



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.

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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.

Lothian Pension Fund Valuation

- 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.