 for depots (from previous valuation (8.58%) for housing, 1.69% for schools, 1.55 % for community education properties, 36.5% for community centres, 7.23% for depots).</p> <p>The changes in valuation in assets in 2023/24, compared to 2022/23, represent updated information around the assets since the most recent full valuation, in particular the cost of replacing assets based on indices for schools, the changes in adjustments for social rent discounts for housing stock, updating housing market information, and updated information on the indices used to value community education properties, community centres and depots.</p> <p>Ongoing assessment of asset valuation</p> <p>In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The council's Corporate Estates Manager has determined in his professional opinion that, at 31 March 2024, due to the inflationary impact on School indices both High Schools and Primary Schools were subject to early revaluation. The council has also continued to assess the valuation of its asset</p>	<p>The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £1.090.21 billion. Assets revalued in 2023/24 totalled £480.067 million before revaluation.</p> <p>The impact of a 5% change in valuation of these would be £25.165 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. There would be no impact on the Council's general fund.</p> <p>Given the wide ranging nature of the assets under revaluation, as well as the differing and overlapping estimates involved in the valuations, it is not possible for management to provide an expected range of estimate outcomes going forward. However, given the experience in past years and materiality of the asset values, it is expected that these balances will continue to be subject to change as estimates are updated annually.</p> <p>If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £7.189m for every year that useful lives had to be reduced.</p>

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>base after the financial year end to ensure new information does not indicate a change in valuation at the balance sheet date.</p> <p>Assets are depreciated over useful lives that are dependent on several assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets.</p>	

Pension Obligation

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Estimation of the net obligation to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.</p> <p>The actuarial inputs into the pension obligation valuation are subject to annual review, and have a significant impact on the potential valuation. Historically it is common for small changes in the discount rate, salary assumption rate and pension rate to have material impacts on the year-end valuations on a year to year basis. We have outlined the potential impact of future changes below. The pension asset at 31 March 2024 following the updated actuarial valuation was £186.529 million, this is a decrease of the asset of £188.463 million on 31 March 2024.</p> <p>Given the history of significant changes to pension obligation valuations in the past, the ongoing sensitivity to future changes, and the requirement to update assumptions annually, the Council expects future liabilities to continue to change significantly going forward.</p> <p>For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 4%, approximately £22.012 million. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).</p> <p>More information on the key assumptions used in the actuarial valuation of the estimates is available in note 35 to the accounts, including information on the key assumptions, risks, sensitivities and restrictions on the amount on the balance sheet arising from IFRIC 14. An update is also included in this note on the latest development around several equalisation adjustments to pension obligation which have occurred in LGPS and may continue to materially impact the valuation of the Council's obligation going forward.</p>	<p>The effects of the net pension obligation of changes in individual assumptions can be measured. For instance, it is estimated that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. However the assumptions interact in complex ways.</p> <p>During 2023/24 the Council's actuary advised that the net pension's obligation had decreased by £1.934 million because of estimates being corrected as a result of experience of £(17.626) million and £19.560 million attributable to updating of the financial assumptions.</p>

Arrears

Uncertainties	Effect if Actual Results Differ from Assumptions
As at 31 March the Council has Council Tax and Non-Domestic Rates debt due of £60.080 million. Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in Note 23 , of £44.466 million was appropriate based upon historical assessment of recoverability/review of individual balances and correspondence with third parties at year-end. However, it is recognised that in the current economic climate and taking into account the impact of Covid-19 there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the year-end subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.	If collection rates were to deteriorate then this will result in an increase in the provision required i.e., 1% would require an increase of £0.445 million, 3% an increase of £1.334 million and 5% an increase of £2.223 million.

5. Events After the Reporting Period

The Unaudited Accounts were authorised for issue by the Chief Financial Officer on **26th June 2024**. Events taking place after this date are not reflected in the annual financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2024, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Note to the Expenditure and Funding Analysis

Adjustments between funding and accounting basis				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Amounts	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Adjustments £000	Total Adjustments £000
Current Year 2023/24				
Management & Members	0	(10)	(27)	(37)
Childrens Services, Partnerships & Communities	199	(73)	(179)	(53)
Education	22,655	(1,017)	(789)	20,849
Adult Health & Social Care – Non-Delegated	713	0	(148)	565
Midlothian Integrated Joint Board	3,155	(206)	(485)	2,464
Place	10,267	(331)	(503)	9,433
Corporate Solutions	1,964	(881)	(251)	832
Housing Revenue Account	54,539	(11)	0	54,528
Joint Boards	0	0	0	0
Central Costs	74	0	0	74
Non-distributable Costs	0	0	(23)	(23)
Net Cost of Services	93,566	(2,529)	(2,405)	88,632
Other expenditure from the Expenditure and Funding Analysis	(44,602)	(9,031)	(23)	(53,656)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit on the provision of services	48,964	(11,560)	(2,428)	34,976
Comparative Year 2022/23				
Management & Members	0	138	(8)	130
Childrens Services, Partnerships & Communities	101	751	(111)	741
Education	16,850	11,269	1,529	29,648
Adult Health & Social Care – Non-Delegated	756	0	36	792

Midlothian Integrated Joint Board	935	2,580	57	3,572
Place	8,446	3,284	3,063	14,793
Corporate Solutions	1,945	566	(4,513)	(2,002)
Housing Revenue Account	30,156	114	0	30,270
Joint Boards	0	0	0	0
Central Costs	84	0	0	84
Non-distributable Costs	0	0	(11)	(11)
Net Cost of Services	59,273	18,702	42	78,017
Other expenditure from the Expenditure and Funding Analysis	(36,732)	1,712	(11)	(35,031)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit on the provision of services	22,541	20,414	31	42,986

Adjustments for Capital Purposes

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

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

Net Change for Pensions Adjustments

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

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

Other Adjustments

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

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

7. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

General Fund Balance

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

Housing Revenue Account (HRA) Balance

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

Current Year 2023/24	General Fund Reserve £000	Housing Revenue Account £000	Total Usable Reserves £000	Total Unusable Reserves £000
Adjustments between funding and accounting basis				
Adjustments to revenue resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
• Pensions Costs (transferred to/from pensions reserves)	11,495	66	11,561	-11,561
• Financial Instruments (transferred to the financial instruments adjustment account)	22	0	22	(22)
• Holiday Pay (transferred to the accumulated absence reserve)	2,404	0	2,404	(2,404)
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the capital adjustment account)	(41,164)	(54,539)	(95,703)	95,703
Total adjustments to revenue resources	(27,243)	(54,473)	(81,716)	81,716
Adjustments between revenue and capital resources				
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	8,965	4,221	13,186	(13,186)
Total adjustments between revenue and capital resources	8,965	4,221	13,186	(13,186)
Adjustments to capital resources				
Application of capital grants to finance capital expenditure	33,554	0	33,554	(33,554)
Total adjustments to capital resources	33,554	0	33,554	(33,554)
Total adjustments	15,276	(50,252)	(34,976)	34,976

Comparative Year 2022/23	General Fund Reserve £000	Housing Revenue Account £000	Total Usable Reserves £000	Total Unusable Reserves £000
Adjustments between funding and accounting basis				
Adjustments to revenue resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
• Pensions Costs (transferred to/from pensions reserves)	(20,290)	(124)	(20,414)	20,414
• Financial Instruments (transferred to the financial instruments adjustment account)	10	0	10	(10)
• Holiday Pay (transferred to the accumulated absence reserve)	(42)	0	(42)	42
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the capital adjustment account)	(29,455)	(30,155)	(59,610)	59,610
Total adjustments to revenue resources	(49,777)	(30,279)	(80,056)	80,056
Adjustments between revenue and capital resources				
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	5,553	3,693	9,246	(9,246)
Total adjustments between revenue and capital resources	5,553	3,693	9,246	(9,246)
Adjustments to capital resources				
Application of capital grants to finance capital expenditure	27,824	0	27,824	(27,824)
Total adjustments to capital resources	27,824	0	27,824	(27,824)
Total adjustments	(16,400)	(26,586)	(42,986)	42,986

8. Movement in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2023/24.

	Balance at 1 April 2022 £000	Transfers out 2022/23 £000	Transfers in 2022/23 £000	Balance at 31 March 2023 £000	Transfers Out 2023/24 £000	Transfers in 2023/24 £000	Balance at 31 March 2024 £000
Scheme of Devolved Budget Management carry forwards	(18,800)	18,800	(16,012)	(16,012)	16,012	(15,335)	(15,335)
Business Transformation Programme	(1,336)	267	0	(1,069)	93	0	(976)
Devolved School Management Policy	(1,123)	1,123	0	0	0	0	0
Transformation Blueprint	0	0	0	0	340	(2,000)	(1,660)
Set aside to balance 2024/25 Budget	(5,576)	5,576	(1,166)	(1,166)	1,166	(2,679)	(2,679)
Total Earmarked Reserves	(26,835)	25,766	(17,178)	(18,247)	17,611	(20,014)	(20,650)
Vat Claim not yet settled	0	0	(6,839)	(6,839)	6,839	0	0
Service Concessions	0	0	0	0	4,093	(20,463)	(16,370)
Non-Earmarked Reserves	(5,597)	1,424	(5,704)	(9,877)	7,192	(6,633)	(9,318)
Total General Fund Balance	(32,432)	27,190	(29,721)	(34,963)	35,735	(47,110)	(46,338)

9. Other Operating Income and Expenditure

2022/23 £000	Other Operating Income and Expenditure	2023/24 £000
338	(Gains)/Losses on disposal of non-current assets	(70)
338	Total	(70)

10. Financing and Investment Income and Expenditure

2022/23 £000	Financing and Investment Income and Expenditure	2023/24 £000
15,268	Interest payable and similar charges	16,244
1,712	Net interest on the net defined benefit liability (asset)	(9,031)
(4,412)	Interest receivable and similar income	(7,182)
12,568	Total	31

11. Taxation and Non-specific Grant Income and Expenditure

2022/23 £000	Taxation and Non-specific Grant Income and Expenditure	2023/24 £000
(53,315)	Council tax income	(57,306)
(24,813)	Non-domestic rates income	(35,136)
(170,540)	Non-ringfenced government grants	(163,621)
(27,824)	Capital grants and contributions (<i>note 12</i>)	(33,554)
(276,492)	Total	(289,617)

12. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2023/24.

2022/23 £000	Grant Income	2023/24 £000
	Credited to taxation non-specific grant income and expenditure	
(7,850)	General Capital Grant	(7,453)
(9,822)	Affordable Housing Supply Programme	(6,135)
(5,256)	Developer Contributions	(10,617)
(664)	General Capital Grant – Early Years Childcare	(3,918)
(3,000)	Capital Fund Contribution	(2,060)
(1,017)	Scottish Government Grant – Other	(2,686)
0	Scottish Government – Net Zero Funding	(501)
(215)	Other Capital Grants and Contributions	(184)
(27,824)	Total	(33,554)
	Credited to services	
(18,172)	Housing Benefit Subsidy	(16,786)
(11,411)	Early Years Expansion Grant	(11,569)
(394)	LCITP Low Carbon Heating	(6,913)
(2,951)	Unitary Charge Funding	(2,696)
(2,424)	Pupil Equity Funding	(2,424)
(1,626)	Unaccompanied Asylum Seeking Children	(374)
(1,407)	Community Justice Grant	(1,663)
(1,172)	South East Improvement Collaborative Grant	0
(937)	Energy Efficient Scotland	(1,079)
(599)	McMillan Funding for Improving the Cancer Journey	(627)
(563)	UK Shared Prosperity Funds	(929)
0	Child Protection Grant	(608)
(475)	Penicuik Townscape Heritage Project	(526)
(3,896)	Other Entities and Individuals	(3,713)
(46,027)	Total	(49,907)

13. Expenditure and Income Analysed by Nature

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

2022/23 £000	Expenditure/Income	2023/24 £000
	Expenditure	
208,496	Employee expenses	189,583
239,147	Other services expenses	260,356
59,189	Depreciation, amortisation and impairment	93,491
15,268	Interest payments	16,244
338	Gain/(Loss) on disposal of non-current assets	(70)
5,665	Share of operating results of associates and joint ventures	6,390
528,103	Total Expenditure	565,994
	Income	
(95,616)	Fees, charges and service income	(97,665)
(4,412)	Interest and investment income	(7,182)
(53,315)	Income from council tax and non-domestic rates income	(57,306)
(333,119)	Government grants and contributions	(354,401)
(486,462)	Total Income	(516,554)
41,641	Surplus or deficit on the provision of services	49,440

14. Property, Plant and Equipment

Movements on Balances

Movements in 2023/24	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment	PPP & Similar Contract Assets *
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2023	512,805	576,158	17,380	49,490	8,832	50,386	827	1,215,878	198,022
Additions	20,495	3,822	0	6,253	138	59,488	0	90,196	2
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(4,947)	12,087	58	0	(102)	0	0	7,096	2,422
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(42,799)	(767)	(1)	0	0	0	0	(43,567)	0
De-recognition – Disposals	(251)	(100)	(12)	(1,235)	0	0	0	(1,598)	0
Reclassification of Assets	33,942	2,911	(128)	0	0	(37,066)	125	(216)	0
Balance at 31 March 2024	519,245	594,111	17,297	54,508	8,868	72,808	952	1,267,789	200,466
Accumulated Depreciation and Impairment									
Balance at 1 April 2023	(11,472)	(15,802)	0	(32,576)	(56)	0	0	(59,906)	(2,397)
Depreciation Charge	(11,740)	(29,730)	0	(4,757)	(21)	0	0	(46,248)	(3,161)
Depreciation written out to the Revaluation Reserve	0	28,765	0	0	23	0	0	28,788	2,361
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	412	0	0	0	0	0	412	0
De-recognition - Disposals	251	0	0	1,168	0	0	0	1,419	0
Balance at 31 March 2024	(22,961)	(16,355)	0	(36,165)	(54)	0	0	(75,535)	(3,197)
Net Book Value									
At 31 March 2024	496,284	577,756	17,297	18,343	8,814	72,808	952	1,192,254	197,269
At 31 March 2023	501,333	560,356	17,380	16,914	8,776	50,386	827	1,155,972	195,625

* PPP and similar contract assets included in 'Land' and 'Buildings' total

Movements in 2022/23	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment	PPP & Similar Contract Assets *
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	501,545	527,035	17,289	45,772	8,604	27,868	1,077	1,129,190	182,967
Additions	18,300	5,677	121	4,798	228	38,157	0	67,281	11
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,466)	42,642	247	0	0	0	0	40,423	15,044
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(19,227)	363	37	0	0	0	0	(18,827)	0
De-recognition – Disposals	(206)	(346)	(307)	(1,080)	0	0	0	(1,939)	0
Reclassification of Assets	14,859	787	(7)	0	0	(15,639)	(250)	(250)	0
Balance at 31 March 2023	512,805	576,158	17,380	49,490	8,832	50,386	827	1,215,878	198,022
Accumulated Depreciation and Impairment									
Balance at 1 April 2022	(1,100)	(18,155)	0	(29,159)	(38)	0	0	(48,452)	(1,598)
Depreciation Charge	(11,166)	(22,508)	0	(4,442)	(18)	0	0	(38,134)	(2,870)
Depreciation written out to the Revaluation Reserve	350	23,450	0	0	0	0	0	23,800	2,071
Depreciation written out to the Surplus/Deficit on the Provision of Services	238	1,211	0	0	0	0	0	1,449	0
De-recognition - Disposals	206	200	0	1,025	0	0	0	1,431	0
Balance at 31 March 2023	(11,472)	(15,802)	0	(32,576)	(56)	0	0	(59,906)	(2,397)
Net Book Value									
At 31 March 2023	501,333	560,356	17,380	16,914	8,776	50,386	827	1,155,972	195,625
At 31 March 2022	500,445	508,880	17,289	16,613	8,566	27,868	1,077	1,080,738	181,369

* PPP and similar contract assets included in 'Land' and 'Buildings' total

Depreciation

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

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

Capital Commitments

Capital Commitments	Original Contractual Commitment £000	Outstanding at 31 March 24 £000
Housing Revenue Account Programme (HRA)		
• Phase 3/4 New Social Housing - Site 32-34 Newbyres	8,110	6,511
• Phase 3/4 New Social Housing – Morris Road (Newbattle HS)	25,038	22,049
• Phase 5 New Social Housing – Crichton Road	2,090	1,047
• Energy Efficiency Standard for Social Housing 2 (EESH 2)	2,590	1,719
• Other HRA Capital Commitments	19,937	1,579
General Fund		
• Woodburn PS Extension	11,368	6,685
• Other General Fund capital commitments	8,103	933
Total Contractual Commitment	77,236	40,523

Revaluations

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

In 2023/24 valuations were undertaken for Housing stock discount factor, schools, community education, community centres and depots. The majority of asset valuations were based on either a depreciated replacement cost (DRC) basis or market value and resulted in a net downwards revaluation of assets of £7.266 million.

In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The council's Corporate Estates Manager has determined in his professional opinion that, at 31 March 2024, due to the inflationary impact on School indices both High Schools and Primary Schools were subject to early revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year end as summarised in **note 4** to these financial statements.

15. Infrastructure Assets

The Council's infrastructure assets have been recorded on the Balance Sheet at depreciated historic cost. A useful life of 15 years is applied to these assets and used in the calculation of the annual depreciation charge, based on the Council's assessment of the average useful economic life of these assets, with the

exception of where the useful life is known to be different from this amount as a consequence of a Council decision.

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

The Council has applied both statutory overrides for infrastructure assets:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as zero. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

2022/23 £000	Infrastructure Assets	2023/24 £000
31,375	Net carrying amount at 1 April	34,819
(3,501)	Depreciation	(3,956)
6,945	Additions	7,560
34,819	Balance outstanding at 31 March	38,423

16. Heritage Assets

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

2022/23 £000	Heritage Assets	2023/24 £000
329	Net carrying amount at 1 April	458
(3)	Depreciation	(2)
7	Additions	0
125	Revaluations and restatements	0
458	Balance outstanding at 31 March	456

17. Intangible Assets

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

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

2022/23 £000	Intangible Assets	2023/24 £000
	Balance at start of year	
2,921	• Gross carrying amounts	2,946
(2,573)	• Accumulated amortisation	(2,744)
348	Net carrying amount at 1 April	202
25	Additions - purchases	26
(171)	Amortisation for the period	(124)
202	Net carrying amount at 31 March	104
	Comprising	
2,946	• Gross carrying amounts	2,972
(2,744)	• Accumulated amortisation	(2,868)
202		104

18. Long-term Debtors

2022/23 £000	Long-term Debtors	2023/24 £000
4,138	Prepayment to PPP contractor	4,113
52	Pacific Shelf	58
4,190	Balance outstanding at 31 March	4,171

19. Financial Instruments

Categories of Financial Instruments

31 Mar 2023					31 Mar 2024		
Non-Current £000	Current £000	Total £000	Financial Assets	Category	Non-Current £000	Current £000	Total £000
0	20,122	20,122	Short/long-term deposits (<i>below</i>)	Amortised Cost	0	30,017	30,017
0	36,994	36,994	Debtors (<i>Note 23</i>)	Amortised Cost	0	25,715	25,715
11,693	0	11,693	Long-term investments (<i>below</i>)	Fair value through other comprehensive income	11,528	0	11,528
11,693	57,116	68,809	Total Financial Assets		11,528	55,732	67,260
0	3,817	3,817	Debtors not defined as financial instruments		0	15,236	15,236
11,693	60,933	72,626	Total		11,528	70,968	82,496

The short and long-term deposits on the balance sheet comprises:

31 Mar 2023				31 Mar 2024		
Long-term £000	Short-term £000	Total £000	Deposits	Long-term £000	Short-term £000	Total £000
0	0	0	Other local authorities	0	0	0
0	20,122	20,122	Commercial banks/building societies	0	30,017	30,017
0	20,122	20,122	Total Deposits	0	30,017	30,017

31 Mar 2023					31 Mar 2024		
Non-Current £000	Current £000	Total £000	Financial Liabilities	Category	Non-Current £000	Current £000	Total £000
321,490	3,195	324,685	Borrowings (<i>below</i>)	Amortised Cost	339,971	3,797	343,768
76,699	3,121	79,820	PPP Liability (<i>Note 33</i>)	Amortised Cost	73,347	3,348	76,695
12,040	573	12,613	PPP Donated Asset Liability (<i>Note 33</i>)	Amortised Cost	11,471	572	12,043
0	29,623	29,623	Creditors	Amortised Cost	0	37,108	37,108
410,229	36,512	446,741	Total Financial Assets		424,789	44,825	469,614
0	28,923	28,923	Creditors not defined as financial instruments		0	13,403	13,403
410,229	65,435	475,664	Total		424,789	58,228	483,017

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

31 Mar 2023				31 Mar 2024		
Long-term £000	Short- term £000	Total £000	External Borrowings	Long-term £000	Short-term £000	Total £000
284,580	2,008	286,588	PWLB Loans	303,897	2,630	306,527
20,549	284	20,833	Lender Option/Borrower Option (LOBO) Loans	20,526	286	20,812
16,361	903	17,264	Loans from commercial banks and other local authorities	15,548	881	16,429
321,490	3,195	324,685	Total Deposits	339,971	3,797	343,768

Loans Fund Deferral of Repayments

Loans Fund Principal repayments were deferred in 2022/23 under the Local Government Finance Circular 5/2022 provisions. The term over which deferred repayments will be repaid are in line with the provisions of the circular, as follows:-

Deferred Principal Repayments – Loans Fund	£000's
Within 1 year	287
Within 2 to 5 Years	835
Within 6 to 10 Years	711
Within 11 to 15 Years	317
Within 16 to 20 Years	274
Total	2,424

Investments Designated at Fair Value through Other Comprehensive Income

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

31 Mar 2023 £000	Non-current Assets (Long-term)	Input Level in Fair Value Hierarchy (see note 1 viii)	31 Mar 2024 £000
5,758	Equity Shareholding in Lothian Buses	Level 2	5,594
325	Subordinated Debt Subscription in Newbattle DBFMCo	Level 3	324
5,610	Midlothian Energy Limited Shareholding	Level 3	5,610
11,693	Total		11,528

Lothian Buses Plc

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

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of equity attributable to equity holders, in line with the published results for the year ended 31 December 2023. The IAS 19 Pension Asset/Liability has now been removed from calculations due to its volatility, as demonstrated in the on-year movement in the transfer to/from reserves figure in the table below. **Note 36** provides more detail on the potential guarantee liability associated with investment.

Year to 31 Dec 23 £000	Lothian Buses	Year to 31 Dec 24 £000
	Profit/(Loss):	
5,978	Profit/(Loss) before taxation	16,760
(1,443)	Taxation	(2,178)
4,535	Profit/(Loss) after Tax	14,582
	Other Relevant Financial Information:	
165,844	Revenue	183,508
0	Ordinary Dividend	3,200
(5,271)	Transfer to/(from) reserves	25,841
105,277	Equity attributable to equity holders (excluding IAS 19 Pension Asset/Liability)	102,266

Newbattle DBFMco Ltd

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

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

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

Midlothian Energy Ltd

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

The carrying value of the Council investment in Midlothian Energy Limited represents the funds invested in 2022. The published results for Midlothian Energy Limited for the year ended 31 December 2023 are summarised below.

Year to 31 Dec 23 £000	Midlothian Energy Ltd	Year to 31 Dec 24 £000
	Profit/(Loss):	
(945)	Profit/(Loss) before taxation	(295)
0	Taxation	0
(945)	Profit/(Loss) after Tax	(295)
	Other Relevant Financial Information:	
3,020	Shares Issued During the Period	11,220
(2,752)	Accumulated Losses	(3,061)
268	Total Equity	8,159

Income, Expenses, Gains and Losses

	2022/23		2023/24	
Income, Expenses, Gains and Losses	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000
Net gains/losses on:				
• Investments in equity instruments designated at fair value through other comprehensive income	1,117	0	(165)	0
Total net gains/(losses)	1,117	0	(165)	0
Interest revenue:				
• Financial assets measured at amortised cost		3,260		4,590
• Other financial assets measure at fair value through other comprehensive income	0	0	0	
Total Interest Revenue	0	3,260	0	4,590
Interest Expense	0	9,868		9,752
Fee Expense:				
• Financial assets or financial liabilities that are not at fair value through profit and loss	0	122		167
Total Fee Expense	0	122		167

Fair Values of Financial Assets and Financial Liabilities

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

31 Mar 2023			31 Mar 2024	
Carrying Amount £000	Fair Value £000	Financial Liabilities	Carrying Amount £000	Fair Value £000
286,588	205,583	PWLB Loans (Level 2)	306,526	209,199
20,833	20,282	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,812	18,666
17,264	14,716	Loans from commercial lenders and other local authorities (Level 2)	16,430	13,469
29,623	29,623	Creditors	37,108	37,108
79,819	79,819	PPP Finance Lease Liability	76,695	76,695
12,613	12,613	PPP Donated Asset Account Liability	12,043	12,043
446,740	362,636	Total Financial Liabilities	469,614	367,180

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

The fair value of borrowing is lower than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is lower than the prevailing rates at the balance sheet date. The commitment to pay interest below current market rates reduces the amount the Council would have to pay if the lender requested or agreed to early repayment of the loans.

31 Mar 2023			31 Mar 2024	
Carrying Amount £000	Fair Value £000	Financial Assets	Carrying Amount £000	Fair Value £000
20,122	20,122	Short/Long-term Deposits	30,017	30,017
36,994	36,994	Debtors	25,715	25,715
57,116	57,116	Total Financial Assets	55,732	55,732

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

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

Financial Assets	Financial Liabilities
- The valuation of fixed term deposits (maturity deposits) is made by comparison of the fixed term deposit with a comparable deposit with the same/similar lender for the remaining period of the deposit.	- No early repayment is recognised.
- The fair value of receivables is taken to be the invoiced or billed amount.	- Estimated ranges of interest rates at 31 March 2024 for loans payable based on new lending rates for equivalent loans at that date.
	- The fair value of payables is taken to be the invoiced or billed amount.

20. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

Credit Risk

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

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

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

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

The expected credit loss for the Council's financial assets held at amortised cost has been calculated to be £0.010 million (2022/23 £0.013 million). The Council deems this immaterial and therefore has not included any impact of this with the Comprehensive Income and Expenditure Statement (CIES).

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

- **Lothian Buses Shareholding** – dividend of £0.175 million was received during the year, the first since 2019, it was previously estimated that dividend would not be received until 2026;
- **Subordinated Debt Investment in Newbattle DBFM Co SPV** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will

not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis;

- **Midlothian Energy Ltd** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance. The Council will continue to review the performance of the company on an annual basis.

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

2022/23 2022/23 £000	Financial Assets	2022/23 2023/24 £000
87,228	Less than three months	27,505
0	Between three and six months	10,006
20,122	Between six months and one year	20,011
0	More than one year	0
107,350	Total Financial Assets	57,522

Liquidity Risk

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

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

2022/23 £000	Financial Liabilities	2023/24 £000
3,195	Less than one year	3,797
1,506	Between one and two years	1,275
2,832	Between two and five years	22,362
45,208	Between five and ten years	45,184
32,439	Between ten and twenty years	42,582
39,904	Between twenty and thirty years	41,681
84,601	Between thirty and forty years	81,887
110,000	Between forty and fifty years	100,000
5,000	More than fifty years	5,000
324,685	Total Financial Liabilities	343,768

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

Market Risk

Interest Rate Risk

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

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

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

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

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

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

According to this assessment strategy, at 31 March 2024, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

2022/23 £000		2023/24 £000
	Impact on taxpayer and rent payer:	
0	Increase in interest payable on variable rate borrowings	0
1,599	Increase in interest receivable on variable rate instruments	1,047
1,599	Impact on Surplus/Deficit on the Provision of Services	1,047
	Other presentational changes:	
(31,176)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(28,791)

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

Price Risk

There is no price risk associated with the Council's available for sale investments specified in **Note 19** of the Financial Statements.

Foreign Exchange Risk

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

21. Assets Held for Sale

2022/23 £000	Assets Held for Sale	2023/24 £000
1,480	Balance outstanding at 1 April	1,080
250	Assets newly classified as held for sale	216
0	Revaluations and restatements	394
(650)	Assets sold	0
1,080	Balance outstanding at 31 March	1,690

22. Inventories

2022/23 £000	Inventories	2023/24 £000
983	Balance outstanding at 1 April	1,023
1,123	Purchases	973
(1,083)	Recognised as an expense in the year	(1,024)
1,023	Balance outstanding at 31 March	972

23. Debtors

2022/23 £000	Short-Term Debtors	2023/24 £000
17,207	Central Government Bodies	7,096
1,538	Other Public Sector Bodies	4,305
	Other Entities and Individuals (net of Impairment for bad debts)*:	
9,082	• Council Tax and Non-Domestic Rates	15,614
3,613	• Rents	3,608
9,371	• Other trade debtors	10,328
40,811	Total Short-Term Debtors	40,951

* For impairment, significant individual balances are considered before a collective impairment of all remaining debtors based on their age profile. Impairment is applied to all outstanding debt at the balance sheet date for Council Tax and Non-Domestic Rates of £44.466 million (2022/23 £41.213 million) and Rents of £3.380 million (2022/23 £2.710 million). For sundry debtors, all debts that are over six months past their payment date impairment will be applied of £2.689 million (2022/23 £2.552 million), of which £1.761 million relates to housing benefit overpayments (2022/23 £1,752 million).

24. Cash and Cash Equivalents

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

2022/23 £000	Cash and Cash Equivalents	2023/24 £000
408	Cash held by the Council	441
95,183	Short-term Deposits	26,793
63	Bank Current Accounts	271
95,654	Total Cash and Cash Equivalents	27,505

25. Creditors

2022/23 £000	Creditors	2023/24 £000
447	Central Government Bodies	311
10,124	Other Public Sector Bodies	2,199
47,975	Other Entities and Individuals	48,001
58,546	Creditors	50,511

26. Provisions

	Uninsured Losses (1)	Total
	£000	£000
Balance at 1 April 2023	1,239	1,239
New provisions made during the year	648	648
Increase/(decrease) to existing insurance provisions during the year	(55)	(55)
Amounts used during the year	(538)	(538)
Balance at 31 March 2024	1,294	1,294

Notes:

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

27. Grants Received in Advance

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

2022/23 £000	Grants Received in Advance (Capital Grants)	2023/24 £000
43,432	Balance at 1 April	44,731
	New capital grants received in advance, conditions of use not met:	
461	Scottish Government Place Based Investment Programme	366
7,940	Section 75 contributions from private developers	8,327
0	Other Grants Received in Advance	25
8401	Total Grants Received in Advance During the Financial Year	8,718
(7,102)	Amounts realised to CIES, conditions of use met	(12,628)
44,731	Balance at 31 March	40,821

28. Usable Reserves

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

29. Unusable Reserves

2022/23 £000	Unusable Reserves	2023/24 £000
(325,527)	Revaluation Reserve	(340,554)
(5,408)	Financial Instruments Revaluation Reserve	(5,244)
(435,891)	Capital Adjustment Account	(387,694)
1,491	Financial Instruments Adjustment Account	1,310
7,800	Pensions Reserve	7,612
8,602	Accumulated Absences Account	6,198
(748,933)	Total Unusable Reserves	(718,372)

Revaluation Reserve

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

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

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

2022/23 £000	Revaluation Reserve	2023/24 £000
(272,696)	Balance at 1 April	(325,527)
(69,575)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(37,634)
16,081	Difference between fair value depreciation and historical cost depreciation	22,502
	Amounts written off to the Capital Adjustment Account	
663	Accumulated (gains)/losses on assets sold or scrapped	105
663	Amount written off to the Capital Adjustment Account	105
(325,527)	Balance at 31 March	(340,554)

Financial Instruments Revaluation Reserve

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

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

2022/23 £000	Financial Instruments Revaluation Reserve	2023/24 £000
(4,292)	Balance at 1 April	(5,408)
(1,116)	(Upward)/Downward Revaluation of Investments	164
(5,408)	Balance at 31 March	(5,244)

Capital Adjustment Account

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

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

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

2022/23 £000	Capital Adjustment Account	£000	2023/24 £000
(447,420)	Balance at 1 April		(435,891)
	Opening Balance adjustment – Service concessions		20,463
	Revised Opening Balance		(415,428)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
25,558	• Charges for depreciation and impairment on non-current assets	27,704	
22,603	• Revaluation movements on property, plant and equipment	44,511	
171	• Amortisation of intangible assets	124	
84	• Revenue expenditure funded from capital under statute	74	
1,158	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	179	
49,574			72,592
(663)	Adjusting amounts written out of the Revaluation Reserve		(105)
48,911	Net written out amount of the cost of non-current assets consumed in the year		72,487
	Capital financing applied in the year:		
(991)	Use of capital receipts to finance new capital expenditure	(249)	
(27,824)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(33,554)	
(7,178)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,116)	
0	Application of Service concessions	2,608	
(1,078)	Use of Capital Fund reserve to finance Capital Expenditure	(1,822)	
(37,071)			(44,133)
(311)	Other movements		(620)
(435,891)	Balance at 31 March		(387,694)

Financial Instruments Adjustment Account

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

2022/23 £000	Financial Instruments Adjustment Account	2023/24 £000
1,660	Balance at 1 April	1,491
(159)	Premiums incurred in the year	(159)
(10)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(22)
1,491	Balance at 31 March	1,310

Pensions Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The pension reserve mirrors the net pension asset/liability, as detailed in **Note 35**.

2022/23 £000	Pensions Reserve	2023/24 £000
54,160	Balance at 1 April	7,800
(255,237)	Re-measurements of the net defined benefit liability/(asset)	(182,768)
39,147	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	8,453
(18,733)	Employers' pension contributions	(20,014)
188,463	Restriction Adjustment under IFRIC 14	194,141
7,800	Balance at 31 March	7,612

Accumulated Absences Account

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

2022/23 £000	Accumulated Absences Account	2023/24 £000	
8,560	Balance at 1 April		8,602
(8,560)	Settlement or cancellation of accrual made at the end of the preceding year	(8,602)	
8,602	Amounts accrued at the end of the current year	6,198	
42	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(2,404)
8,602	Balance at 31 March		6,198

30. External Audit Costs

The estimated fee payable by the Council to Audit Scotland in respect of the work conducted for external audit services is £0.290 million (2022/23 £0.273) million). Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

31. Related Parties

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

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides much of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits). Further information is contained with **Note 11 Taxation and Non-specific Grant Income** and **Note 12 Grant Income** in the Annual Accounts.

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2023/24 is shown in the Remuneration Report.

Members' Register of Interests can be viewed on the Council's website. A review of these interests has been conducted. Related party interests for which transactions exist in 2023/24 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.231 million;
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.710 million.

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

Officers

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

Other Public Bodies

The Council has a number of joint working arrangements with other local authorities. In 2023/24 payments of £1.942 million were made to other local authorities and income of £0.705 million was received from other local authorities.

Midlothian Integration Joint Board

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in 2023/24 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund, £1.324 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

NHS Lothian employs the Joint Director of Health and Social Care. Midlothian Council is recharged for 50% of the cost of this post. Details are included in the Remuneration Report.

The Council delegated resources totalling £57.416 million to the Midlothian Integration Joint Board in 2023/24. These resources were allocated to the Council for the provision of Adult Social Care services. NHS

Lothian also delegated financial resources to the Board. The Board provides the strategic direction in relation to the delivery of Health and Adult Social Care Services in Midlothian. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care. As at 31 March 2024 the Council held £0.418 million on behalf of the Board.

Other Entities Controlled or Significantly Influenced by the Council

During the year, the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.562 million (2022/23 £0.565 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2024.

Midlothian Energy Limited was set up in 2021/22 as a 50:50 joint venture with Vattenfall Heat UK to generate, distribute and supply energy. The company has been consolidated into the Group Accounts and details of all other entities in which the Council has significant interest are explained in the Group Accounts in **Note 38**.

32. Capital Expenditure and Capital Financing

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

2022/23 £000	Capital Expenditure and Capital Financing	2023/24 £000
394,504	Opening Capital Financing Requirement	431,462
	Capital Investment:	
74,232	Property, Plant and Equipment	97,356
0	Assets Held for Sale	0
26	Intangible Assets	26
85	Revenue Expenditure funded by Capital Under Statute	74
0	Public, Private Partnership (PPP)	0
0	Long-term Investments	0
74,343	Total Capital Investment	97,456
	Sources of Finance:	
(3)	Capital Receipts	(60)
0	Application of Service Concessions	23,071
(3,000)	Capital Fund Applied	(2,000)
(24,824)	Government Grants and Other Contributions	(31,494)
(9,558)	Loans fund and PPP Finance lease repayments	(13,408)
(37,385)	Total Sources of Finance	(23,891)
36,958	Increase/(decrease) in Capital Financing Requirement	73,565
431,462	Closing Capital Financing Requirement	505,027

33. Public Private Partnership (PPP) and Similar Contracts

The Council has entered into five such contracts:

Dalkeith Schools Campus

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

Midlothian Schools Ltd

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

Newbattle Community Campus

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

Food Waste Treatment Plant, Millerhill

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

Residual Waste Treatment Plant, Millerhill

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

Property, Plant and Equipment

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

Payments

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

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

Payments remaining to be made under these contracts at 31 March 2024 are as follows:

	Liability	Interest	Service Charge	Total
Dalkeith Schools Campus	£000	£000	£000	£000
Within 1 Year	1,213	1,713	2,655	5,581
Within 2 to 5 Years	6,149	5,559	11,296	23,004
Within 6 to 10 Years	10,322	2,944	14,236	27,502
Total Remaining Contract	17,684	10,216	28,187	56,087

	Liability	Interest	Service Charge	Total
Midlothian Primary Schools	£000	£000	£000	£000
Within 1 Year	1,148	1,821	2,639	5,608
Within 2 to 5 Years	5,489	6,385	11,233	23,107
Within 6 to 10 Years	9,436	5,406	15,695	30,537
Within 11 to 15 Years	8,897	1,530	12,260	22,687
Total Remaining Contract	24,970	15,142	41,827	81,939

	Liability	Interest	Service Charge	Total
Newbattle Community Campus	£000	£000	£000	£000
Within 1 Year	937	1,473	159	2,569
Within 2 to 5 Years	4,246	5,394	676	10,316
Within 6 to 10 Years	6,633	5,417	945	12,995
Within 11 to 15 Years	8,488	3,561	1,071	13,120
Within 16 to 20 Years	8,824	1,171	994	10,989
Total Remaining Contract	29,128	17,016	3,845	49,989

	Donated Asset	Liability	Interest	Service Charge	Total
Millerhill Residual Waste	£000	£000	£000	£000	£000
Within 1 Year	572	50	923	1,308	2,853
Within 2 to 5 Years	2,293	201	3,597	5,628	11,719
Within 6 to 10 Years	2,866	522	4,215	7,775	15,378
Within 11 to 15 Years	2,867	1,242	3,445	8,735	16,289
Within 16 to 20 Years	2,867	2,829	1,731	9,891	17,318
Within 21 to 25 Years	578	69	1	224	872
Total Remaining Contract	12,043	4,913	13,912	33,561	64,429

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

2022/23				2023/24		
Liability £000	Donated Asset £000	Total £000	Liabilities	Liability £000	Donated Asset £000	Total £000
82,729	13,187	95,916	Balance Outstanding at 1 April	79,819	12,613	92,432
(2,910)	0	(2,910)	Payments during the year	(3,120)	0	(3,120)
0	(574)	(574)	Other Movements	0	(574)	(574)
79,819	12,613	92,432	Balance at 31 March	76,699	12,039	88,738

2022/23 £000	Included in the Balance Sheet	2023/24 £000
3,693	Current (Short-term Creditors)	3,920
88,739	Non-Current (Other Long-term Liability)	84,818
92,432	Balance at 31 March	88,738

34. Pension Schemes Accounted for as Defined Benefit Contribution Schemes

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

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

In 2023/24 the Council paid £12.439 million (2022/23 £12.149 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 23.68% for 2023/24 (2022/23 23%).

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

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

35. Defined Benefit Pension Schemes

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

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

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, and structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated

to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions Relating to Post-Employment Benefits

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

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

2023/24 £000	Comprehensive Income and Expenditure Statement (CIES)	2022/23 £000
	Cost of services:	
	<i>Service Cost Comprising:</i>	
37,435	• Current service cost	17,484
0	• Past service cost (including curtailments)	0
	<i>Financing and Investment Income and Expenditure:</i>	
1,712	• Net interest (income)/expense	(9,031)
39,147	Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	8,453
	Other Post Employment Benefit charged to the Other Comprehensive Income & Expenditure Statement:	
	<i>Re-measurement of the Net Defined Benefit Liability Comprising:</i>	
3,555	• Return on plan assets	(9,603)
(108,302)	• Actuarial (gains)/losses arising on changes in financial and demographic assumptions	(24,087)
37,973	• Other	45,063
(66,774)	Total post-employment benefits charged to the Other Comprehensive Income & Expenditure Statement	11,373
(27,627)	Total post-employment benefits charged to the CIES	19,826

2022/23 £000	Movement in Reserves Statement	2023/24 £000
(39,147)	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(8,453)
18,733	Employers Contributions payable to the scheme	20,014
(20,414)	Total Charged to the Movement in Reserves	11,561

Pension Assets and Liabilities Recognised in the Balance Sheet

Net Asset Restriction

The actuary has calculated the Council's IAS 19 defined benefit surplus for 2023/24 to be £186.529 million (2022/23 £188.463 million) as detailed in the tables below. IAS 19 states that when an entity has a surplus in the defined benefit plan it should measure the net defined benefit of the asset as the lower of:

- The surplus in the defined benefit plan, and
- The asset ceiling, which the actuary has calculated as the present value of any economic benefits available in the form of reductions in future contributions to the plan.

For IFRIC 14 purposes, the actuary has calculated the net present value of the future contributions of £1.485.912 billion exceeds the value of the future service costs of £1.398.119 billion, a negative contribution of £87.793 million. As a result of this calculation IFRIC 14 advises that no defined benefit plan

asset should be recognised in the Council's Balance Sheet and there is no requirement to recognise the difference as a liability, however, is required to reflect the liability in relation to present value of unfunded obligations of £7.612 million.

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

2022/23 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	2023/24 £000
(510,236)	Present value of the defined benefit obligation	(550,295)
698,699	Fair value of Plan Assets	736,824
188,463	Net (liability)/asset arising from defined benefit obligation	186,529
(196,263)	Restriction Adjustment under IFRIC 14	(194,141)
(7,800)	Revised Net (liability)/asset arising from defined benefit obligation	(7,612)

2022/23 £000	Reconciliation of the present value of the scheme liabilities (defined benefit obligation)	2023/24 £000
731,499	Opening Balance at 1 April	510,236
37,435	Current service cost	17,484
20,075	Interest Cost	24,316
4,788	Contributions by Scheme Participants	5,105
	<i>Re-measurement (gains)/losses</i>	
(304,565)	• Changes in financial and demographic assumptions	(30,567)
37,973	• Other	45,063
0	Past service cost (including curtailments)	0
(706)	Estimated Unfunded Benefits Paid	(751)
(16,263)	Estimated Benefits Paid	(20,591)
510,236	Closing Balance at 31 March	550,295

2022/23 £000	Reconciliation of the movements in the fair value of scheme assets	2023/24 £000
677,339	Opening fair value of scheme assets	698,699
18,363	Interest Income	33,347
	<i>Re-measurement gains/(losses):</i>	
(3,555)	• Return on assets excluding amounts included in net interest	9,603
0	• Other	(8,602)
18,027	Contributions from Employer	19,263
4,788	Contributions from employees into the scheme	5,105
(16,263)	Benefits Paid	(20,591)
706	Contributions in respect of Unfunded Benefits	751
(706)	Unfunded Benefits Paid	(751)
698,699	Closing Balance at 31 March	736,824

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure of the Joint Boards of which they are constituent members. At 31 March 2024, the asset for Pensions sits at £22.809 million (2022/23 £6.250 million). As a consequence the Council has additional assets arising from the pension surplus of the Lothian Valuation Joint Board.

Basis for Estimating Assets and Liabilities

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

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries and estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2024.

The significant assumptions used by the actuary have been:

2022/23	Mortality Assumptions	2023/24
	Longevity at 65 for Current Pensioners:	
19.9	- Men (Years)	20.1
22.9	- Women (Years)	23
	Longevity at 65 for Future Pensioners:	
21.2	- Men (Years)	20.9
24.7	- Women (Years)	24.6
	Financial Assumptions	
2.95%	Rate of Inflation/increase in pensions	2.8%
3.45%	Rate of increase in salaries	3.5%
4.75%	Rate for discounting scheme liabilities	4.8%
2.2%	Actual Rate of Investment Returns	6.1%

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

	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
Pension Sensitivities at 31 March 24		
0.1% decrease Real Discount Rate	2%	10,197
1 year increase in member life expectancy	4%	22,012
0.1% increase in the Salary Increase Rate	0%	579
0.1 % increase in the Pension Increase Rate (CPI)	2%	9,792

Local Government Pension Schemes Comprised

2022/23			2023/24			
Fair Value of Scheme Assets	Percentage of Total Assets		Quoted prices in active markets	Quoted prices not in active markets	Total Fair Value of Scheme Assets	Percentage of Total Assets
£000		Pension Fund Assets	£000	£000	£000	
32,999	5%	Cash and Cash Equivalents	27,363	0	27,363	4%
		Equity Instruments:				
85,663	12%	Consumer	87,027	0	87,027	12%
96,314	14%	Manufacturing	101,191	0	101,191	14%
42,148	6%	Energy and Utilities	40,028	0	40,028	5%
42,030	6%	Financial Institutions	43,382	0	43,382	6%
51,322	7%	Health and Care	47,614	0	47,614	6%
29,018	4%	Information Technology	36,530	0	36,530	5%
47,709	7%	Other	45,196	0	45,196	6%
394,204	56%	Sub-total Equity	400,968	0	400,968	54%
		Bonds:				
10,897	2%	Corporate	11,893	0	11,893	2%
81,001	12%	Government	99,052	0	99,052	13%
14,592	2%	Other	12,757	0	12,757	2%
106,490	16%	Sub-total bonds	123,702	0	123,702	17%
		Property:				
31,474	5%	UK	0	37,652	37,652	5%
1,122	0%	Overseas	2,494	7	2,501	0%
32,596	5%	Sub-total Property	2,494	37,659	40,153	5%
		Investment Trusts and Unit Trusts:				
9,843	1%	Equities	0	0	0	0%
0	0%	Commodities	0	8,165	8,165	1%
20,230	3%	Bonds	0	18,742	18,742	3%
99,578	14%	Infrastructure	1,667	109,414	111,081	15%
129,651	18%	Sub-total Trusts	1,667	136,321	137,988	19%
2,729	0%	Private Equity (all)	3,767	3,000	6,767	1%
30	0%	Derivatives: Forward Foreign Exchange Contracts	(117)	0	(117)	0%
698,699	100%	Total Assets	559,844	176,980	736,824	100%

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The next triennial valuation will be performed at 31 March 2026, with results being published by 31 March 2027 and will impact contribution rates from 1 April 2027. The Council anticipates to pay £14.937 million in contributions to the scheme to 31 March 2025.

The weighted average duration of the defined benefit obligation scheme members is 17 years for 2023/24 (20 years 2022/23).

36. Contingent Liabilities

The assimilation of the stand-alone Lothian Buses Pension Fund into the general Lothian Pension Fund required all four Council shareholders in Lothian Buses Limited to enter into a deed of guarantee and function as guarantors for Lothian Buses Limited contributions to the general fund. Previously, whilst there

was no formal guarantee in place for the stand alone Lothian Buses Fund, in the event of a default then the City of Edinburgh Council (as administering authority) would have looked to the four Council shareholders to make good any liability.

37. Trusts, Bequests, Common Good and Community Funds

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

The main funds are:

2022/23 £000	Trusts, Bequests, Common Good and Community Funds	2023/24 £000
8	Dalkeith Common Good Fund	8
2	Penicuik Common Good Fund	2
51	Community Mining Funds	52
101	Other Funds	108
162	Total	170

A total £0.108 million (2022/23 £0.100 million) has been committed to be spent from these funds.

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

38. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2023/24 (The Code) applies to Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property, Plant and Equipment

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

Depreciation

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

Goodwill

The Council has acquired its share of the net assets of its associates for nil consideration and no goodwill has been included in the Group Balance Sheet.

Basis of Consolidation

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the “acquisition basis” using the equity method – the Council’s share of the entities results and its share of other gains and losses (recognised in the Group CIES). With the Exception of Midlothian Energy Ltd, whose reporting date is 31 Dec, all entities have the same reporting date as the Council.

Restrictions of the Transfer of Funds

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

Entity	Percentage Share in Entity	Share of Assets £000	Share of Liabilities £000	Net Share of Assets £000	Share of Revenues £000	Share of (Profit)/Loss £000
Subsidiaries:						
Trusts, Bequests, Common Good and Community Funds	100	170	(170)	0	8	(8)
Pacific Shelf 826 Ltd	100	0	(58)	(58)	0	5
		170	(228)	(58)	8	(3)
Associates:						
Lothian Valuation Joint Board	9	2,448	(280)	2,168	(1,475)	66
Joint Ventures:						
Midlothian Integration Joint Board	50	400	0	400	(99,471)	6,179
Midlothian Energy Ltd	50	11,955	(2,265)	9,690	(148)	148
Total Joint Ventures & Associates		14,803	(2,545)	12,258	(101,094)	6,393
Total for Group		14,973	(2,773)	12,200	(101,086)	6,390

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

Combining Entities

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

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

Non-Material Interests in Other Entities

In addition to the organisations outlined above, the Council also has an interest in Seemis Group LLP who provide Scottish Local Authorities with an Education Management System. Midlothian have a 1.90% interest in Seemis.

Supplementary Statements

Housing Revenue Account

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

2022/23 £000	HRA Income and Expenditure Statement	2023/24 £000 £000	
	Expenditure:		
7,531	Repairs and Maintenance	8,739	
4,948	Supervision and Management	5,427	
30,157	Depreciation, impairment and revaluation non-current assets	54,539	
270	Movement in the allowance for bad debtors	670	
2,270	Other Expenditure	2,396	
45,176	Total Expenditure		71,771
	Income:		
(30,130)	Dwelling Rents		(31,372)
(335)	Non-dwelling Rents		(342)
(364)	Service Charge Income		(155)
(34)	Other Income		(91)
(30,863)	Total Income		(31,960)
14,313	Net Expenditure or (Income) of HRA services as included in the Comprehensive Income and Expenditure Statement		39,811
311	HRA Share of Corporate and Democratic Core		332
14,624	Net (Income)/expenditure for HRA Services		40,142
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
0	(Gain) or Loss on sale of HRA non-current assets	0	
6,373	Interest payable and similar charges	8,589	
(548)	Interest and investment income	(1,534)	
10	Net interest on the net defined liability benefit liability (asset)	(55)	
5,835			7,000
20,459	(Surplus)/Deficit for the year on HRA Services		47,142

Movement in the Housing Revenue Account

2022/23 £000	Movement on the HRA Statement	2022/23 £000	2022/23 £000
(28,084)	Balance on the HRA at the end of the previous reporting period		(32,143)
20,459	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		47,142
	Adjustments between accounting basis and funding basis under statute:		
(30,156)	Depreciation, impairment and revaluation non-current assets	(54,539)	
0	Gain or (Loss) on sale of HRA non-current assets	0	
3,693	Loans Fund Principal	4,221	
(124)	Net charges made for retirement benefits in accordance with IAS 19	66	
(26,587)	Total Adjustments between accounting basis and funding basis under statute		(50,252)
2,069	Transfer to General Fund Reserve		2,071
(4,059)	(Increase) or Decrease in year on the HRA		(1,039)
(32,143)	Balance on the HRA at the end of the current reporting period		(33,182)

Notes to the Housing Revenue Account

Housing Stock

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

2022/23	Housing Stock	2023/24
1,024	1 Bedroom	1,083
4,062	2 Bedroom	4,128
1,948	3 Bedroom	1,975
323	4 Bedroom	332
11	5/6 Bedroom	11
7,368	Total Housing Stock at 31 March	7,529

This represents an increase in the year of 161 units (2022/23 106), which is represented in the table below:

2022/23	Increase/(decrease) in Housing Stock	2023/24
97	New Build Completions	136
28	Open Market Purchases	27
(18)	Re-purposed units for temporary accommodation	(2)
(1)	Demolition/Disposal	0
106	Total Housing Stock at 31 March	161

Other Information

2022/23 £000	Other Information	2023/24 £000
5,490	Total Rent Arrears	6,979
2,710	Bad Debt Provision	3,380
896	Void Rent Loss (netted against rental income)	949

Council Tax Income Account

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

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

2022/23 £000	Council Tax Income Account	2023/24 £000
67,229	Gross Council Tax levied and Contributions in Lieu	72,406
	Less:	
(5,265)	Council Tax Reduction Scheme	(5,671)
(6,746)	Other Discounts and Reductions	(6,942)
(2,106)	Write-off of Uncollectable Debts and Allowances for impairment	(2,443)
204	Prior year adjustments	(44)
53,316	Net Council Tax Income transferred to General Fund	57,306

Midlothian Council Tax Charge and Properties by Band

2022/23 Property Numbers	2022/23 £ per Property	Band	2023/24 Property Numbers	2023/24 £ per Property
1	801	A - Disabled	1	842
541	962	A	603	1,010
8,016	1,122	B	8,532	1,178
8,376	1,282	C	8,741	1,346
5,044	1,443	D	5,231	1,515
4,892	1,895	E	5,056	1,990
4,218	2,344	F	4,397	2,461
2,706	2,825	G	2,896	2,966
174	3,534	H	178	3,711
33,968			35,635	

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

2023/24	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
Number of Properties	0	986	12,751	11,316	5,997	5,665	4,655	3,026	186	44,582
Properties subject to Empty Homes Premium	0	12	69	56	45	29	20	17	5	253
Properties subject to Disabled Relief	2	38	37	(46)	12	1	(12)	(29)	(3)	0
Less:										
Exempt Properties	0	75	448	259	92	180	53	23	5	1,135
Properties Entitled to 25% Discounts	0	143	1,480	968	449	316	156	76	5	3,593
Properties Entitled to 50% Discounts	0	0	5	5	1	3	2	1	0	17
Properties Entitled to Other Discounts	0	2	33	20	7	5	2	1	0	70
Reduction in Tax Base due to Council Tax Reduction	1	213	2,359	1,333	274	135	53	17	0	4,385
Total Equivalent Properties 2023/24	1	603	8,532	8,741	5,231	5,056	4,397	2,896	178	35,635
Ratio to Band D	0.56	0.67	0.78	0.89	1	1.31	1.63	1.96	2.45	
Band D Equivalent Properties	0	402	6,636	7,770	5,231	6,3	7,145	5,671	437	39,935
Contributions in Lieu - Band D Equivalents										199
Sub-total										40,134
Less Bad Debt Provision at 3.75%										(1,613)
Total Council Tax Base										38,521

2022/23	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
Band D Equivalent Properties	0	361	6,234	7,446	5,044	6,428	6,855	5,299	427	38,094
Contributions in Lieu - Band D Equivalents										198
Sub-total										38,292
Less Bad Debt Provision at 3.5%										(1,460)
Total Council Tax Base										36,832

Non-Domestic Rate Account

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

2022/23 £000	Non-Domestic Rate Income Account	2023/24 £000
44,743	Gross Council Tax levied and Contributions in Lieu	47,637
	Less:	
(10,682)	Reliefs and other deductions	(10,790)
(784)	Write-off of Uncollectable Debts and Allowances for impairment	(938)
33,277	Net Non-Domestic Rates Income	35,909
(4,671)	Prior year adjustments	(711)
0	Non-domestic rates income retained by the council (BRIS)	0
28,606	Contribution to Non-Domestic Rate Pool	35,198
	Allocated:	
28,688	Contribution to non-domestic rate pool	35,954
(82)	Council Rate Income - non-pool	(756)
28,606		35,198
24,895	Amount distributed to Midlothian Council from non-domestic rate pool	32,215

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

Net Rateable Value Calculation

Occupiers of non-domestic property pay rate based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and was 49.8p (2022/23 49.8p) per £, where the rateable value was less than £51,000 (2022/23 £51,000), 51.1p where the rateable value is between £51,000 and £100,000 (2022/23 51.1p between £51,000 and £95,000,) and 52.4p per £ where the rateable value exceeded £100,000 (2022/23 52.4p greater than £95,000).

2022/23 Numbers	2022/23 £000	Analysis of Rateable Values and Number of Premises	2023/24 Numbers	2023/24 £000
1,828	49,279	Shops, Offices and Other Commercial Subjects	1,831	49,831
954	19,777	Industrial and Freight Transport	973	19,913
303	22,931	Miscellaneous (Schools, etc.)	304	23,379
3,085	91,987	Total	3,108	93,123

Glossary of Terms

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

Actuarial Gains and Losses (Pension)

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

Amortisation

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

Assets

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

Associate

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

Capital Expenditure

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

Capital Financed from Current Revenue

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

Corporate and Democratic Core

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

Community Assets

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

Creditors

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

Debtors

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

Defined Benefit Pension Scheme

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

Depreciation

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

Entity

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

Fair Value

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

Financial Instrument

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

Infrastructure Assets

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

Inventories

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

Liabilities

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

Non-Distributable Costs

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

Other Costs

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

Provisions

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

Revaluation / Impairment

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

Revenue Expenditure

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